PECO STMTS 1, 2, 3, 4+5

A-110550F0147

5/10/00

Phila, PA

RJS

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

APPLICATION OF PECO ENERGY COMPANY, PURSUANT TO CHAPTERS 11, 19, 21, 22 AND 28 OF THE PUBLIC UTILITY CODE, FOR APPROVAL OF (1) A PLAN OF CORPORATE RESTRUCTURING, INCLUDING THE CREATION OF A HOLDING COMPANY AND (2) THE MERGER OF THE NEWLY FORMED HOLDING COMPANY AND UNICOM CORPORATION	:	APPLICATION DOCKET NO. A-_____

VOLUME II

TESTIMONIES

Tab 1	Kenneth G. Lawrence - Regarding Effects of the Merger on PECO Energy Company Operations and Employment and Its Commitment to the Local Community
Tab 2	Richard G. White - Regarding Business Reasons for the Merger and Descriptions of the Merger and Restructuring
Tab 3	Thomas P. Hill, Jr. - Regarding Effects of the Merger on PECO Energy's Restructuring Settlement, Impact on Rates
Tab 4	Thomas J. Flaherty - Regarding Estimated Regulated Cost Savings
Tab 5	William H. Hieronymus - Regarding Competitive Effects of the Merger

PECO STATEMENT NO. 1

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

APPLICATION OF PECO ENERGY COMPANY, PURSUANT TO CHAPTERS 11, 19, 21, 22 AND 28 OF THE PUBLIC UTILITY CODE, FOR APPROVAL OF (1) A PLAN OF CORPORATE RESTRUCTURING, INCLUDING THE CREATION OF A HOLDING COMPANY AND (2) THE MERGER OF THE NEWLY FORMED HOLDING COMPANY AND UNICOM CORPORATION	APPLICATION DOCKET NO. A -

TESTIMONY

OF

KENNETH G. LAWRENCE

Regarding Effects of the Merger on
PECO Energy Company Operations and Employment
and Its Commitment to the Local Community

Date: November 22, 1999

TABLE OF CONTENTS

TESTIMONY OF KENNETH G. LAWRENCE

I. QUALIFICATIONS

Q: Please state your full name and business address.

A: Kenneth G. Lawrence, 2301 Market Street, Philadelphia, PA 19101

Q: *By whom are you employed, and in what capacity?*

A: I am employed by PECO Energy Company ("PECO" or the "Company") as the President, PECO Energy Distribution. PECO Energy Distribution provides the regulated transmission and distribution services of PECO.

Q: What is your educational background?

A: I have a bachelor of science degree in engineering from Cornell University and an MBA from Widener University. I have also completed an executive development program at the Darden School of the University of Virginia and a Nuclear Reactor Technology Course for Utility Executives at MIT.

Q: Please describe your work experience with PECO.

A: I joined PECO in June, 1969 and rose through the ranks to become: Assistant Manager of the Company's Rate Division; Manager of the Financial Division; Manager of Customer Service & Accounts; Manager of

Commercial Operations; Vice President of Commercial Operations and Vice President of Gas Operations. On March 1, 1994 I was appointed Senior Vice President and Chief Financial Officer. Then, on September 22, 1997 I was named to the position of Senior Vice President, Local Distribution Company. On July 1, 1998 I was appointed to my current position as President of PECO Energy Distribution.

Q: Have you previously testified before the Commission?

A: Yes. I testified before the Commission in a number of gas and electric proceedings on behalf of PECO while I was in the Rate and Finance Divisions.

II. PURPOSE OF TESTIMONY

Q: Mr. Lawrence, what is the purpose of your testimony?

A: I will address the effects of the proposed merger on PECO Energy Distribution's operations and employees and on our continued commitment to the local community.

III. EXECUTIVE SUMMARY

Q: Can you briefly describe the corporate merger being undertaken by PECO and Unicom?

A: As explained in greater detail in Richard G. White's testimony (PECO St. No. 2), a new holding company will be created. The new parent company

will be headquartered in Chicago and will own all of the common stock of both PECO Energy Company and Commonwealth Edison Company ("ComEd"). The two distribution operations, however, will operate independently in their respective service territories with local headquarters and management. PECO's regulated transmission and distribution operations will operate under the name of PECO Energy Company. PECO Energy Company will continue to own and maintain its transmission assets and its distribution assets, will still operate as a utility regulated by the Commission and will maintain its provider of last resort function in the electric and natural gas sides of the business.

IV. OPERATIONS AND EMPLOYMENT

Q: Mr. Lawrence, what will be the effect of the merger on PECO?

A: The merger with Unicom Corporation will not have a significant impact on the day-to-day operations of PECO. I will be the President of PECO Energy Company. Most importantly, the headquarters for PECO Energy Company will remain in Philadelphia. In effect, PECO is going to be the same company that it is today, with the same blue and white vans, the same employees in the field and the same strong commitment to the community.

In fact, I believe that the merger will create one of the premier energy companies in the nation and this will serve to help PECO continue its

commitment to excellence in service reliability and customer service. The combination of PECO and Unicom's considerable resources and expertise will strengthen the ability of both companies to provide cost-effective and reliable service in the rapidly evolving competitive energy marketplace. For example, the new corporation will have a customer base of approximately 5 million customers and should be able to invest in new technologies which could be cost prohibitive for either PECO or ComEd to pursue without the merger.

In addition, I believe as a result of the merger and the premier energy company that will be formed, PECO will be in a position to continue to recruit and attract qualified, motivated and skilled individuals as well as offer greater career opportunities for its employees.

Q: How will the safety and reliability of PECO's distribution system be affected by the merger?

A: The safety and reliability of its distribution systems is PECO Energy Distribution's primary focus to which the Company devotes significant resources. PECO is committed to providing adequate, efficient, safe and reliable electric service. The Company will continue this focus after the merger. The Company's current program for providing reliable electric service is multi-faceted and comprehensive, and is implemented by well-

trained employees. In fact, over the past few years, part of PECO's compensation package for its employees is tied to service reliability performance measures.

The transmission and distribution system has been designed and built to stringent safety and reliability standards. Under the Company's system-wide predictive and preventive maintenance program, every piece of equipment receives the proper maintenance to ensure its safe and reliable operation. Vegetation in the proximity of the system is pruned and controlled via a well-funded, well-managed program that protects distribution facilities while respecting the beauty and environmental importance of the vegetation.

Not content to rest on our past record, PECO Energy professionals and field personnel monitor and analyze reliability trends and changes on an on-going basis, and institute capital upgrades and improvements to maintenance, design construction and/or operations to ensure that customers enjoy continued safe and reliable service. A recent example of the Company's commitment to the continued upgrade of its system is its new $1.3 million recloser program which started in September. Under this initiative, the Company will outfit a number of its neighborhood electric circuits with high tech reclosers. The reclosers use computer technology to reroute power around a trouble spot, significantly reducing the length of

a customer interruption if the customer is not located near the trouble spot.

PECO's reliability performance over the past five years has been strong and the Company remains committed to continued safe and reliable service after the merger. PECO's reliability programs will continue unabated and should benefit from the purchasing economies which should result from the merger.

Q: What assurance can you provide that the merger will not adversely affect PECO's commitment to distribution reliability?

A: The management structure for the merged company has been devised to assure high level management attention on distribution reliability and delivery services. I expect an increased management focus on distribution reliability will result from the merger and will yield benefits for our customers. Both PECO and Unicom have embarked on aggressive programs to improve the reliability of their distribution systems. Each company recognizes that the reliability of their distribution system continues to be the heart of good customer service and improved customer satisfaction. Each company recognizes that the success of their distribution company depends on meeting their customer's increased expectations for service reliability, and each company has committed significant resources toward meeting those expectations.

Unicom has demonstrated to PECO that its commitment to distribution reliability and to improvements in the efficiency, dependability and quality of delivery service is strong and unwavering. This mutual commitment to excellence should result in improved performance at both companies.

In addition, the Company believes that the combined company, by virtue of its greater resources and sharing of "best practices" will be even better positioned to meet future customer demands and to ensure that the high quality of service presently being provided is maintained and/or enhanced. For example, PECO will be in a position to work with ComEd to develop procedures to bring ComEd crews to assist PECO with service restoration. Although this is a common practice among area distribution companies during severe weather, the merger with Unicom will enable PECO to call upon additional ComEd crews when necessary.

Q: How can the Commission monitor PECO's reliability performance?

A: The Commission still will closely monitor the Company's reliability performance. The Commission's reliability benchmark and standards (PUC Docket No. M-00991220) will continue to apply to PECO. These standards are designed to "measure the performance of electric distribution companies' transmission and distribution systems in terms of the frequency and duration of unplanned electric service outages to

ensure that current levels of reliability do not deteriorate." (PUC Order, Entered August 27, 1999, p. 4). The Commission's Bureau of CEEP is charged with monitoring the reliability data submitted yearly by the electric distribution companies ("EDCs") and will report to the Commission on reliability performance of each EDC based on the final benchmarks and standards. Commission oversight in this area will be unaffected by the merger.

Q: Do you see any changes in the quality of PECO's customer service as a result of this merger?

A: I believe that the merger will have a positive effect on customer service as it will enable the merger partners to use our combined talents and expertise to enhance customer service. Just as PECO has a strong commitment to safety and reliability, we are equally committed to improving customer service. As part of the integration process, PECO plans to review its customer service procedures with those of ComEd and determine how to integrate and incorporate the best practices of each company. In addition, PECO may be able to draw direct benefits from combining portions of its call centers with those of ComEd in order to provide better phone coverage for each distribution company during high-volume call periods.

Q: How can the Commission ensure that the quality of customer service does not diminish?

A: The Competition Act states that "customer services shall, at a minimum, be maintained at the same level of quality under retail competition." 66 Pa. C.S. §2807(D). As with safety and reliability standards, the Commission has set Quality of Service Benchmarks and Standards for EDCs and will monitor the Company's customer service performance to ensure that the quality of customer service does not deteriorate as the result of implementation of customer choice. As I noted in my earlier answer, PECO's goal has not been to merely maintain customer services at the same level, but to enhance those services. This will continue to be a PECO Energy Company goal after the merger. PECO's quality of customer service will not be adversely affected by the merger.

Q: How do you see the merger affecting the Company's continued implementation of retail electric choice and its initial implementation of natural gas choice?

A: I have testified that day to day operations of PECO will not change as a result of this merger. Successful implementation of customer choice for electricity and now gas is a critical responsibility of PECO. Since the passage of the Electric Competition Act in 1996, PECO has worked with the Commission, electric generation suppliers (EGSs), and the other Pennsylvania electric distribution companies (EDCs) to implement a successful electric choice program. Pennsylvania continues to have the

most successful electric choice program in the country, and approximately half of the customers participating in the Pennsylvania electric choice program are in PECO's service territory. PECO has made significant investments in consumer education, information systems, and training of our employees to support the competitive electric market. PECO plans to do the same on the gas side of its operations. We will continue to work with the Commission, the EGSs, and EDCs to support this evolving market.

As a combination electric and gas distribution company, PECO has a unique role to play in terms of applying its experience, processes, and systems from the competitive electric market toward the implementation of the competitive natural gas choice program. As the implementation of gas choice evolves, PECO will work with the Commission, natural gas suppliers and the other Pennsylvania gas distribution companies on the establishment of this market.

We will continue to work to ensure that both the electric and gas choice programs are implemented effectively according to rules and regulations set forth by the Commission.

Q: Do you anticipate any staff reductions in PECO Energy Distribution as a result of the merger?

A: The workforce reductions due to the merger are expected to be approximately five percent (5%) of the total consolidated workforce in the regulated and unregulated operations of both PECO and Unicom. The Company anticipates the reductions will come largely from eliminating duplicate corporate and administrative positions and not from field forces. All reductions are intended to be voluntary, either through natural attrition or severance packages, and consistent with labor and employment laws. Any staff reductions in the transmission and distribution functions will be minimal and no reductions are envisioned in the field forces.

In 1998, PECO completed a thorough assessment of its business and reorganized many of its functions. As a result of that reorganization, the staffing levels in PECO Energy Distribution were fully evaluated and some staff reduction opportunities were identified. The majority of these reductions will be completed by the end of this year and all reductions are scheduled to occur by December 31, 2000. These reductions, however, are based on the 1998 cost containment plan and are not affected by, or the result of, the merger between PECO and Unicom.

V. COMMITMENT TO THE COMMUNITY

Q: Will this merger affect PECO's presence in the community in Pennsylvania?

A: Absolutely not. First of all I would like to clarify that the new holding company will have a very strong presence in this area. All PECO generating stations and transmission and distribution operations, along with their work forces, which account for nearly all of PECO Energy's current employees, will remain in this area. In addition, the generation and wholesale marketing headquarters of the merged company, representing a large part of the business, will also be located in the Philadelphia area.

Second, PECO Energy's significant commitment to the area's institutional and non-profit organizations will continue. In fact, the terms of the merger agreement specifically provide that charitable contributions will be maintained at their current level. Currently and historically, PECO Energy has donated in excess of $3 million annually to more than a hundred organizations, including the Boy Scouts, the School District of Philadelphia, the Linda Creed Breast Cancer Foundation, as well as the numerous hospitals, universities, and colleges in our service territory.

Third, the Company's Economic & Business Development department is focused, and will continue to focus, on helping to maintain an

economically viable service area through the targeted, aggressive use of personnel and resources to attract new jobs. This group also works to help existing companies in PECO's service territory to grow. Over the past four years, this group has completed 132 projects that have resulted in approximately 28,000 new and retained jobs.

Fourth, pursuant to multi-year sponsorship agreements, PECO Energy supports the Philadelphia Zoo's Primate Reserve, the Lights of Liberty on Independence Mall, the Franklin Institute, the PECO Energy Jazz Festival, Big Five Basketball, which also includes Drexel University, and other University of Pennsylvania sports events, such as the Penn Relays.

Finally, PECO Energy employees also have a long history of serving their community, either through volunteer organizations or service on township commissions, school boards, and borough councils. We fully expect our employees to continue their commitments to these endeavors after the merger.

VI. CONCLUSION

Q: Does this conclude your testimony.

A: Yes.

PECO STATEMENT NO. 2

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

APPLICATION OF PECO ENERGY COMPANY, PURSUANT TO CHAPTERS 11, 19, 21, 22 AND 28 OF THE PUBLIC UTILITY CODE, FOR APPROVAL OF (1) A PLAN OF CORPORATE RESTRUCTURING, INCLUDING THE CREATION OF A HOLDING COMPANY AND (2) THE MERGER OF THE NEWLY FORMED HOLDING COMPANY AND UNICOM CORPORATION	:	APPLICATION DOCKET NO. A-_____

DIRECT TESTIMONY

OF

RICHARD G. WHITE

Regarding Business Reasons for the Merger,
and Descriptions of the Merger and Restructuring

November 22, 1999

DIRECT TESTIMONY OF RICHARD G. WHITE

I. INTRODUCTION AND QUALIFICATIONS

Q. Please state your name and business address.

A. Richard G. White, PECO Energy Company, 2301 Market Street, Philadelphia, PA 19103

Q. What is your position at PECO Energy?

A. I am Vice-President of Corporate Planning. In that position, I am responsible for PECO Energy's strategic planning functions. This includes developing and coordinating the processes, assessment, tools, and analysis to establish strategic intent; implementing the company's formal and dynamic planning processes; building and maintaining effective relationships with the investment community; communicating the company's direction and overall financial and business performance; and conducting analysis and consultation regarding tax implications.

With respect to the merger that is the subject of this proceeding, I was responsible for determining whether the business objectives of Unicom and PECO could be integrated and am responsible for facilitating that integration. In addition, I was involved in the financial structuring of the deal and coordinated the effort to identify business integration opportunities.

Q. What is the purpose of your testimony in this proceeding?

A. First, I will describe the business rationale that led PECO Energy to merge with Unicom. Second, I will describe the corporate merger being undertaken by PECO Energy and Unicom. Third, I will describe the corporate reorganization that PECO Energy is undertaking at this time.

II. BUSINESS RATIONALE FOR THE MERGER

Q. What is the business rationale that led PECO Energy to merge with Unicom?

A. Our decision to merge with Unicom was motivated by numerous factors.

First, the merger will expand the combined company's access to generation capacity. PECO Energy has adopted a corporate strategy of expanding its generation portfolio. The combined company is expected to have a national portfolio of generation assets with a capacity nearly double that of PECO Energy alone. Since the generation of each company has a focus on nuclear operations, the combined company expects to share best practices and operating excellence, and to improve its supply management for products and services that are inputs to nuclear generation, such as nuclear fuel.

Second, and closely related, the merger will enhance the combined company's power marketing opportunities. The combined generation portfolio will have

greater flexibility and geographic diversity, which will allow us to broaden the portfolio of customized products available to wholesale customers.

Third, the merger creates a larger and more diverse distribution base. The combination of two separate distribution companies will allow the companies to share best practices and systems, including shared knowledge on customer satisfaction and reliability. In addition, it also provides a larger, more stable base from which to evaluate and implement potential future strategic opportunities in the face of an increasingly competitive energy marketplace.

Fourth, the merger provides a foundation for growth of nonregulated business ventures. The merger is expected to provide the critical mass, and the development and operating infrastructure, to further develop the broad and complementary nonregulated businesses of the two companies, including increased flexibility to take advantage of new business opportunities.

Fifth, the merger will provide cost savings through the elimination of duplicate functions in both the regulated and nonregulated businesses, including corporate and administrative programs, generation consolidation, unregulated ventures integration, improved purchasing power, and strategic combination of some portions of the two workforces.

Finally, both PECO Energy and Unicom are prepared for, and advocates of, competition at the wholesale and retail levels of the electric and gas utility industries. Both companies have finalized restructuring plans that establish timetables and procedures for offering and implementing retail choice to customers. Both companies have wholesale and retail electric marketing functions that are actively competing in the developing marketplaces. Both companies are committed to open competitive markets.

III. DESCRIPTION OF CORPORATE MERGER

Q. Please describe the merger between PECO Energy and Unicom.

A. PECO Energy and Unicom have entered into an Agreement and Plan of Exchange and Merger, dated September 22, 1999 (the "Merger Agreement"), which describes the terms of the merger. (The Merger Agreement is attached to PECO Energy's Application as Exhibit "D"). Ultimately, the combined companies will have a parent, umbrella holding company (not yet named, and therefore known simply as "NewCo.") that will own the stock regulated and nonregulated subsidiaries. NewCo. will be a Pennsylvania corporation.

The merger will be implemented through a share exchange, with both PECO Energy's and Unicom's shareholders ultimately receiving shares of stock in NewCo. This will be accomplished through several intermediary steps. Under the Merger Agreement, PECO will enter into a mandatory share exchange with one of its existing, but inactive, wholly owned subsidiaries (which will become

NewCo.). In the share exchange, each outstanding share of PECO common stock will be exchanged, at the election of the holder, for either one share of NewCo. common stock or $45.00 in cash, subject to proration. As part of this step, the existing PECO will become a subsidiary of NewCo.

Unicom will then merge with and into NewCo., with NewCo. as the survivor. In the merger, each outstanding share of Unicom common stock will be exchanged, at the election of the holder, for either 0.95 shares of NewCo. common stock or $42.75 in cash. The result of the merger will be to make ComEd and the existing non-utility subsidiaries of Unicom subsidiaries of NewCo.

The NewCo. board of directors will consist of 16 directors, eight selected by Unicom and eight selected by PECO. The senior officers of NewCo. will be selected from the existing senior officers of Unicom and PECO. The preferred stock and debt securities of ComEd and PECO will be unaffected by the transactions. This share exchange will be approved by the shareholders of both companies.

NewCo. will be a registered holding company under the Public Utility Holding Company Act. It will have consequent reporting and accounting requirements to the SEC. In addition, services provided from one corporate affiliate to another will be made pursuant to contracts approved by the SEC, the PaPUC, and by other regulatory agencies.

Certain aspects of the operations of the two companies will be integrated, both to obtain cost savings and to comply with SEC requirements. The integration that is required by the SEC will primarily involve the transmission, generation and unregulated operations. The distribution operations in Southeast Pennsylvania and Northern Illinois will undertake steps to exchange best practices and to eliminate some duplication of personnel in primarily non-line functions. However, it is expected that each of the two distribution operations will continue to function independently to provide reliable service to its service territory. Each will continue to remain located in its respective service territory, with local management in place.

Some functions will be moved to NewCo., the parent holding company. A service company (ServeCo.) will also be created. While the precise functions to be moved to the NewCo. and ServeCo. will be determined by integration management teams over the next several months, the functions that will be placed in these organizations are likely to include global corporate functions such as strategic planning, and administrative and general functions such as legal, accounting, financial services, and information technology.

Q. Have you prepared any pro forma financial documents that describe the merged corporation?

A. Yes. As part of the SEC reporting process, we prepared pro forma financial statements that report the combined past operations of the two companies. These pro forma financial statements were provided to the SEC and to the investing public via a Form 8-K filed by both PECO Energy and Unicom. (The financial documents that were included in the SEC filing are attached to the Application as Exhibits "J-1" [balance sheet] and "K-1" [income statement].) This pro forma balance sheet does not reflect any anticipated operational effects of the proposed merger, but rather portrays the combined size of the two companies' existing assets and liabilities.

IV. DESCRIPTION OF CORPORATE REORGANIZATION

Q. Is PECO Energy undertaking any additional changes to its corporate structure?

A. Yes. In addition to the merger-related changes described above, PECO Energy will complete the disaggregation of its generation assets and operations as approved by the Commission in the settlement of PECO Energy's restructuring case in Docket Nos. R- 00973953 and P-00971265. PECO Energy will also move its unregulated ventures from the existing PECO corporate structure to a new location within the corporate family.

Q. Please describe the changes that PECO Energy will make to implement the disaggregation of its generation assets and its unregulated ventures.

A. For several years, PECO Energy has functionally divided its operations into three parts: (1) the regulated transmission and distribution function, (2) the generation function, and (3) unregulated ventures. The disaggregation will continue that functional separation by moving unregulated functions into separate legal corporations.

First, the existing PECO Energy Company will continue to provide retail service regulated by the Pennsylvania PUC. It will continue to own all transmission assets and to own and operate all distribution assets. This same corporation will fulfill the provider of last resort functions described in Pennsylvania law. It will continue to collect regulated rates, including CTC and ITC, in the PECO Energy service territory. It will have local headquarters and management.

Second, PECO Energy's generation assets and operations will be moved to GenCo., which will become a sister subsidiary owned by the new parent holding company. This company (or one or more of its subsidiaries) will own the existing fossil and nuclear generating plants, and will hold the NRC license to operate those plants. PECO Energy's power marketing functions, which are currently pursued through its unincorporated division known as the "Power Team," will also be included in the GenCo. PECO Energy's interest in AmerGen, LLC, which is currently held as a separate concern, will continue to be held in the same form, but by GenCo. Finally, PECO Energy currently has separate corporate subsidiaries that own and hold the licenses for its

hydroelectric facilities at the Conowingo Dam in Maryland. Those companies will remain intact as subsidiaries of GenCo.

Third, PECO's unregulated ventures, which are currently operated as unincorporated divisions of PECO Energy or as separate subsidiaries of PECO, will be moved out of the PECO corporate line and into a new corporate subsidiary or family of subsidiaries owned either directly or indirectly by the parent holding company. These unregulated ventures will report to Unicom Enterprises, the existing Unicom corporation that manages the Unicom unregulated ventures. The corporate location of these unregulated entities and ventures will be determined on a case-by-case basis.

Similarly, PECO's unregulated retail electric and gas marketing operations, which currently reside in a separate corporate subsidiary (Horizon Energy, d/b/a Exelon Energy), will report to the unregulated enterprises portion of the combined company, Unicom Enterprises. Exelon Energy may formally reside as a subsidiary of Unicom Enterprises, or it may reside as part of GenCo., even though reporting to Unicom Enterprises. In the event that Exelon Energy becomes a part of the GenCo. for corporate organizational purposes, its operations as an Electric Generation Supplier ("EGS") in PECO's service territory in Southeast Pennsylvania will continue to be operated through a separate corporation, as required by PECO's Restructuring Settlement.

Q. Will the Unicom operations also be separated into functionally separate portions of the combined corporation?

A. Yes. Unicom has already separated many of its unregulated enterprises into separate corporations, which will be contained within or report to Unicom Enterprises, a first-tier subsidiary of NewCo. As for the traditional utility functions, ComEd has already functionally divided its transmission, distribution, and generation functions within the existing company. After the merger, the ComEd generating assets will be managed and operated through the GenCo. ComEd may also seek approval from the Illinois Commerce Commission to transfer title of its generating assets to GenCo.

Q Have you prepared exhibits that illustrate the new corporate structure?

A. Yes. Exhibits "E-1," E-2" and "E-3" to the Application are a series of organizational charts illustrating the corporate structure that will exist after the merger and reorganization. Exhibit "E-1," labeled "Expected First Tier Subsidiaries," shows the expected first-tier subsidiaries of the combined companies. Exhibit "E-2", which is labeled "Simplified Organizational Chart," provides an additional layer of detail and shows the location of various corporate entities and functions discussed in my testimony and the application. Exhibit "E-3" provides a still greater level of detail, showing both the first tier subsidiaries and the expected location of all existing PECO subsidiaries.

Q. In the Joint Settlement of PECO Energy's restructuring case, approved by the Commission in Docket Nos. R-00973953 and P-00971265, PECO Energy received approval to transfer its generating assets and liabilities at their value at the date of transfer. Have you prepared an exhibit setting forth those values?

A. Yes. Exhibit "F" to the Application is a general description of the generating assets, liabilities and wholesale power contracts to be transferred, and a schedule setting forth, by FERC account, the value of such assets and liabilities as of June 30, 1999.

Q. PECO's Application (¶ 21) requests approval to transfer certain assets to NewCo, ServeCo, and VenturesCo. Have you prepared an exhibit describing the assets and liabilities that PECO Energy seeks to transfer to these companies?

A. Yes. While the specific items to be transferred to these companies will not be known until integration teams conclude their analyses, I have provided a representative sampling of the assets and liabilities for which transfer approval is sought. This information is appended to the Application as Exhibit "G."

Q. After the corporate reorganization, the existing PECO Energy Company will continue to provide regulated retail service in PECO Energy's service

territory. Have you prepared any pro forma financial documents for this entity?

A. Yes. I have prepared a pro forma segmented balance sheet and income statement for the disaggregated regulated distribution company as a standalone company. These documents are attached to the Application as Exhibits "J-2" and "K-2."

Q. Will the regulated Pennsylvania utility have non-power goods or services provided to it by other members of the corporate family?

A. Yes. As noted previously, many functions, including administrative and general functions, will be provided by ServeCo. In addition, we anticipate that some incidental services may be provided between various corporate entities from time to time.

Q. Conversely, will other members of the corporate family have non-power goods or services provided to them by the regulated Pennsylvania utility?

A. It is possible that such services will be provided, especially in the interim period after the reorganization and merger are approved and completed but before the combined companies are able to finalize and implement integration plans.

Q. Have you prepared any contracts related to non-power goods and services that will be provided between the regulated Pennsylvania utility and other entities in the corporate family?

A. Yes. As I noted previously in my testimony, certain routine functions such as accounting, legal, human resources, and finance may be housed within ServeCo. and made available to PECO and other entities in the corporate family on a contractual basis. The provision of non-power goods and services from the ServeCo in a registered holding company system is regulated by the SEC. PECO and Unicom will submit a form of affiliated services contract to the SEC that generally controls the provision of non-power goods and services to all entities in the corporate family, including PECO. This contract conforms to SEC requirements on pricing – that the services be provided at no more than cost – and requirements for allocation of indirect costs. Because this contract will, in part, govern the provision of services from the ServeCo to PECO, it is attached to the Application as Exhibit "H-1."

In addition, as noted above other entities within the corporate group may provide or receive non-power goods and services from PECO. A form of service agreement for the provision of those services is attached as Exhibit "H-2." This contract is based on the SEC contract mentioned above and contains the same pricing and allocation factors as the SEC contract, with one key exception: for transactions that involve PECO and any affiliated EGS, the contract provides that PECO will continue to honor the settlement provisions approved by the Commission in the PECO Restructuring Settlement that provide for specific pricing for such transactions.

Q. Have you prepared any contracts that relate to power goods and services that will be provided between the Pennsylvania regulated utility and other entities in the corporate family?

A. Yes. For calendar year 2000, the regulated Pennsylvania utility, PECO, will obtain its generation from GenCo. A form of contract for that sale is attached to the Application as Exhibit "H-3."

Q. Does this complete your testimony?

A. Yes.

PECO STATEMENT NO. 3

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

APPLICATION OF PECO ENERGY COMPANY PURSUANT TO CHAPTERS 11, 19, 21, 22 AND 28 OF THE PUBLIC UTILITY CODE, FOR APPROVAL OF (1) A PLAN OF CORPORATE RESTRUCTURING, INCLUDING THE CREATION OF A HOLDING COMPANY AND (2) THE MERGER OF THE NEWLY FORMED HOLDING COMPANY AND UNICOM CORPORATION	:	APPLICATION DOCKET NO. A -

TESTIMONY

OF

THOMAS P. HILL, JR.

Regarding Effects of the Merger on
PECO Energy's Restructuring Settlement, Impact on Rates

Date: November 22, 1999

TABLE OF CONTENTS

Testimony of Thomas P. Hill, Jr.

I. QUALIFICATIONS

Q. Please state your name, occupation and business address.

A. My name is Thomas P. Hill, Jr. I am Vice President, Regulatory and External Affairs of PECO Energy Company ("PECO" or the "Company"). My address is 2301 Market Street, Philadelphia, Pennsylvania.

Q. Please describe your work experience with PECO.

A. Following my graduation from college in 1970, I joined PECO as an Engineer in the Rate Division. I held this position until 1978 when I was appointed Supervisor of Tariff and Special Projects within the Rate Division. In March of 1982, I was appointed Assistant Manager of the Rate Division and in March of 1986 Manager of the Rate Division. In 1990, I was appointed Controller and in 1991 I was elected to Vice President and Controller. In 1998 I was elected to my present position of Vice President, Regulatory and External Affairs.

Q. Have you testified previously in any regulatory proceeding?

A. Yes. I have presented testimony in numerous proceedings before the Pennsylvania Public Utility Commission, the Federal Energy Regulatory Commission and the Maryland Public Service Commission.

Most recently, I presented testimony regarding the Overview of the Company's Electric Restructuring Filing, Quantification of PECO Energy's Stranded Costs, Pro Forma Financial Data and the Impact of the Restructuring on PECO's Employees in the Company's electric restructuring proceeding (R-00973953).

II. Purpose of Testimony

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to discuss the implications of the merger with respect to the Company's rates and terms and conditions of service. First, I will explain that the Company maintains its support and commitment to the electric restructuring settlement. Next I will elaborate on the applicability of various portions of that restructuring settlement to the new entities formed as a result of the merger. Third, I will describe how decommissioning costs are being recovered from customers, and how that cost recovery obligation shall remain with the regulated distribution company. Finally, I will explain the merger's impact on the Company's rates.

III. Impact on the Settlement

Q. Will the merger have any impact on the terms and conditions of the Company's electric restructuring settlement?

A. No. All of the terms and conditions of the electric restructuring settlement approved by this Commission continue in effect after the merger. PECO Energy is fully committed to honoring all aspects of the settlement. Additionally, it is important to understand that 29 parties, including the Company, signed this document with the commitment to support all the terms and conditions. It is the Company's expectation that each of the signatories will continue to fulfill their commitments. I would also note that numerous municipalities in PECO's territory have signed on to the settlement terms and conditions through the Municipal Intervenor Group. Exhibit TPH-1 contains a list of the settling parties.

Under the new corporate structure there will be a subsidiary, PECO Energy Company, doing business as a regulated utility in Pennsylvania. Therefore, from both a regulatory and a customer viewpoint there will be no change.

IV. Applicability of the Settlement Provisions

Q. Does the electric restructuring settlement have any applicability to the newly formed entities?

A. Yes. The provisions of the restructuring settlement will apply to the affiliated companies, arising from the merger, including PECO Energy, the regulated distribution company. The areas of applicability I will specifically address include: 1) the Interim Code of Conduct (Appendix H of the Restructuring Settlement); 2) the Competitive Safeguards (Appendix G of the Restructuring Settlement, known as the "GenCo. Code of Conduct); and 3) the funding of nuclear decommissioning costs.

Q. What is the Interim Code of Conduct?

A. The Interim Code of Conduct, which I have provided as Exhibit TPH-2, is a set of rules that govern the interaction between PECO Energy Company, in its role as an electric distribution company, and any divisional and/or affiliated electric generation supplier (EGSs). The purpose is to assure that the affiliated EGSs receive no preferential treatment in terms of transactions between the affiliated enterprises.

Q. Please explain how the Interim Code of Conduct will apply.

A. Once the merger has been completed, any retail electric generation sales group or subsidiary of the parent company (NewCo, a holding company) will become an affiliate of PECO Energy. The term "PECO Supplier" in the Interim Code of Conduct includes any retail electric generation supplier that is an affiliate or division of PECO Energy. Therefore, any affiliated retail electric generation sales group or subsidiary doing business in Pennsylvania

will be covered under the Interim Code of Conduct. Similarly, any Code of Conduct that results from the current rulemaking under the Natural Gas Choice and Competition Act will apply to any affiliated natural gas supplier doing business in Pennsylvania.

Q. What are the Competitive Safeguards?

A. The Competitive Safeguards, which I have provided as Exhibit TPH-3, are a set of rules that apply to transactions between PECO Energy, in its distribution company role, and any affiliated generation company ("GenCo."), and also between any affiliated EGS and the affiliated GenCo. These rules apply to transactions for Pennsylvania business and are designed to prevent any unfair preferences for affiliates or cross subsidization between affiliates.

Q. When are the Competitive Safeguards contained in Appendix G of the restructuring settlement activated?

A. This provision of the settlement goes into effect once PECO Energy's generation assets are transferred to an affiliate and a GenCo. is created. Such a transfer already has been approved in the restructuring settlement.

Q. Does the merger and concurrent corporate restructuring result in such a transfer of generation assets?

A. Yes. As explained by Richard G. White (PECO Energy Statement No. 2), under the new corporate structure PECO Energy's generation assets will be

transferred to a new affiliated generation company, GenCo. thus triggering the Competitive Safeguards provisions of the restructuring settlement.

Q. Please explain how the Competitive Safeguards will apply to the *affiliated companies?*

A. In general the Competitive Safeguards are designed to prevent PECO-GenCo. from offering special or favored terms either to PECO Energy acting "in its electric distribution company provider of last resort role," or to any "divisional or affiliated EGS in Pennsylvania." Following the merger, these provisions shall apply to the newly created GenCo., PECO Energy, the regulated utility, and to any affiliated/divisional retail electric generation suppliers doing business in Pennsylvania (e.g., Exelon Energy).

Q. Why have you focused on these provisions of the restructuring settlement?

A. As I stated previously, the restructuring settlement, which resolved all issues from PECO Energy's restructuring case, is not affected by the merger. All of the provisions of the restructuring settlement will remain effective and the parties committed to supporting the terms and conditions. The provisions that I focused on are those that relate to affiliates of PECO Energy, as the merger and corporate restructuring result in new affiliates.

Q. Please summarize the impact of the merger on the restructuring settlement .

A. In summary, the electric restructuring settlement is not affected by the merger, and the provisions of the settlement will continue to apply to PECO Energy, the regulated utility, to affiliates formed as a result of the merger, and to all signatories of the settlement.

V. Nuclear Decommissioning Cost Funding

Q. How are nuclear decommissioning costs currently being funded?

A. Estimated nuclear decommissioning costs for all Limerick 1 and 2, 42.59% of Salem 1 and 2, 42.49% of Peach Bottom 2 and 3, or a total of approximately $29.2 million per year, are currently being recovered from retail customers within the PECO Energy service territory and are being placed in approved trust funds. Under the terms of our electric restructuring settlement, the Company is required to perform a new decommissioning cost study every five years and adjust rates, upward or downward, depending upon both the new cost estimate and fund performance. Any required rate adjustment will be through the Nuclear Decommissioning Cost Adjustment which is charged to all distribution service customers of PECO Energy.

Q. Will cost recovery change after the merger and the transfer of generation assets to an affiliated company?

A. No. The methodology for decommissioning cost recovery for the PECO Energy plants referenced above will remain the same after the merger is completed. Any announced purchases of nuclear plants such as TMI, Nine Mile Point, Vermont Yankee, Clinton, and Conectiv's share of Peach Bottom, in no way impact PECO's retail customers. The cost to decommission these plants has been fully funded as a condition of the purchase. And furthermore, since these plants were not built to serve PECO Energy's retail customers, our customers are under no obligation to pay to decommission these plants.

Q. Where does the ultimate decommissioning funding responsibility reside?

A. The ultimate responsibility to fund the decommissioning will remain with PECO Energy, the regulated utility, for those units that were built to serve PECO's retail customers. This is necessary for both Internal Revenue Service and Nuclear Regulatory Commission ("NRC") purposes. For decommissioning expenses to be tax deductible, they must be part of the regulated cost of service. As to the NRC, absent the recovery of costs through regulated rates, the cost of decommissioning would have to be fully and currently funded.

Q. After the merger, will the decommissioning liability of Commonwealth Edison, the regulated electric utility owned by Unicom, in any way affect PECO Energy?

A. No. Unicom's decommissioning liability will in no way affect PECO Energy or its customers. The merger will cause no shift in that liability from Commonwealth Edison. PECO Energy distribution customers are only responsible for funding the decommissioning cost of the nuclear plants that were built to serve them.

VI. Rate Impact

Q. What is the impact on the rates of PECO Energy Company that will result from the merger?

A. None, at this time. Currently PECO Energy Company's transmission and distribution rates applicable to retail customers are fixed under the terms of the electric restructuring settlement, through the period ending June 30, 2005. The Company has made this long-term commitment to hold rates fixed for a period which will extend from the restructuring Order dated December 23, 1997 until June 30, 2005 or a period of 7.5 years. Furthermore, it is important to note that PECO has not proposed a general base rate increase since 1989. In order to fulfill this long term commitment, PECO Energy must seek out opportunities to reduce the cost structure of the transmission and distribution operations in order to offset inflation as it affects our labor costs,

material costs and cost of outside services. Through the years, PECO has implemented numerous programs to reduce its cost structure. The merger with its potential for cost synergies is another opportunity to achieve this result.

Q. What are some of the methods the Company has used to reduce costs?

A. The distribution operations of PECO Energy have, subsequent to the restructuring settlement, reduced staffing and other costs through process changes and have incurred certain one-time costs including early retirement and separation expenses in order to accommodate these changes. Additionally, the Company has recently announced its investment in automated meter reading ("AMR"). This change will ultimately result in cost efficiency that will help off set inflation, but it, too, has significant up-front costs. On the Corporate side, the Company has over the past few years refinanced significant amounts of debt and preferred stock through calls and tenders. These financings also lower our cost structure to help offset inflation, again with significant up-front costs.

The merger is another new opportunity the Company has to control or reduce costs while maintaining or improving reliability and customer service. Just like other cost reduction efforts, the merger has significant up front costs

Q. What are the estimated benefits of the merger on regulated operations through the end of your Transmission and Distribution rate cape period (June 30, 2005)?

A. Exhibit TPH-4 provides the development of the present value of regulated savings over the period from January 1, 2001 to June 30, 2005. As shown, the net present value of the cost saving synergies, less associated cost to achieve, is $195.5 million. This represents the total savings for both PECO Energy and Commonwealth Edison. The $195.5 million present value benefit is based upon data contained in Exhibits of the Testimony of Thomas J. Flaherty, (PECO Statement No. 4). The synergies used in the first column of Exhibit TPH-4 are from Exhibit TJF-2, and do not include the associated cost to achieve. The second column, also from Exhibit TJF-2 contains both the cost to achieve and the premerger initiative which must be deducted from the total cost saving synergies to obtain the net benefits. The third column, net benefits is the difference between the synergies and associated cost to achieve. The amounts in the third column are then present valued at 8.71% to get the $195.5 million. The 8.71% discount rate is the level supported by the Company in its electric restructuring proceeding.

Q. Do you believe that customers will receive cost saving benefits from the merger?

A. Yes, over time customers will receive the cost savings benefits that result from the merger. Receipt of the benefits can be through delayed, avoided, or reduced rate increases. Given that PECO Energy's distribution rates are fixed until June 30, 2005, achieving cost reductions and controls through the merger will either delay PECO Energy's need to file a distribution rate case or reduce the amount of an increase that is requested at that time. For example, if after June 30, 2005, PECO chooses to make a general rate filing, the cost synergies such as those identified in Mr. Flaherty's testimony will be recognized and the requested increase will be smaller than it would have been but for the merger.

Q. **Does that conclude your testimony?**

A. Yes, it does.

Exhibit TPH 1

PARTIES TO THE PECO ENERGY RESTRUCTURING SETTLEMENT

1. PECO Energy Company
2. Senator Vincent J. Fumo
3. Office of Consumer Advocate
4. Office of Small Business Advocate
5. Office of Trial Staff
6. Philadelphia Area Industrial Energy Users Group
7. Lance S. Haver
8. The Consumers Education and Protective Association(CEPA)
9. The Environmentalists
10. The Delaware Valley Energy Consortium
11. Pennsylvania Retailers' Association
12. U.S. Department of the Navy
13. Action Alliance of Senior Citizens of Greater Philadelphia
14. Pennsylvania Department of Aging
15. Enron Power Marketing, Inc.
16. NEV East LLC
17. Conectiv Energy
18. Mid-Atlantic Power Supply Assoc.
19. Skipping Stone
20. Pennsylvania Petroleum Association
21. Pennsylvania Association of Plumbing, Heating, Cooling Contractors, Inc.
22. Allegheny Power System, Inc.
23. GPU Energy Inc.
24. PP&L, Inc.
25. Pennsylvania Rural Electric Assoc.
26. Municipal Intervenor Group
27. Tenant Action Group
28. ACORN
29. John W. Long, Jr.

INTERIM CODE OF CONDUCT

This Code of Conduct will become effective immediately upon approval as to activities related to implementation of the Phase-In of Direct Access

The Company and its divisional and/or affiliated EGSs ("PECO Supplier") shall comply with the following Interim Code of Conduct:

1. The Company, in its role as the Electric Distribution Company ("PECO EDC"), shall not give a PECO Supplier preference over a non-affiliate in the provision of goods and services such as processing requests for information, complaint processing and responses to service interruptions. PECO EDC shall provide comparable treatment without regard to the customer's chosen EGS.

2. PECO EDC shall supply services and apply the rules and other provisions of its Tariffs to non-affiliates in the same manner it applies them to a PECO Supplier.

3. PECO EDC shall not sell non-power goods or services to a PECO Supplier at a price below the cost or market price, whichever is higher, for said goods or services. PECO EDC will not purchase non-power goods or services from a PECO Supplier at a price above the market price for said goods or services. No transaction between PECO EDC and a PECO Supplier shall involve an anti-competitive cross subsidy and all such transactions shall comply with applicable law.

4. PECO EDC shall simultaneously make available to all EGSs any market information, not in the public domain, that it provides to a PECO Supplier.

5. Employees of PECO EDC who have responsibility for operating the distribution system, such as receiving requests for power, purchasing power, scheduling delivery, or billing and metering, shall not be shared with a PECO Supplier, and their offices shall be physically separated from the office(s) used by those working for the PECO Supplier. Such employees of PECO EDC may transfer to a PECO Supplier provided such transfer is not used as a means to circumvent this Interim Code of Conduct. Any PECO Supplier shall have its own direct line management. Any shared facilities shall be fully and transparently allocated between the PECO EDC function and the PECO Supplier function. PECO EDC accounts and records shall be maintained such that the costs a PECO Supplier incurs may be clearly identified.

6. PECO EDC shall not condition the provision of any PaPUC jurisdictional regulated services on the purchase of power from a PECO Supplier.

7. (a) Neither PECO EDC nor a PECO Supplier may directly or by implication falsely and unfairly represent:

   - that the PaPUC jurisdictional regulated services provided by PECO EDC are of a superior quality when power is purchased from a PECO Supplier; or
   - that the merchant services (for power) are being provided by PECO EDC rather than a PECO Supplier;
   - that the power purchased from an EGS that is not a PECO Supplier may not be reliably delivered;
   - that power must be purchased from a PECO Supplier to receive PECO EDC PaPUC jurisdictional regulated services.

   (b) PECO EDC shall not jointly market or jointly package its PaPUC jurisdictional, regulated services with the services of a PECO Supplier. This prohibition includes prohibiting PECO EDC from including bill inserts in its EDC bills promoting a PECO Supplier's services, and further precludes a reference or link from PECO EDC's web-site to any PECO Supplier.

   (c) When a PECO Supplier markets or communicates to the public using the PECO EDC name or logo it shall include a disclaimer that states: (1) that the PECO Supplier is not the same company as the PECO EDC; (2) that the prices of the PECO Supplier are not regulated by the PaPUC; and (3) that a Customer does not have to buy electricity or other products from the PECO Supplier in order to receive the same quality service from PECO EDC. When a PECO Supplier advertises or communicates verbally through radio or television to the public using the PECO EDC name or logo, PECO Supplier shall include at the conclusion of any such communication a disclaimer that includes all of the disclaimers listed in this paragraph.

8. Violations of this Code of Conduct shall result in PaPUC-ordered fines at the levels determined to be appropriate by the PaPUC. Any such PaPUC action would not preclude or limit additional private remedies or civil action.

9. Dispute Resolution Procedures:

   - Regarding any dispute between PECO EDC, and/or a PECO Supplier, and an EGS (each individually referred to as "Party" and collectively referred to as "Parties") alleging a violation of any of these Code of Conduct provisions, the EGS must provide PECO EDC and/or PECO Supplier, as applicable, a written Notice of Dispute that includes the names of the Parties and customer(s), if any, involved and a brief description of the matters in dispute.

   - Within five (5) days of PECO EDC's and/or PECO Supplier's receipt of a Notice of Dispute, a designated senior representative of each of the Parties shall

attempt to resolve the dispute on an informal basis.

- In the event the designated representatives are unable to resolve the dispute by mutual agreement within thirty (30) days of said referral, the dispute shall be referred for mediation through the Commission's Office Of Administrative law Judge. A party may request mediation prior to that time if it appears that informal resolution is not productive.

- *If mediation is not successful, then the matter shall be converted to a formal* proceeding before a Commission Administrative Law Judge.

- Any Party may file a complaint concerning the dispute with the Commission under relevant provisions of the Public Utility Code.

10. PECO EDC shall file a compliance filing within 60 days of execution of any settlement which sets forth a detailed plan for compliance with this Code of Conduct as well as the PUC separation and cost allocation requirements already ordered.

Competitive Safeguards Covering
Transactions between PECO EDC
or PECO-Supplier with PECO
Affiliated Generation Company ("GENCO")

In addition to any other Code of Conduct that might apply, the following Competitive Safeguards shall apply to transactions by PECO in its electric distribution company provider of last resort role ("PECO-EDC"), or by any divisional and/or affiliated EGS, in Pennsylvania from any PECO-affiliated entity to the entity ("PECO-GENCO") that assets have been transferred pursuant to this Settlement (See paragraph 28).

1. Neither PECO-EDC nor PECO-Supplier shall receive from the PECO-GENCO an unreasonable preference over a non-affiliated EGS or treatment that is not comparable to that afforded a non-affiliated EGS in the purchase, sale, use or conveyance of goods and services, including energy, installed capacity, generation related ancillary services, firm transmission rights, capacity benefit margins or any other generation and transmission product, service or asset.

2. The PECO-EDC and the PECO-Supplier shall receive tariffed generation or transmission from the PECO-GENCO, to the extent the PECO-GENCO provides tariffed services, in a manner that is comparable or otherwise is not anti-competitive

when compared to how the same tariff services are provided to non-affiliated EGSs.

3. No transaction between a PECO-EDC or PECO-Supplier and PECO-GENCO shall involve an anti-competitive cross subsidy and all such transactions shall comply with applicable law.

4. PECO-GENCO shall not offer retail generation services to retail electric customers in the PECO service territory before January 1, 2004.

5. If PECO-GENCO is authorized after January 1, 2004 by the PUC to provide retail generation services, PECO-GENCO shall not engage in anti-competitive or discriminatory conduct which prevents retail electricity customers in this Commonwealth from obtaining the benefits of a properly functioning and workable competitive retail electricity market.

6. PECO-EDC and PECO-Supplier will file monthly with the Commission complete information about price, terms, and conditions concerning transactions involving PECO-GENCO that are covered by these provisions. The Commission's standard rules governing proprietary information shall apply.

7. PECO-EDC shall establish and file with the Commission a dispute resolution procedure to address complaints alleging violation of the provisions. The Commission shall finally adjudicate within 60 days any complaint filed with the PUC concerning

these provisions. The PECO-EDC internal dispute resolution procedure will not extend the 60 day period in which disputes shall be resolved.

8. This agreement does not confer jurisdiction on the Commission that does not otherwise exist under applicable law, and any Order issued finding a violation of these provisions shall be directed to PECO-EDC or PECO-Supplier, unless PECO-GENCO is providing retail generation services in the Commonwealth of Pennsylvania.

9. With the exception of paragraph 4, imposition of these provisions does not constitute state action for antitrust purposes.

10. With the exception of paragraph 4, these provisions will remain in effect until the expiration of the CTC collection period or until appropriate and applicable competitive safeguards or Code of Conduct are adopted by the Federal Energy Regulatory Commission ("FERC"), whichever occurs first. All signatories may fully participate in FERC proceeding concerning competitive safeguards or Code of Conduct for PECO-GENCO, though no signatory may oppose the transfer of assets authorized by paragraph 28.

Estimated Net Merger Synergies
For Regulated Operations
Period from 2001-2005
($1,000)

Year	Synergies Col. 1	Cost to Achieve(a) Col.2	Net Benefits Col.3=col.1-col.2	
2001	$ 62,348	$109,978	$ (47,630)	
2002	$ 101,486	$ 43,465	$ 58,021	
2003	$ 117,844	$ 25,932	$ 91,912	
2004	$ 130,742	$ 22,948	$ 107,794	
2005(6 mos.)	$ 72,060	$ 11,620	$ 60,440	reflects 6 months
NPV@8.71%			$ 195,513	

(a) includes both cost to achieve and pre-merger initiatives
Note: The synergies and cost to achieve per Exhibit TJF-2
from the Direct Testimony of Thomas J. Flaherty

PECO STATEMENT NO. 4

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

APPLICATION OF PECO ENERGY COMPANY, PURSUANT TO CHAPTERS 11, 19, 21, 22 AND 28 OF THE PUBLIC UTILITY CODE, FOR APPROVAL OF (1) A PLAN OF CORPORATE RESTRUCTURING, INCLUDING THE CREATION OF A HOLDING COMPANY AND (2) THE MERGER OF THE NEWLY FORMED HOLDING COMPANY AND UNICOM CORPORATION	:	APPLICATION DOCKET NO. A-_____

DIRECT TESTIMONY

OF

THOMAS J. FLAHERTY

Regarding Estimated Regulated Cost Savings

November 22, 1999

146686

TABLE OF CONTENTS

DIRECT TESTIMONY OF THOMAS J. FLAHERTY

I. QUALIFICATIONS

Q. Please state your name and by whom you are employed.

A. My name is Thomas J. Flaherty, and I am the National Partner of Energy Consulting and a partner in Deloitte Consulting LLC (Deloitte Consulting), a Delaware limited liability company. My business address is 2200 Ross Avenue, Suite 1600, Dallas, Texas 75201.

Q. Would you briefly summarize your academic and professional background?

A. I graduated from the University of Oklahoma with a B.B.A. degree in Accounting and immediately joined Touche Ross, where I have been continuously employed since 1973. In December 1989, Touche Ross and Deloitte Haskins & Sells merged and now conduct business under the firm names of Deloitte & Touche LLP and Deloitte Consulting LLC. Since joining Touche Ross, I have specialized in the public utility industry and have performed a variety of assignments.

I have assisted managements from a number of electric and/or gas utilities in their identification, evaluation and integration of acquisitions, including: screening analysis; review of corporate restructuring alternatives; assessment of merger related cost reduction opportunities; development of regulatory strategies; planning and execution of merger integration; and,

assignment and allocation of costs and benefits related to mergers and acquisitions. In addition to my involvement in merger and acquisition consulting for Deloitte Consulting, I have participated in numerous other utility consulting engagements in the areas of corporate growth, diversification, restructuring, organizational analysis, business process reengineering, benchmarking, strategic planning, strategic marketing, litigation assistance, economic feasibility studies, regulatory planning and analysis and financial analysis.

I also have conducted or directed similar assignments for a variety of industries, including construction, retailing, publishing, health care, real estate and manufacturing, in addition to utilities. EXHIBIT TJF-1 to this testimony details my experience with regulated utilities.

Q. Please summarize your experience in utility mergers and acquisitions.

A. I have been involved in more than 100 actual, proposed or potential transactions involving electric, electric and gas combination, or gas utilities. I have experience working for both buyers and sellers and have assisted client managements in their assessment of a broad range of transactional issues, including the following:

- Target analysis
- Asset quality analysis
- Customer analysis
- Competitor analysis
- Synergy assessment
- Financial analysis
- Transaction structuring
- Regulatory strategy
- Testimony
- Integration planning

Publicly announced transactions in which I have been significantly involved, other than the one that is the subject of this proceeding, are: Kansas Power & Light and Kansas Gas and Electric, IPALCO Enterprises and PSI Resources, Entergy and Gulf States Utilities, Southern Union and Western Resources (Missouri properties), Washington Water Power and Sierra Pacific Resources, Midwest Resources and Iowa-Illinois Gas & Electric, Northern States Power Company and Wisconsin Energy Corporation, Public Service Company of Colorado and Southwestern Public Service Company, Baltimore Gas & Electric and Potomac Electric Power Company, Delmarva Power and Atlantic Energy, WPL Holdings, IES Industries and Interstate Power, Puget Sound Power & Light and Washington Energy, TU Electric and ENSERCH, Western Resources and Kansas City Power & Light, Western Resources and ONEOK, Inc. (Kansas, Oklahoma gas properties), Houston Industries and NORAM Energy, Ohio Edison and Centerior, ENOVA and Pacific Enterprises, Brooklyn Union Gas and Long Island Lighting, Allegheny Energy and DQE, Inc., LG&E Energy and KU Energy, NIPSCO Industries and Bay State Gas, American Electric Power and CSW, BEC Energy and COM Energy, Northern States Power and New Century Energies, Dynegy and Illinova, DTE Energy and MCN Energy and ConEd and Northeast Utilities.

Q. Do you hold any professional certifications?

A. Yes. I am a Certified Management Consultant and a member of the Institute of Management Consultants.

II. PURPOSE OF TESTIMONY

Q. What is the purpose of your testimony?

A. I have been asked to appear on behalf of PECO Energy Company (PECO) to assist PECO in explaining the cost savings that are anticipated to arise in the regulated transmission and distribution operations from the merger involving PECO and Unicom Corporation (the "Companies"). Deloitte Consulting assisted the managements of both Companies in their identification and quantification of such potential cost savings resulting from the merger.

In this testimony, I: (1) describe the *categories* of regulated cost savings that are estimated by the managements of PECO and Unicom to result from the merger of the Companies; (2) provide management's basis for its quantification of estimated cost savings; (3) describe the process by which such cost savings categories and estimated cost savings were derived by the Companies; and, (4) describe the Companies' allocation of regulated net merger cost savings.

Q. Have you included any exhibits to your testimony?

A. Yes. EXHIBIT TJF-1 is a summary of my experience with regulated utilities, EXHIBIT TJF-2 provides a five-year summary of the potential regulated cost

savings arising from the PECO-Unicom merger, and EXHIBIT TJF-3 provides a detailed breakout of potentially incurred costs to achieve the identified transmission and distribution operations related (i.e., "Regulated") merger cost savings.

III. SUMMARY OF RESULTS

Q. Please summarize the results of this cost savings analysis.

A. As with other successfully completed mergers with which I am familiar, substantial, measurable cost savings directly related to the merger of PECO and Unicom can be identified and quantified in the regulated transmission and distribution (T&D) operations of the combined entity. Costs savings estimates in the areas of Corporate and Operations Support Staffing ("Labor"), Corporate and Administrative Programs, and Purchasing Economies (Nonfuel) have been identified and quantified. See Exhibit TJF-2. Estimated annual costs savings adjusted for inflation and attributable to the traditionally regulated T&D operations average approximately $111 million over the first five years following merger closing. Additionally, costs to achieve the savings allocable to regulated T&D activities ($185 million) (See Exhibit TJF-2 and TJF-3), and cost reductions associated with pre-merger initiatives assignable or allocable to regulated T&D functions ($40 million) (see Exhibit TJF-2) have been identified and quantified and have the effect of partially offsetting the estimated merger cost savings.

IV. SCOPE OF ANALYSIS

Q. What process was utilized by the companies in developing the cost savings associated with the proposed merger?

A. The Companies began the process by collecting appropriate raw data regarding their respective operations. The sources of this data included both public and nonpublic information. This information encompassed geographical and operational data; included numbers of positions, the various departments they worked in, their location, their salaries and benefits; and included other applicable information.

Next, the Companies, with the assistance of Deloitte Consulting, identified individual cost categories, including the actual past and expected future expenses for each individual category. Information used to accomplish this process included Company contractual information, various departmental reports, forecasts, and budgets, as well as departmental operating plans.

General operational philosophies for each Company were also identified. As part of this process, potential organizational and operational approaches were discussed and areas for potential savings were identified, with the assistance of Deloitte Consulting. This process resulted in the development of a set of area-by-area operating assumptions.

Finally, from all of the information and analyses identified above, savings estimates were developed, reviewed, analyzed, and revised by the managements, with the assistance of Deloitte Consulting, to produce the level of estimated savings reflected in my testimony.

Q. What was the scope of the assistance provided by Deloitte consulting related to the regulated synergy savings associated with this proposed merger?

A. Deloitte Consulting was asked to assist the managements of the Companies in their identification and quantification of both potential savings and additional costs necessary to realize those savings associated with the merger. This assistance was based upon previous experience and included assistance in the identification of necessary data elements and potential cost savings areas, discussion of potential organizational and operational philosophies, discussion of potential assumptions to be utilized by the Companies, and assistance in the identification of estimated savings and costs to achieve.

Q. Is this process typical of other cost saving estimation processes that you have been engaged in?

A. The overall process undertaken by the Companies to identify cost savings was similar to processes employed by managements in other engagements with which I have been involved. Business unit teams comprised of individuals from each Company were formed to assess and estimate the cost savings available by combining common functions. Information was shared between the teams to identify the savings areas and support the cost savings estimation process. This process enabled both more data to be made available and more personnel to be accessible than is typically the case with most mergers, where the bulk of the savings estimation process is accomplished with a small group of personnel and

limited data is shared between the Companies. This more open environment among the companies further enhanced the savings quantification effort. For example, a team led by the senior Information Technology officer from both Companies, with assistance from Deloitte Consulting, was formed to assess the opportunity to combine the major legacy systems and other operational aspects of the Information Technology organizations. Because managements of both companies jointly (rather than separately) analyzed the identified saving areas by function, validated starting points, assumptions and preliminary approaches to the opportunities identified, the process utilized by the Companies was comprehensive and captures all significant sources of merger savings typically available.

Q. How were the cost savings quantified?

A. Estimates of cost savings were developed on a nominal cost basis over a five-year period from January 1, 2001 to December 31, 2005. This provides a long-term view of attainable savings. .

Q. Are the identified cost savings attainable only during this five-year period?

A. No. The majority of the identified savings components could generate benefits that will continue beyond this period. For example, potential labor position reductions associated with the merger will be permanently eliminated since they

relate to redundant functions. Likewise, potential purchasing power benefits will continue indefinitely as the cost of materials and supplies acquisition is reduced. In other mergers that I have provided testimony related to estimated cost savings, a ten-year period has been used to demonstrate the long term benefits from the transaction. The length of time measured depends on the particular issue being addressed . In this particular merger, a five-year period has been deemed sufficient to address the estimated cost savings from the merger of PECO and Unicom.

Q. What methods were used to quantify the individual cost savings components?

A. Cost savings were developed using three principal methods of quantification:

- Direct analysis - Use of actual costs and changes to these costs based on planned consolidation activities, e.g., position reductions were estimated based on detailed analyses of fully aligned individual functions and positions.

- Estimation - Determination, based upon more limited analysis of actual data, of potential merger-related cost reduction considering anticipated changes to markets and operations (e.g., reduction in materials and supplies costs from additional volume buying).

- Comparison to other transactions - Utilization of expectations in other proposed utility mergers as a proxy for the Companies' impacts (e.g., average insurance premium reductions based on expected or realized reductions achieved by other companies).

Of the three methods, the vast majority of the savings (approximately 80%) were quantified by using direct analysis. These methods of quantification

are consistent with those utilized by other utility companies in prior mergers. For example, it is well recognized that insurance premiums will be reduced from a merger, however, the actual amount of the reduction will not be known until negotiations with an insurance broker are finalized. Using other expected or realized reduction amounts is an appropriate method for quantification pending such negotiation.

Q. Is the savings analysis predicated upon any particular organizational structure?

A. No. However, the cost savings related to the integration of common functions are predicated upon centralization of these functions, where appropriate and practical. This centralization could occur in several ways: within an expanded headquarters organization; within a corporate services entity, or by a combination or centralization of corporate and administrative-type services and decentralization of common technical support services into operating units. Any of these approaches would provide the Companies an opportunity to realize merger cost savings in those affected (and related) areas. It is my understanding that the Companies intend to achieve these structural efficiencies, in part, through the use of a service company and, in part, through services provided by the new parent company.

Q. Can the level of savings estimated by the companies and reflected in your testimony be achieved?

A. As I indicated earlier, joint teams with a large number of management and employees were directly involved in the process. This broader involvement of management and employees enhances the nature and amount of information available and the quality of the analysis. Further, the process utilized by the Companies for estimating potential merger cost savings was consistent with that utilized by other companies in previous merger transactions. Based on my experience in other mergers and on my direct assistance in the Companies identification, evaluation and quantification efforts related to estimated cost savings, I believe the savings levels can be reasonably attainable provided that management of the combined Company executes its integration strategies in a manner consistent with its intent and how other utilities have pursued similar opportunities.

V. BENEFITS CREATED FROM UTILITY MERGERS

Q. In general, how are savings created from the combination of two utilities?

A. The combination of two utilities enables the succeeding entities to realize substantial benefits in the form of economies, efficiencies and operating effectiveness. These synergies relate to a variety of operational functions and potentially will result in benefits that will accrue to customers. These potential savings areas are viewed as directly attributable to the merger and are not attainable in the absence of the merger.

Q. Are there different types of cost savings that can result from the combination of two utilities?

A. Yes. In identifying potential cost savings, only those opportunities that are directly related to the merger were quantified. The distinction between merger and non-merger related savings is highlighted below:

- Created savings - These are savings that are directly related to the completion of a merger and could not be obtained absent the merger. For example, the reduction of total cost through the avoidance of duplication or overlap and the ability to extend resources over a broader base of activity would naturally occur through the consolidation of similar functions. Without the combination, both companies would continue to expend amounts on related activities, and as a result, would incur stand-alone cost levels higher than in consolidation.

- Enabled savings - These savings result from the acceleration or "unlocking" of certain events that could give rise to savings and therefore are considered merger savings. For example, technology differences that exist between companies may provide an opportunity to share technology and achieve productivity improvements more rapidly and more cheaply than would have occurred on a stand-alone basis. For example, one company that has adopted an enterprise-wide information system will likely enjoy more seamless operation and management and higher productivity than a company that has individual, customized packaged applications. While the company without the integrated technology environment can obtain such productivity benefit from independent investment, the merger enables an existing technology environment to be more rapidly deployed and costly stand-alone investment and concept feasibility analysis to be avoided.

- Developed savings - Reductions in cost due to management decisions that could have been made on a stand-alone basis are unrelated to the merger. A decision to reengineer an organization will result in reduced costs but likely would have been achieved without the merger. None of the cost savings in this merger is in this category.

Q. **What types of savings have been quantified with respect to the PECO and Unicom merger?**

A. The quantification effort focused on merger-related savings only, i.e., those savings that would not be attainable but for the combination of the two companies. The savings described in my testimony almost exclusively fall under the "created savings" category described above. Potential areas of benefit, and subsequently the resulting cost savings, are determined to be merger-related if they are not attainable by any action that management of either company could practically initiate on an independent basis. For example, management of either company could reduce labor costs by eliminating positions as part of a resource and function analysis. These reductions, however, would relate solely to that entity's independent operations.

Merger-related savings quantified result only from action taken by management in association with the combination of PECO and Unicom: for example, the fact that both companies maintain separate investor relations activities provides an opportunity to consolidate these functions and avoid replication. This integration of similar functions and activities would not be

possible without the merger of PECO and Unicom. Thus, the benefits identified are only those believed to be directly attributable to the merger. Additionally, cost savings or cost avoidances that result from the new size and economic scope of the combined entity are merger-related. For example, routine activities that could not be economically outsourced by either company individually may now be candidates for outsourcing, given the new combined entity's greater volumes. Similarly, activities that either of the companies now outsource might be performed more cost-effectively internally by the combined entity where volumes now justify specialized resources. The greater size of the combined entity should also enable it to be a more cost-effective purchaser of various products and services. Further, to the extent that the combination of two companies enables the companies to reduce costs by transferring technology or competencies to each other, these benefits are also merger-related if such actions could not have been effectively implemented by the companies independently, or if such transfers enable operating costs to be reduced more rapidly or to a lower level than otherwise would have been the case.

Each of the examples described above, as well as other additional cost savings or cost avoidances that are directly attributable to the merger, are considered merger-related synergies. Conversely, cost savings or avoidances that would have occurred even in the absence of the merger are not merger-related and should not be included in a calculation of the savings attributable to the merger.

Q. Were "costs to achieve" identified in the merger cost savings analysis?

A. Yes. Certain costs must be *incurred* to facilitate the realization of the identified cost savings. Costs to achieve are an inherent component of any merger transaction and are necessary to successfully complete a transaction and/or produce the level of intended benefits. These costs to achieve are expenses that are directly related to pursuing or executing the transaction and have the effect of reducing the level of distributable benefits. Were the total cost savings measured without appropriate recognition of these costs to achieve, the utilities would in effect be taking credit for a greater level of savings than exist. Thus, to be realistic, only the net level of savings is available to the companies. In all utility merger transactions of which I am aware, costs to achieve have been considered and recognized in determining the net level of benefits.

VI. DETAILED COST SAVINGS DESCRIPTION

A. Summary

Q. Would you identify and define the principal categories of cost savings that have been estimated?

A. Yes. As EXHIBIT TJF-2 illustrates, there are three primary categories of cost savings that have been quantified. Each of these is described briefly below:

- Corporate and Operations Support Staffing - Position reductions related to redundancies associated with corporate, administrative and technical support functions.

- Corporate and Administrative Programs - Reductions in nonlabor programs and expenses, such as insurance and shareholder services, resulting from economies of scale and cost avoidance.

- Purchasing Economies - Aggregation of materials and supplies volumes and services contracts to increase purchasing power and to reduce required reorder volumes and associated carrying costs.

Q. Are there only three categories of cost savings that have been quantified?

A. No. These categories represent only the general classification of cost savings. There are multiple, individual cost savings elements identified that comprise these general categories. These are listed below and further illustrated in EXHIBIT TJF-2.

- Corporate and Field Labor
- Administrative and General Overhead
- Advertising
- Association Dues
- Directors' Fees
- Employee Benefits
- Facilities
- Insurance
- Information Systems
- Professional Services

- Research and Development
- Shareholder Services
- Vehicles
- Procurement
- Contract Services

Q. What are the categories of and approximate costs necessary to achieve the savings?

A. There are several categories of costs that must be incurred to achieve the identified savings that are expected by the Companies. These costs reflect expenditures necessary to effectuate the cost savings identified from the merger through company integration. These categories of costs to achieve, as listed below, are further illustrated in EXHIBIT TJF-3:

- Separation Costs
- Employee Retention
- Systems Integration
- Employee Relocation
- Directors' and Officers' Tail Liability Coverage
- Regulatory Process Costs
- Internal/External Communications
- Transition Costs
- Transaction Costs

The estimated costs to achieve totaling approximately $185 million will be incurred principally in 2001 and 2002 (see EXHIBIT TJF-3).

Q. Are there any other items that offset merger savings?

A. Yes. Overlapping cost savings initiatives which were already planned prior to the merger were subtracted from the gross savings estimates to reflect stand-alone impacts to the cost structure level supporting potential merger related cost savings. These ongoing or future initiatives will contribute to lower total costs to customers and are estimated at $40 million over the five-year period. The merger thus allows the Companies to achieve additional cost savings opportunities beyond those previously identified.

Q. Do the savings described above reflect allocations between the regulated and nonregulated operations of the business?

A. Yes. For the purposes of this analysis, the term "regulated" has been defined as those costs associated with the traditional utility transmission and distribution functions of PECO and its counterpart at Unicom, Commonwealth Edison ("ComEd"). "Nonregulated", as used in this analysis, refers to the wholesale power marketing, power generation, and other competitive ventures of Unicom and PECO.

Thus, the identified savings are limited to the regulated operations and reflect only those savings attributed to the transmission, distribution operations and customer service areas of the business. Where appropriate, estimated savings that benefit both regulated and nonregulated businesses have been allocated between these two areas. For example, corporate and administrative

functions typically support all business units (i.e., generation, transmission, distribution, customer service and any nonregulated enterprises). Savings identified in corporate and administrative areas have been allocated between the regulated operations (i.e. transmission and distribution and customer service) and nonregulated operations (generation and other enterprises). The savings presented in this testimony reflect only those considered applicable to the combined regulated operations of PECO and Unicom. A more detailed description of this allocation process is presented in the last section of this testimony.

B. General Assumptions

1. Escalation Rates

Q. What assumptions about the escalation of costs were utilized by the companies in estimating cost savings?

A. For the most part, cost savings were estimated based on current cost and expense levels. To account for inflation and other economic factors appropriately, an escalation rate was then applied to year one savings levels to determine the level of savings in each of the subsequent years. Development of the estimated cost savings over any multi-year period of time, without application of an escalation factor would result in understatement of the total cost savings applicable to the measured period. Failure to apply an appropriate escalation factor ignores year-to-year specific category inflation.

Q. Was the same escalation rate used for all savings categories?

A. No. A differential existed in the anticipated escalation rates for the cost categories contemplated in the analysis (e.g., differences between salaries and other cost categories). For this reason, a single escalation rate could not be used for all cost savings categories. Although 3.0% was used for general inflation, a higher rate (4.0%) was used for salaries to reflect market requirements. This 4.0% level is consistent with the Companies' pre-merger, stand-alone assumptions for salary increases. Further, the 4.0% is less than long-term national forecasts of salary escalation and historical national salary escalation. These escalation rates are generally comparable to those used by other companies with which I am familiar and to other longer-term estimates for general inflation.

2. Treatment of Capital Savings

Q. Were there other general assumptions or methodologies employed in the cost savings analysis?

A. Yes. In treating capital deferrals and avoidance related to the merger, it would be inappropriate to count the entire amount of the capital expenditure deferred or avoided as cost savings. For example, if it were anticipated that the Companies could avoid installing a $10 million computer system in 2001, this $10 million reduction in expenditures in 2001 was not used for the actual savings. Including the $10 million as savings achieved in 2001 would not

represent the avoided revenue requirements associated with that $10 million capital expenditure from either the company or customers' perspectives. Additionally, such a methodology would result in overstating the cost savings in the early years following the merger by taking credit for the entire avoided investment as cost savings in those years. Instead, it is more appropriate to reflect only the revenue requirements savings associated with capital deferral/avoidance as cost savings. The components of revenue requirements include, but are not limited to, financing, depreciation, insurance and property tax. This revenue requirements approach, rather than a cash flow approach, provides a more appropriate determination of the savings estimated to be generated due to the merger.

Q. What methodology was used to capture these capital deferral/avoidance savings?

A. A levelized fixed charge rate for each year following completion of the merger was applied to each year's capital expenditure reductions. The levelized fixed charge rate methodology, which reflects normal declining balance ratemaking treatment, was used to estimate annual savings levels. Fixed charge rates cover depreciation, insurance, property tax, income taxes and cost of capital and were determined by both PECO and Unicom and then were blended to determine both general rates for long term assets and specific rates for information technology-related expenditures. The first year fixed charge rate for capital items other than

information technology was 11.9% while for information technology items it was 29.9%, reflecting the more rapid (five year) depreciation period.

C. Cost Savings Summary

1. Corporate and Operations Support Staffing

Q. Please discuss in more detail the nature of the cost savings created through the integration of the corporate and operations support functions.

A The combined Companies expect to integrate existing corporate, administrative and technical support areas. Such integration would generate savings through the elimination of redundant positions within both headquarters and operations support in, among others, the following types of functions:

- Legal
- Finance
- Corporate Planning
- Information Systems
- Customer Service
- Executive Management
- External Relations
- Accounting
- Human Resources
- Administrative Support
- Marketing
- Technical Support

A merger between the companies provides an opportunity to consolidate these functions and eliminate redundant activities. For example, the consolidation of two accounting departments would typically create significant savings. Potential redundancy within the two departments is identified through an alignment of functions between the Companies to ensure comparability across different organizational structures. Each individual function within the finance area,

including budgets and forecasting, financial reporting, general accounting, tax accounting and accounts payable, among others, contains positions performing duplicate tasks. These overlapping positions could be eliminated without an impact on performance.

Q. How was this principle applied to determine the potential position savings that would result from a merger of the companies?

A. The first step in determining corporate and operations support labor savings was to develop a detailed functional alignment of each Company. Both Companies provided organizational and functional breakdowns of their respective companies that identified each position within its respective organization. The stand-alone company functional areas then were aligned so that position levels for similar functions/activities performed by the respective companies could be compared. The analysis maintained consistency between the inter-company functional categories and aligned representative activities between the Companies.

Upon completion of the functional alignment, the position levels necessary to perform the required activities under the merged company scenario were identified. In determining the appropriate future position levels of the merged company, the following items were considered:

- Impacts of geographic distance and system size on the ongoing approach to consolidation of the Companies;
- Duplicative or redundant activities that could subsequently be eliminated;

- Differences in existing management, operational and structural philosophies;
- Need for and ability to consolidate functions in one location and the impact of using linking technologies between functions at different headquarters locations; and
- The specific cost drivers, if any, of the functional areas that would affect appropriate position requirements.

Q. Please describe the results of the analysis discussed above.

A. As of January 2001, PECO estimates a total of 4,512 positions in transmission, distribution, customer service and corporate and administrative functions. Unicom estimates a total of 9,393 positions at this same date in similar functions. Included in these positions are contractors identified in Information Technology and Customer Service functions.

Field positions are generally unaffected for the purposes of the analysis. Examples of unaffected positions include both Companies' transmission and distribution linemen and PECO's gas distribution personnel. Thus, the positions that focus directly on service delivery to customers will not be impacted, i.e., the merger should not affect safety, service quality or reliability.

Of the total positions, PECO estimated 1,538 positions in field functions including support functions such as distribution management, engineering and planning while Unicom had 4,361 positions in these categories for a total of 5,899 positions. Approximately 96 reductions in positions performing these field

support functions were identified by the Companies. Those 96 positions represent 2% of overall field positions or 1% of the total 13,905 positions.

Of the remaining positions, PECO estimates 2,974 positions associated with corporate and administrative functions, while Unicom estimates 5,032. The combined corporate and administrative positions of the two companies were thus 8,006 or 58% of the combined Companies total transmission, distribution, customer service and corporate and administrative positions.

The Companies identified approximately 884 corporate and administrative position reductions that could result from the consolidation of the Companies. This constitutes 6% of the combined 13,905 positions. These reductions represent the anticipated level of functional duplication that would exist between the Companies and could be avoided through the creation of an integrated corporate and administrative organization.

Q. What are the estimated total position reductions from the combination of the companies?

A. Total position reductions are estimated at 980 or approximately 7.0% of total current combined transmission, distribution, and corporate and administrative company positions.

Q. When are these position reductions assumed to occur?

A. The Companies intend to achieve a number of these reductions (638) by the beginning of the first year following completion of the merger. Due to the extensive integration of information systems applications that will be required in association with consolidating operations of the Companies, the remaining reductions (342) in many functions will not be fully realized until the second year following completion of the merger. These reductions have been synchronized with anticipated new integrated information system completion dates to reflect the timing of cut-overs to the new integrated systems and work practice standardization.

Q. Once the potential position reductions were identified, how were the position reduction cost savings calculated?

A. Average salary levels were calculated by function and then applied to the estimated position reductions for the respective functions. On average, the blended salary for each reduced position is estimated to be approximately $59 thousand per employee in 2001 dollars, based on the expected salary levels in 1999 for each company, weighted by the number of resources in each company and then escalated two years.

Q. Are there cost savings associated with position reductions other than salary expense?

A. Yes. Benefit costs are also considered when determining the cost savings associated with position reductions. Benefits include such items as health insurance, life insurance, employee investment plans, pension expense, accruals for retirement health benefits of active positions, incentives and bonuses, payroll taxes and others. A blended benefits loading rate of 34.7% was used to estimate average aggregate benefits cost. The resulting total compensation (including benefits) averaged $80 thousand per employee in 2001 dollars.

Q. Was any portion of these corporate and operations support staffing savings allocated to construction?

A. Yes. A certain portion of these expenses are capitalized rather than expensed annually, reflecting their relation to the capital or construction elements of the business. Capitalized amounts thus are recovered over the life of the asset to which they are assigned. A blended capitalization rate of 5% was used for corporate positions and a 34% capitalization rate was used for field support positions based on the stand-alone expectations of each company weighted by relative size.

Q. How were cost savings calculated on the construction portion of corporate and operations support staffing reductions?

A. The same method that I described previously for calculating cost savings related to avoiding capital expenditures was used. The annual fixed charge rates that I

previously described were applied to the portion of position savings allocated to construction to convert these position savings to revenue requirements.

Q. What were the total savings estimated to result from corporate and operations support staffing consolidation?

A. The total corporate and operations support position reductions were estimated to be 980 positions. The average annual cost savings from corporate and operations support staffing were estimated at $57.2 million.

Q. Could these position savings have been achieved without the merger?

A. No. The position reductions described are attributed to the merger. The reduction opportunities arise from overlap and duplication in functional performance, rather than from stand-alone initiatives unrelated to the merger. The savings discussed above are triggered by the opportunity to combine functions and eliminate redundancy, not by assumed improvements in operating efficiencies. Both companies have ongoing continuous improvement programs in place, which have restrained cost levels and which are expected to continue through the five year period. Attention was given to avoiding double-counting these initiatives by excluding overlapping impacts from those pre-merger initiatives identified prior to 2001 from the beginning point position analysis. In addition, those continuing position reductions planned post-1999 were estimated and quantified and these annual amounts were then offset against potential

savings to avoid capturing potential nonmerger impacts. The subject of premerger initiatives is discussed further elsewhere in this testimony.

2. Corporate and Administrative Programs

Q. What are the amounts, by specific area, of the corporate and administrative program savings?

A. Savings were identified and quantified in the following areas:

	Average Annual Savings ($ millions)
Administrative & General Overhead	1.7
Advertising	1.0
Association Dues	0.3
Directors' Fees	0.1
Employee Benefits	3.8
Facilities	3.8
Information Services	15.5
Insurance	1.7
Professional Services	10.6
Research & Development	1.1
Shareholder Services	0.9
Vehicles	0.1
Total [1]	40.4

Each of the aforementioned categories is described below.

[1] Total does not add due to rounding.

a. Administrative and General Overhead ("A&G")

Q. What types of expenses are included in A&G overhead expense and how are they affected by the merger?

A. A&G overhead expense includes, but is not limited to, periodicals, postage (other than customer billing), stationery, telecommunications, transportation and office supply expenses. These costs are variable with the total number of positions and change as the number of positions increase or decrease. As position reductions are achieved through the merger, miscellaneous overhead expenses also are reduced.

Q. How were estimated cost savings for this area quantified?

A. Only variable miscellaneous overhead expenses were estimated and assumed to be reduced as A&G positions are reduced. The variable administrative and general costs for the Companies are incurred primarily by administrative and general (A&G) positions, and therefore were reduced by A&G position impacts only. The average miscellaneous overhead expense per A&G position was then multiplied by total merger-related A&G corporate position reductions to arrive at a merger savings level for this area. The estimated merger savings identified were $1.7 million on an average annual basis.

Q. Could these miscellaneous overhead expense savings be achieved absent a merger?

A. No. These savings are directly related to the position reductions that would result from the merger.

b. Advertising

Q. Please describe how advertising expenditures could be affected by the merger of the companies.

A. The merger gives rise to cost savings resulting from the elimination of duplicate fixed production (e.g., studio, and distribution costs) and other program costs.

Q. What is the level of savings estimated and how was this amount calculated?

A. The average annual estimated savings in the area of advertising were $1.0 million. The savings reflect a reduction in the combined expenditures resulting primarily from the elimination of duplicative fixed production costs, national media buys and agency fees.

Q. Could the savings that have been identified in the advertising area be achieved absent a merger?

A. No. These savings are predicated directly on the assumption that there is a single, combined company jointly identifying, developing and producing required advertising.

c. Association Dues

Q. Please describe how dues and membership fees could be affected by the merger of the companies.

A. Both companies are members of Edison Electric Institute. The combination will allow opportunities to realize an overall lower level of expenditures under the EEI formula compared to the expenditures under the formula on a stand-alone basis. These savings arise due to the declining unit rate applied in each of the three factors after initial threshold levels are met.

Q. How were savings in dues and membership fees quantified?

A. The EEI dues formula was applied to each company to estimate the dues required on a stand-alone basis. The same formula was then applied to the combined company to estimate the dues required once the companies have combined. The resulting difference between the combined stand-alone dues payment and the merged companies payments are the estimated savings. The resulting average annual estimated savings identified were $0.3 million.

Q. Could the savings in dues and membership fees be achieved absent a merger?

A. No. They can only be achieved by consolidating memberships. Otherwise, there will continue to be two sets of memberships under separate formulas.

d. Directors' Fees

Q. How are savings in directors' fees derived from utility combinations?

A. Typically, these reductions result from the reduced number of total directors in the combined company compared to the separate existing companies. The combined Company would require one board with a reduced number of directors when compared to the two separate existing boards. The fees are directly related to the number of directors and as the number of directors can be reduced the total fees paid for these directors can be reduced.

Q. How were cost savings estimates in this category developed?

A. The number of directors for each Company was identified along with the associated costs. The Merger Agreement specifies that the combined board is to be comprised of six (6) fewer outside directors than the total of the two current boards which would result in reduced total fees. At an approximate annual cost of $57,000 per director, the average annual regulated savings would amount to $0.1 million.

Q. Could the savings associated with directors' fees be achieved absent a merger?

A. No. These savings are directly merger-related in that they are derived from merger-related reductions in the number of board members required by the new Company when compared to the existing two companies. These savings could

not be achieved without the merger since the total number of directors would not have been affected on a stand alone basis.

e. Employee Benefits

Q. What levels of cost for administration of benefits programs are expected?

A. Estimates of total annual employee benefits costs for the Companies are approximately $47 million for PECO and approximately $116 million for Unicom. These costs include medical, dental, life insurance, 401K and the administrative costs associated with those benefits programs. The estimated annual costs of administering these programs are $2.6 million for PECO and $5.9 million for Unicom.

Q. How can cost savings be achieved in the area of employee benefits and what are the estimated savings?

A. Employee benefits administration savings may be realized as a result of greater purchasing power for the combined entity when negotiating administration fees with third-party administrators. Additionally, purchasing power can be exercised in negotiating the dollar cost of benefits provided without reducing the level of benefits provided. The savings generated from the combination of the Companies were based on reducing benefit administration fees and benefit costs to reflect this purchasing power. Overall savings are approximately 4% of total costs to reflect this purchasing power. Savings in this area are expected to begin in 2002 with average annual savings of $3.8 million.

Q. Could these savings be achieved absent a merger?

A. No. These savings are predicated directly on the assumption that there is a combined company under a single benefits package.

f. Facilities

Q. What cost savings can be created through consolidation of corporate facilities?

A. Cost savings in this area are normally made possible by the nature and geographic location of the various corporate and field functions and facilities. Cost savings can be created through the consolidation of proximate business offices, service centers, warehouses and staging areas. Streamlining the work force also permits a reduction of total facilities as positions can be consolidated into fewer locations. Due to the geographic distance between PECO and Unicom, most of the support facility reduction opportunities, e.g., meter shops, warehouses, chemistry labs, etc. are not available in this merger. However, the reduced positions in the various headquarters locations of Chicago and Philadelphia will still provide an opportunity to reduce total required headquarters square footage and either avoid lease expense or potentially provide a cost offset from sublet space.

Q. What was the magnitude of savings associated with facilities consolidation?

A. Assuming prevailing market rates and average annual lease and facility operating costs, reduced facilities costs were estimated at $3.8 million on an average annual basis. .

Q. Could these savings be achieved absent a merger?

A. No. The facilities consolidation is possible only as the result of the consolidation of the Companies and of the position reductions described above. If the Companies were to remain as separate corporate entities, or if there was no merger to generate the position reductions, then these savings could not occur.

g. Information Services (IS)

Q. Please briefly describe the management information systems departments of the companies.

A. Both PECO and Unicom maintain information services (IS) departments to facilitate the systems development effort and support the information processing needs of each company. The need for systems development is ongoing and these departments are continuously involved in such efforts. Both Companies have independent plans to develop systems in a variety of areas over the next several years, including parallel systems development efforts. As a result of the merger, the two Companies will now be able to share expenditures associated with system replacement or installation rather than incur such costs separately.

Q. How were estimated savings in this area determined, and what is their magnitude?

A. The merger should enable PECO and Unicom to avoid spending duplicate amounts on separate systems. When the merger is consummated, the combined company plans to consolidate the respective IS departments, thus obviating the need for parallel, independent systems development efforts. Therefore, the merger can create savings in avoided costs that could not be achieved absent the combination. The merger will enable the combined IS department to utilize systems already in place and avoid redundant new systems development. For example, PECO could implement its work management system (Indus) in conjunction with Unicom, which will result in the replacement of Unicom's existing system and avoid additional expenditures for new work management systems at Unicom.

Projected capital expenditures associated with the development of duplicative systems and future application development have been converted to revenue requirements assuming a 5-year depreciable life, which reflects the rapid obsolescence of technology in today's environment.

Operating savings also can occur due to the elimination of software leases and maintenance fees required to provide software support on personal computers. The IS savings estimate also includes savings from the consolidation of the Companies' two independent data centers into a single

center, thereby eliminating one of the companies' data centers. On an average annual basis, IS savings are estimated to total $15.5 million.

Q. Could these savings be achieved absent a merger?

A. No. The elimination of duplicative system development hardware, software and consolidation of data center costs can only be achieved by consolidating the two IS departments into one. As a practical matter, it would be unlikely that two independent utilities would want to share such services, hardware and software.

h. Insurance

Q. Please describe the rationale of how savings can be achieved in the area of insurance.

A. Utilities generally require insurance coverage in the areas of property, directors' and officers' liability and excess casualty. On a stand-alone basis, each company independently carries insurance in these areas. A combined company may have a reduced risk profile because of its larger, broader and more diverse asset base, which translates into lower rates. Further savings can be attained through the ability to carry higher deductibles given the combined company's increased financial strength.

Q. How were the savings in the area of insurance quantified in this transaction?

A. Savings on insurance premiums were calculated for property coverage, directors and officers liability coverage and excess casualty insurance liability. These reductions were derived based on review of other mergers regarding actual savings negotiated with insurance brokers in other mergers. The total estimated average annual savings for insurance was $1.7 million.

Q. Could the savings that have been identified in the insurance area be achieved absent a merger?

A. No. These savings are predicated directly on the assumption that there is a single company using the total purchasing power of the combined entity to achieve lower premium costs due to a different risk profile.

i. Professional Services

Q. What gives rise to savings in the area of professional services?

A. Professional services functions include such areas as audit, taxation, legal, and general consulting. In many cases, these functions are duplicated at both companies. An explicit example of this would be in the case of external audits, which would be integrated over both companies at a lower total cost on a combined basis.

Q. How were savings in the area of professional services quantified, and what was their magnitude?

A. The savings calculated were generated from the reduction of the combined audit fees, legal fees and general consulting services. Audit savings were based on reducing the total stand-alone costs of the Companies to a level reflecting a combined, consolidated structure thus eliminating two separate holding company audits, for example. The Companies' legal fees and general consulting services fees also were reduced from current levels to reflect the ability to combine internal and external resources more efficiently and effectively. The average annual savings resulting from these reductions was $10.6 million based on the individual 1998 expenditures, by category, for each Company and anticipated future levels.

Q. Could these savings be achieved absent a merger?

A. No. They can only be achieved by consolidating the use of professional services into one company. Otherwise, there will continue to be two sets of independent auditors, two sets of external legal counsel and two sets of general consultants.

j. Research and Development

Q. Please describe the types of expenses included in research and development and how they would be affected by the merger.

A. The primary component of research and development is Electric Power Research Institute (EPRI) funds. There are also stand-alone internal expenses incurred in the areas of transmission, distribution and customer systems. The

types of projects funded here include, but are not limited to, system efficiency, customer research and technology deployment. The combination will also allow for the reduction of expenses through the elimination of duplicate projects in these areas.

Q. How were savings in the area of research and development quantified?

A. The Companies' budgets and project descriptions were compiled and reviewed to determine overlapping research areas (areas that do not overlap, such as materials production, were not considered in the analysis) . Savings are estimated based on this overlap. For example, both Companies are pursuing research in areas such as materials fabrication, commercial building chillers, and transmission grid system planning. Given the scale differences in program expenditures between the two Companies in these areas, the savings estimates are based on reducing applicable research and development expenses. Estimated average annual savings in this area were $1.1 million based on the 1999 expenditures for each Company and the anticipated requirements for continuing research and development.

Q. **Could these savings be achieved absent the merger?**

A. No. These savings are directly related to the merger in that they are derived from the elimination of research overlaps. The opportunity for consolidation would not exist absent the merger.

k. Shareholder Services

Q. How will the merger of the companies impact the expenses incurred by the corporate secretary and shareholder services departments?

A. In addition to the labor savings identified, cost savings are anticipated to result through the combination of transfer agents, the elimination of duplicative investor relations activities and a reduction in the total cost of processing transactions.

Q. What is the level of savings that is estimated to be achieved, and how was it calculated?

A. The average annual estimated savings in the area of shareholder services is approximately $0.9 million based on the expenditures of each of the Companies in 1998. The savings were based on a reduction in the combined nonlabor shareholder services costs in duplicate activities such as stock transfer services. Further savings result from elimination of the costs associated with duplicative annual meetings, annual reports and proxy costs.

Q. Could these savings be achieved absent a merger?

A. No. These savings are predicated directly on the elimination of costs related to duplicative activities or economies of scale from a larger company function.

i. Vehicles

Q. How were savings in the area of vehicles estimated?

A. Savings were derived from the elimination of passenger vehicles related to administrative and general employees. Fewer corporate vehicles are necessary with fewer corporate employees. Vehicle savings were calculated by taking the total corporate vehicle costs and then deriving the cost per corporate employee. A total of 425 corporate reductions are scheduled for 2001 and an additional 237 reductions for 2002. Savings were derived by multiplying these reductions by the corporate vehicle cost per employee.

Q. What is the level of estimated savings?

A. The 5-year average annual estimated vehicle savings are approximately $0.1 million.

Q. Could these savings be achieved absent a merger?

A. No. These savings are predicted directly on the elimination of vehicle costs related to the elimination of redundant expenditures.

3. Purchasing Economies

Q. Mr. Flaherty, please discuss the cost savings that can be created through purchasing economies.

A. Combining companies can achieve savings through the centralization of purchasing and inventory functions related to the construction, operation and maintenance of transmission and distribution service centers, warehouses and headquarters. The greater purchasing power and the relative quantity of both goods and services that can be obtained as a result of the combination of companies provide additional cost savings. With respect to the purchase of goods (i.e., materials and supplies), savings can be realized in the procurement of commodity items, consumable equipment (e.g., conductors, wire, cable), and other equipment for electric utilities. Savings also may be realized from avoiding an initial reorder cycle from certain inventory item sharing. In addition, standardization of system components such as cable, meters, transformers, and conductors for electric utilities can be achieved through a common design process, providing additional savings opportunities.

With respect to the procurement of services, particularly contract services such as tree trimming, construction or maintenance, expenditures can be consolidated through a combination and typically contracted from fewer sources. Cost savings are created by achieving a lower per unit cost for the service provided due to a broader contract or the repackaging of work into more attractive options to the contractor. This volume purchasing of service is the primary method through which service procurement savings are realized.

a. Procurement

Q. What are the merger cost savings available from combined procurement of materials and supplies?

A. Procurement savings should result from larger purchasing volumes and the availability of greater purchasing power. Annual transmission and distribution purchases for PECO in 1999 were estimated at approximately $63 million, while for Unicom they were approximately $293 million. Savings were estimated for the total combined spending and represent a 3% reduction in total materials costs from extending the purchasing power across the broad range of commodity categories. This amount was determined based on the experience of other companies, review of certain component per unit costs, management's knowledge of vendors and potential approaches to material standardization and vendor concentration. The combined Company may experience a larger impact on PECO unit prices from the larger Unicom procurement volume. Although both Companies are already significant purchasers of materials, Unicom volumes exceed those of PECO and it is likely that national distributors may be utilized or more direct purchasing will occur from manufacturers. This purchasing power enhancement reflects permanent economies of scale through lower unit costs. Average annual savings from procurement were estimated at $7.3 million over the five- year period.

Q. Should any of the materials and supplies savings be treated as capital savings?

A. Yes. Approximately 60% of the materials and supplies savings has been allocated to capital accounts based on the combined Company's estimated capitalization rate for all materials and supplies. Once again, the applicable yearly fixed charge rate was applied to convert the capital cost reductions into revenue requirement savings.

b. Contract Services

Q. What is the nature of savings from contract services as a result of the merger and how were they quantified?

A. Similar to consolidating materials and supplies purchasing volumes, the combined Company will be able to gain economies of scale from the aggregation of related work activities and increased purchasing power with service providers. Examples of these services include maintenance work, tree trimming, and certain construction, etc.

The savings estimate also is dependent upon future negotiations with contractors and is similar to those estimated in prior transactions and represents purchasing power savings across the broad range of these services. PECO's total contract services for 1999 were estimated at $160.0 million, while for Unicom they were $135.0 million. The combined Company thus should be able to achieve additional economies of scale and scope from negotiating with competing vendors.

Some contract services savings should be considered capital savings. A capitalization rate of 60% based on the estimated rate for the Companies was used to allocate contract services expenditures to capital accounts. These savings amounts were then converted to revenue requirements savings using the levelized fixed charge rate. The average annual estimated savings from contract services were $6.4 million.

Q. Please compare the methodology used to quantify the various categories of procurement savings with the methodology used to quantify other estimated savings.

A. Procurement savings, which for the most part require an estimation of how well the combined Company will be able to use its increased size to negotiate better unit prices, are more difficult to quantify precisely than savings associated with the elimination of redundant expenses. It is somewhat easier today to analyze and determine which costs would be redundant in a consolidated organization. Anticipation of future behavior cannot be determined so precisely.

Q. Does that mean that the estimated procurement savings are less likely to occur?

A. No. Review of the results of prior transactions shows that the expected purchasing power does emerge and that the savings level estimates made in such transactions prior to consummation can be achieved.

Q. Could these savings be achieved absent a merger?

A. No. These savings are predicated directly on the assumption that there is a merged company that has greater purchasing power.

VII. COSTS TO ACHIEVE AND PRE-MERGER INITIATIVES

Q. Please describe the approach to estimating the costs that will be incurred with the integration of the two companies.

A. Costs are incurred in all merger transactions from the process of combining the two entities and attaining the identified cost savings. These costs reflect out-of-pocket cash payments and usually are one-time pay outs incurred as a result of the merger.

Q. Please explain the process by which the costs to achieve were estimated by the companies.

A. Management discussed the consolidation requirements and the estimated integration costs associated with the merger. The functional analysis described above that was used to determine duplicative functional areas where employee reductions would likely occur was used also to estimate the number of positions that would need to be relocated to achieve the merger cost savings. The costs that will be incurred in systems integration, telecommunications network requirements, internal and external communications and other miscellaneous expenses also were identified. The methodology used by the Companies to develop the costs to achieve estimates was comprehensive, and similar to that used by other companies in estimating such costs.

Q. What expenses are estimated to be incurred to merge the companies?

A. Costs to achieve are estimated at $185 million over five years, with the costs to be incurred in large part over the two years beginning in 2001. These cost estimates are consistent with estimates made by companies in other similar prior transactions and reflect differences in scale and scope and the unique circumstances of this merger.

Q. What are the primary components of the costs to achieve the estimated savings?

A. The primary components used to estimate costs to achieve were separation costs (estimated to cost $39.6 million), relocation costs ($3.7 million), retention costs ($3.7 million), systems integration ($81.3 million), internal/external communications costs ($3.1 million), regulatory process costs ($6.3 million), transition costs ($4.9 million), Directors' and Officers' tail liability coverage ($3.3 million), and transaction costs ($39.2 million).

Q. Please describe the means the companies anticipate using to achieve the estimated position reductions.

A. A major component of the merger cost savings is the reduction in work force which is primarily due to the elimination of duplicative functions and tasks. These reductions are expected by the Companies to be achieved through a variety of means including attrition, controlled hiring, work force redeployment and work realignment, and through some targeted separation as well. For these targeted separations, out-of-pocket costs will be incurred to achieve the total position reductions.

Q. How were the level of costs to achieve for work force reductions calculated?

A. The estimate used for the severance package calculation reflects general parameters utilized in other previous transactions. The Companies also anticipated that a limited number of positions will be offered severance packages

in conjunction with the work force reductions. These programs are to be more fully defined during the transition process based on additional considerations of the management and human resources philosophy of the combined company and more specific analysis on the timing and location of reduced positions. An additional amount of $3.7 million for employee retention has also been identified to secure valuable positions, such as in the information technology area, during the transition period.

Q. Explain how relocation costs were calculated.

A. To provide for efficient consolidation, certain functional areas will be centralized and thus require employee relocation to a new site. Based on the functional analysis, it was determined that a number of corporate positions (200) possibly would need to be relocated. Relocation expenses were estimated at a total of $3.7 million. The cost of the actual package to be offered to eligible positions has not yet been determined. The components of a relocation program could include moving expenses, house hunting costs, cost of living differentials, and closing costs. These cost estimates are consistent with estimates made by companies in prior similar transactions.

Q. Explain how systems consolidation costs were calculated.

A. Significant effort will be expended by the Companies in integrating the information technology and services functions of the Companies. These efforts will relate to reducing redundancy, integrating systems, and linking data bases. Further, voice, data and video networks will need to be integrated through expanded telecommunications capabilities. Integration costs for these areas were estimated at $81.3 million over five years and include estimates for contract programming, hardware changeout and conversion, and outside assistance and reflect scale, complexity, and platform differences. These expenses associated with systems and communications integration are expected to principally be incurred in 2001 and 2002 but will carry through the full period to reflect additional hardware lease costs.

Q. Can you describe the regulatory process costs to achieve related to the merger?

A. To successfully complete the merger, certain costs will be incurred for preparation and pursuit of regulatory filings, such as those related to SEC, FERC, NRC and DOJ filings and the merger case before this commission. These costs will include professional services for legal, tax, accounting and consulting assistance. Regulatory process costs are estimated at $6.3 million.

Q. Please describe the estimated internal and external communications costs to achieve savings.

A. Communication expenses will arise from the need to disseminate merger information to the various stakeholders of the individual organizations and combined company. Informational brochures will be sent to employees, shareholders, rating agencies, and state and federal commissions to explain the specifics of the merger. It is believed other forms of media will be utilized to address issues raised by the merger. These expenditures are estimated to cost $3.1 million.

Q. Please explain the transaction cost component included within the total costs to achieve.

A. Transaction costs include amounts paid to professional services firms for assistance with certain aspects of the merger. These costs specifically relate to fees paid to investment bankers for assistance in transaction structuring and negotiation and the provision of a fairness opinion, as well as certain legal assistance. Total transaction fees are estimated at $39.6 million for the above categories and are paid in the first year of the transaction.

Q. Are there additional costs to achieve the savings that will be incurred?

A. Yes. Other costs that were estimated to be attributed to the merger are transition costs ($4.9 million) and D&O tail coverage ($3.3 million). Additional D&O tail liability coverage pays for incremental additions to premiums paid to

protect directors and officers. Other transition costs would include the use of outside professional firms to assist in the integration of the combined Company and other expenses, such as, travel for the transition teams and facilities refurbishment and leasehold improvements.

Q. What is the amount of premerger initiatives included as part of the net merger savings quantification?

A. The stand-alone forecasts for the combined companies for the period 1999-2003 indicate that the overall impact of planned cost constraint or reduction efforts is to reduce operations and maintenance expense amounts by approximately $100 cumulatively over this period on a "real" basis. That is, the currently forecasted total combined operation and maintenance expense in 2003 will be $100 million lower than the level that would be expected with normal inflation applied to the 1999 level.

These cost reduction initiatives have been planned to create greater efficiencies for each Company. These cost reduction efforts are being accomplished through process improvement, reengineering, outsourcing, work elimination and contractor management. Since the PECO and Unicom premerger initiatives will precede and carry through the period over which merger related savings are expected to occur, it is likely that there would be some overlap between the quantified merger cost savings and these internal efforts. Therefore, the quantified merger cost savings were adjusted downward

to reflect these stand-alone impacts to future costs and to avoid double-counting any of these savings.

VIII. ALLOCATION TO REGULATED OPERATIONS

Q. Could you please explain the rationale for allocating savings between regulated and nonregulated operations?

A. Many of the savings areas described above relate to corporate and administrative areas that benefit both regulated and nonregulated businesses. The results of the synergies analysis had to be adjusted to reflect the net cost savings attributable to the regulated operations of the business; that is, the transmission and distribution functions of the combined entity. Accordingly, allocations were made, where appropriate, between these regulated functions and the nonregulated businesses.

Since both PECO and Unicom have recently completed restructuring proceedings, in Pennsylvania and Illinois respectively, that have determined generation to be a competitive business, any assignable or allocable savings to the generation business unit were captured in the nonregulated business segment.

Q. What allocations factors were used and how were they developed?

A. The regulated-nonregulated allocation factors were developed from the Compliance Filing approved by the Pennsylvania Public Utility Commission in PECO's Electric Restructuring case at Docket No. R-00973953 and are based

on the cost of service study submitted by PECO in that proceeding for the twelve months ending December 31, 1996. As a result, for most A&G functions, the allocation factors of 61.5% for regulated operations and 38.5% for nonregulated operations were developed and deemed relevant for distributing the estimated corporate and administrative merger savings. On the other hand, the costs savings associated with the customer support function were assigned 100 percent to regulated operations. While these allocation factors may change over time due to the relative level and weighting of the various inputs used in their development, they represent the best information available now for estimating how the savings will be allocated between regulated and nonregulated functions into the future.

Q. Could you please provide an example of how the allocation process was performed?

A. Yes. Administrative and general overhead expenses are those costs expected to be reduced as A&G positions were reduced. The average annual unallocated savings in this category was estimated at $3.1 million. Because the underlying costs, and therefore the related savings, relate to both the regulated and nonregulated businesses, this cost savings category was subject to allocation. Using the company-provided allocation methodology of 61.5% for regulated operations resulted in regulated administrative and general average annual cost savings of $1.7 million as described earlier in this testimony.

Q. Were all savings subject to the same allocation process?

A. No. As noted above, some savings are directly attributable to transmission and distribution operations and, therefore, did not require an allocation. For example, the procurement savings described earlier were developed using the baseline transmission and distribution materials and supplies spending for both companies. The savings estimated are attributed directly to this function and did not require an allocation to nonregulated operations.

Q. How were costs to achieve and premerger initiatives treated with respect to allocations?

A. The costs to achieve the merger savings were allocated using the same process described above. The cost to achieve the merger savings are required to realize the cost savings identified. Therefore, the same methodology was used for the cost to achieve the savings that enabled the cost saving category. For example, separation costs are recognized to be related to the estimated corporate and administrative staffing reductions. As such, the separation costs were allocated in the same way as the corporate and administrative staffing savings. Since these staffing costs relate to functions performed on behalf of both regulated and nonregulated operations, any related costs to achieve should be reflected for each respective area.

The premerger initiatives adjustment described earlier were reflected in the forecasted O&M for regulated operations and, as such, did not require an allocation between regulated and nonregulated operations.

IX. CONCLUSION

Q. Does this conclude your testimony?

A. Yes, it does.

SUMMARY OF REGULATED UTILITY EXPERIENCE

Alaska Public Utilities Commission
- Anchorage Sewer Utility

Arizona Corporation Commission
- U S WEST Communications - Docket No. E-1051-88-146

Beaumont, Texas
- Entex, Inc.
- Gulf States Utilities Company

California Public Utilities Commission
- The Washington Water Power Company and Sierra Pacific Power Company - Application No. 94-08-043
- Pacific Enterprises and ENOVA Corporation - Application No. A-96-10-038

Clark County
- Washington Public Power Supply

District of Columbia, Public Service Commissions
- Baltimore Gas and Electric Company and Potomac Electric Power Company - Formal Case No. 951

Colorado Public Utilities Commission
- Public Service Company of Colorado and Southwestern Public Service Company - Docket No. 95A-513EG

Delaware Public Service Commission
- Atlantic City Electric Company and Delmarva Power & Light Company - Docket No. 97-65

Federal Energy Regulatory Commission
- Baltimore Gas and Electric Company and Potomac Electric Power Company - Docket No. EC96-10-000
- IES Utilities Inc., Interstate Power Company, Wisconsin Power & Light Company, South Beloit Water, Gas & Electric Company, Heartland Energy Services and Industrial Energy Applications, Inc. - Docket No. EC96-13-000
- Trans-Alaska Pipeline System - Docket No. OR78-1
- Middle South Energy, Inc. - Docket No. ER-82-483-000
- Middle South Energy, Inc. - Docket No. ER-82-616-000

- Kansas Power and Light Company and Kansas Gas and Electric Company - Docket No. EC91-2-000
- Southwestern Public Service Company and Public Service Company of Colorado - Docket No. EC96-2-000
- The Washington Water Power Company and Sierra Pacific Power Company - Docket No. EC94-23-000
- Northern States Power Company and Wisconsin Energy Corporation - Docket Nos. EC95-16-000 and ER95-1357-000
- Midwest Power Systems Inc. and Iowa-Illinois Gas and Electric Company – EC95-4
- Ohio Edison Company, Pennsylvania Power Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company – ER97-412-000
- Atlantic City Electric Company and Delmarva Power & Light Company – EC97-7
- Union Electric and Central Illinois Public Service Company – EC-96-7-000

Federal Power Commission
- Organization and Operations Review

Garland, Texas
- General Telephone Company of the Southwest
- Lone Star Gas Company

Georgia Public Service Commission
- Georgia Power Company - Docket No. 3673-U

Houston, Texas
- Houston Lighting & Power Company

Idaho Public Utilities Commission
- The Washington Water Power Company and Sierra Pacific Power Company - Case Nos. WWP-E-94-7 and WWP-G-94-4

Illinois Commerce Commission
- Illinois Power - Docket No. 84-0055
- Iowa-Illinois Gas and Electric Company and Mid-American Company Energy - Docket No. 94-0439
- Central Illinois Public Service Company, CIPSCO Incorporated and Union Electric Company - Docket No. 95-0551

Iowa Utilities Board
- Midwest Resources Inc., Midwest Power Systems Inc. and Iowa-Illinois Gas and Electric Company - Docket No. SPU-94-14
- IES Industries Inc., Interstate Power Company, WPL Holdings, Inc. – Docket No. SPU-96-6

Iowa Electric Light and Power
- Organization and Operations Review

Kansas Corporation Commission
- Southwestern Bell Telephone Company - Docket Nos. 117,220-U and 123,773-U
- Kansas Gas & Electric - Docket No. 120,924-U
- Kansas Power and Light Company and Kansas Gas and Electric Company - Docket No. 174,155-U
- Western Resources and Kansas City Power and Light - Docket No. 190,362-U
- Western Resources, Inc. and Kansas City Power and Light - Docket No. 97-WSRE-676-MER

Kentucky Public Service Commission
- Louisville Gas & Electric Company - Case Nos. 5982, 6220, 7799, 8284, 8616 and 8924
- South Central Bell Telephone Company - Case Nos. 6848, 7774 and 8150
- Kentucky-American Water Company - Case No. 8571

Louisiana Public Service Commission
- American Electric Power Company, Inc., Southwestern Electric Power Company and Central and South West Corporation – Docket No. U-23327

Maryland, Public Service Commission of
- Baltimore Gas and Electric Company and Potomac Electric Power Company – Order No. 73405, Case No. 8725

Massachusetts Department of Telecommunications and Energy
- Boston Edison, Cambridge Electric Light Company, Commonwealth Electric Company and Commonwealth Gas Company – Docket D.T.E. 99-19

Michigan Public Service Commission
- Wisconsin Electric Power Company and Northern States Power Company - Case No. U-10913

Minnesota Public Service Commission
- Continental Telephone Company - Docket No. PR-121-1
- Northern States Power Company - Docket No. E002/GR-89-865
- Northern States Power Company and Wisconsin Energy Corporation - Docket No. E,G002/PA-95-500

Mississippi Public Service Commission
- Mississippi Power & Light Company - Docket No. U-4285

Missouri Public Service Commission
- Union Electric Company - Case Nos. ER-84-168 and EO-85-17
- Union Electric Company and Central Illinois Public Service Company - Case No. EM-96-149
- Kansas City Power & Light Company - Case Nos. ER-85-128 and EO-85-185
- Kansas Power and Light Company and Kansas Gas and Electric Company - Case No. EM-91-213
- Southwestern Bell Telephone - Case No. TC-93-224
- Western Resources and Kansas City Power and Light – EM 97-515

Nevada Public Service Commission
- Bell Telephone Company of Nevada - Docket No. 425
- Central Telephone Company - Docket No. 91-7026
- The Washington Water Power Company and Sierra Pacific Power Company - Docket No. 94-8024

New Jersey Board of Public Utilities
- Atlantic City Electric Company and Delmarva Power & Light Company - Docket No. EM-97-020103

New Mexico Public Service Commission
- Public Service Company of New Mexico
- Southwestern Public Service Company and Public Service Company of Colorado - Case No. 2678

New Mexico State Corporation Commission
- Continental Telephone of the West - Docket No. 942
- General Telephone Company of the Southwest - Docket Nos. 937 and 990
- Mountain States Telephone and Telegraph Company - Docket Nos. 943, 1052 and 1142
- U S WEST Communications - Docket No. 92-227-TC

New Orleans, Louisiana
- New Orleans Public Service Company

New York, State of, Public Service Commission
- Long Island Lighting Company and Brooklyn Union Gas Company - Case 95-G-0761

Ohio Public Utilities Commission
- Ohio Bell Telephone Company - Case No. 79-1184-TP-AIR
- Cleveland Electric Illuminating Company

Oklahoma Corporation Commission
- Organization and Operations Review
- Southwestern Bell Telephone Company - Cause No. 26755
- Public Service Company of Oklahoma - Cause Nos. 27068 and 27639
- Southwestern Bell Telephone Company - Cause No. 000662
- American Electric Power Company, Inc., Public Service Company of Oklahoma and Central and South West Corporation – Cause No. PUD-980000444

Oregon, Public Utility Commission of
- Pacific Power and Light Company - Revenue Requirements Study
- Portland General Electric Company - Revenue Requirements Study
- The Washington Water Power Company and Sierra Pacific Power Company - Docket No. UM-696

Riverside, City of
- San Onofre Nuclear Generating Station

Sherman, Texas
- General Telephone Company of the Southwest

Tennessee Public Service Commission
- United Inter-Mountain Telephone Company - Docket Nos. U-6640, U-6988 and U-7117

Texas Attorney General
- Southwestern Bell Telephone Company

Texas, Public Utility Commission of
- Texas Power & Light Company - Docket Nos. 178 and 3006
- Southwestern Bell Telephone Company - Docket Nos. 2672, 3340, 4545 and 8585
- Houston Lighting & Power Company - Docket Nos. 2448, 5779 and 6668
- Lower Colorado River Authority - Docket No. 2503
- Gulf States Utilities Company - Docket No. 2677
- General Telephone Company of the Southwest - Docket Nos. 3094, 3690 and 5610
- Central Telephone Company - Docket No. 9981
- Southwestern Public Service Company and Public Service Company of Colorado - Docket No. 14980

Utah Public Service Commission
- Utah Power and Light Company - Docket No. 76-035-06

Vermont Public Service Board
- New England Telephone and Telegraph Company - Docket Nos. 3806 and 4546

Waco, Texas
- Texas Power & Light Company

Washington Utilities and Transportation Commission
- The Washington Water Power Company and Sierra Pacific Power Company - Docket No. UE-94-1053 and UE-94-1054
- Puget Sound Power and Light Company and Washington Natural Gas Company – UE-960195

Washington Metropolitan Area Transit Authority
- D.C. Transit

Wisconsin Public Service Commission
- Northern States Power Company and Wisconsin Energy Corporation – 6630-UM-100 and 4220-UM-101
- WPL Holdings, IES Industries Inc., Interstate Power Company, Inc. - Docket No. 6680-UM-100

Wyoming Public Service Commission
- Cheyenne Light, Fuel and Power Company (Southwestern Public Service Company and Public Service Company of Colorado) - Docket Nos. 20003-EA-95-40 and 30005-GA-95-39
- Mountain States Telephone and Telegraph Company - Docket No. 9343, Subs. 5 and 9
- Organization and Operations Review
- Pacific Power and Light Company - Docket No. 9454, Sub. 11

[redacted]

Exhibit TJF-2

Net Regulated Savings ($ in 000s)	2001	2002	2003	2004	2005	Total	Average Annual
Labor							
Corporate	$30,038	$49,775	$52,414	$55,177	$58,070	$245,474	$49,095
Field	$6,645	$7,341	$8,070	$8,833	$9,632	$40,521	$8,104
Total	36,683	57,116	60,484	64,010	67,702	$285,996	$57,199
Corporate & Administrative Programs:							
Administrative & General Overhead	$1,045	$1,761	$1,825	$1,890	$1,958	$8,479	$1,696
Advertising	$880	$918	$958	$999	$1,042	$4,797	$959
Association Dues	$248	$255	$263	$271	$279	$1,317	$263
Directors' Fees	$139	$144	$148	$152	$157	$740	$148
Employee Benefits	$0	$4,136	$4,462	$4,884	$5,332	$18,814	$3,763
Facilities	$0	$4,539	$4,675	$4,815	$4,960	$18,988	$3,798
Insurance	$1,580	$1,627	$1,676	$1,726	$1,778	$8,388	$1,678
Information Services (O&M)	$158	$4,155	$8,390	$8,642	$8,901	$30,247	$6,049
Information Services (Capital)	$158	$3,017	$8,732	$14,618	$20,681	$47,206	$9,441
Professional Services	$9,685	$10,101	$10,536	$10,989	$11,461	$52,771	$10,554
Research & Development	$1,020	$1,051	$1,082	$1,115	$1,148	$5,416	$1,083
Shareholder Services	$809	$834	$859	$884	$911	$4,297	$859
Vehicles	$65	$105	$108	$111	$114	$502	$100
Total	$15,787	$32,642	$43,713	$51,097	$58,722	$201,962	$40,392
Purchasing Economies:							
Procurement	$5,339	$6,308	$7,306	$8,334	$9,393	$36,681	$7,336
Contract Services	$4,538	$5,420	$6,341	$7,301	$8,302	$31,901	$6,380
Total	$9,877	$11,728	$13,647	$15,635	$17,695	$68,582	$13,716
Savings Subtotal	$62,348	$101,486	$117,844	$130,742	$144,119	$556,539	$111,308
Cost to Achieve	$104,071	$35,193	$17,446	$14,239	$14,300	$185,249	$37,050
Pre-Merger Initiatives	5,907	8,272	8,486	8,709	8,940	$40,313	$8,063
Net Regulated Savings	($47,630)	$58,022	$91,912	$107,794	$120,880	$330,977	$66,195

Costs to Achieve
(Dollars in thousands)

	2001	2002	2003	2004	2005	Total
Separation Costs						
Separation Programs	$ 18,952	$ 12,514	$ -	$ -	$ -	$ 31,466
Executive Separation	$ 6,331	$ -	$ -	$ -	$ -	$ 6,331
Separation Assistance	$ 1,845	$ -	$ -	$ -	$ -	$ 1,845
Total Separation Costs - Merger	$ 27,128	$ 12,514	$ -	$ -	$ -	$ 39,642
Retention Costs	$ 1,845	$ 1,845	$ -	$ -	$ -	$ 3,690
System Integration Costs	$ 19,197	$ 17,259	$ 16,331	$ 14,239	$ 14,300	$ 81,327
Transaction Costs	$ 39,237	$ -	$ -	$ -	$ -	$ 39,237
Relocation Costs	$ 3,690	$ -	$ -	$ -	$ -	$ 3,690
Directors and Officers' Liability Tail Coverage	$ 1,115	$ 1,115	$ 1,115	$ -	$ -	$ 3,345
Regulatory Process Cost	$ 6,324	$ -	$ -	$ -	$ -	$ 6,324
Internal/External Communications	$ 3,075	$ -	$ -	$ -	$ -	$ 3,075
Transition Costs	$ 2,460	$ 2,460	$ -	$ -	$ -	$ 4,920
TOTAL COSTS TO ACHIEVE	$ 104,071	$ 35,193	$ 17,446	$ 14,239	$ 14,300	$ 185,249

PECO STATEMENT NO. 5

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

APPLICATION OF PECO ENERGY COMPANY, PURSUANT TO CHAPTERS 11, 19, 21, 22 AND 28 OF THE PUBLIC UTILITY CODE, FOR APPROVAL OF (1) A PLAN OF CORPORATE RESTRUCTURING, INCLUDING THE CREATION OF A HOLDING COMPANY: AND (2) THE MERGER OF THE NEWLY FORMED HOLDING COMPANY AND UNICOM CORPORATION	:	APPLICATION DOCKET NO. A-_____

DIRECT TESTIMONY

OF

WILLIAM H. HIERONYMUS

Regarding Competitive Effects of the Merger

November 22 ,1999

DIRECT TESTIMONY OF WILLIAM H. HIERONYMUS

Q. Please state your name and business address.

A. My name is William H. Hieronymus. My business address is PHB Hagler Bailly, Inc. ("PHB Hagler Bailly"), One Memorial Drive, Cambridge, Massachusetts 02142.

Q. By whom are you employed?

A. I am Senior Vice President of PHB Hagler Bailly, Inc., the commercial consulting subsidiary of Hagler Bailly. Hagler Bailly is a worldwide provider of consulting, research and other professional services to corporations and governments on energy, telecommunications, transportation and the environment.

Q. What is your educational background and work experience?

A. I received my Bachelor's degree from the University of Iowa in 1965, my Master's degree in economics in 1967 and a Doctoral degree in economics in 1969 from the University of Michigan, where I was a Woodrow Wilson Fellow and National Science Foundation Fellow. After serving in the U.S. Army, I began my consulting career. In 1973, I joined Charles River Associates Inc. as a specialist in antitrust economics. By the mid-1970s my focus was principally on the economics of energy and network industries. In 1978, I joined Putnam Hayes & Bartlett, Inc., where my consulting practice has focused almost exclusively on network industries, particularly electric utilities. Putnam, Hayes & Bartlett, Inc. merged with Hagler Bailly, Inc. in 1998.

During the past 25 years, I have completed numerous assignments for electric utilities; state and federal government agencies and regulatory bodies; energy and equipment companies; research organizations and trade associations; independent power producers and investors; international aid and lending agencies; and foreign governments. While I have worked on most economics-related aspects of the utility sector, a major theme has been public policies and their relation to the operation of utility companies.

Since about 1988, the main focus of my consulting has been on electric utility industry restructuring, regulatory innovation and privatization. In that year, I began work on the restructuring and privatization of the electric utility industry of the United Kingdom, an assignment on which I worked nearly full time through the completion of the restructuring in 1990. I also led a major study of the reorganization of the New Zealand electricity sector, focusing mainly on competition issues in the generating sector. Following privatization of the U.K. industry, I continued to work in the United Kingdom for electricity clients based there and I was also involved in restructuring studies concerning the former Soviet Union, Eastern Europe, the European Union and specific European countries.

Late in 1993, I returned to the United States, where I have worked on restructuring, regulatory reform and, increasingly, the competitive future of the U.S. electricity industry. In this context, I have testified before FERC and state commissions on market power issues concerned with several electric utility mergers (including convergence mergers), power pool tariff filings, sales and purchases of jurisdictional assets and market rate applications. More generally, I have testified before state and federal regulatory commissions, federal and state

courts and legislatures on numerous matters concerning the electric utility and other network industries. This includes testimony before this Commission on a number of occasions.

Q. What is the purpose of your testimony?

A. I have been asked by PECO Energy Company (PECO) to address the potential competitive impact of its proposed merger with Unicom Corporation(Unicom) on electric and natural gas markets. As I understand it, Section 2811(e) of the Public Utility Code (66 Pa. C.S. § 2811(e)) provides that the Commission shall consider whether a proposed merger or consolidation of electric utilities or electric suppliers "is likely to result in anticompetitive or discriminatory conduct, including the unlawful exercise of market power, which will prevent retail electricity customers in this Commonwealth from obtaining the benefits of a properly functioning and workable competitive retail electricity market."

Similarly, §2210 of the Public Utility Code (66 Pa. C.S. § 2210) provides that the Commission shall consider whether a proposed merger or consolidation involving natural gas distribution companies or natural gas suppliers "is likely to result in anticompetitive or discriminatory conduct, including an unlawful exercise of market power, which will prevent retail gas customers from obtaining the benefits of a properly functioning and effectively competitive retail natural gas market."

Q. Have you conducted an analysis of the effect of the PECO/Unicom merger on *competition?*

A. Yes. I have assessed the competitive impact of the PECO/Unicom merger on electricity markets, as part of their Application to the Federal Energy Regulatory Commission (FERC) for approval of the merger. A copy of my direct testimony in the FERC proceeding is included as Exhibit WHH-1 hereto and is incorporated herein.

My analysis is conducted in accordance with the Competitive Analysis Screen described in Appendix A to the FERC's Merger Policy Statement, which in turn is intended to comport with the Department of Justice and Federal Trade Commission Horizontal Merger Guidelines. The focus of my testimony is potential horizontal market power effects (e.g., for the electric business, those arising from the combination of electric generating assets). I also address vertical effects concerning barriers to entry that might undercut the presumption that long-run generation markets are competitive.

Q. Please describe the results of your analysis.

A. As explained in my testimony to FERC, the PECO/Unicom merger when combined with the generation-based mitigation measures to which they will agree as a condition of merger approval, if the FERC is persuaded that such mitigation is necessary, will not lead to material increases in concentration or in PECO and Unicom's market share in any relevant market. Moreover, the mitigation measures, if needed at all, relate to markets in Illinois. One would expect -- given the geographic separation of Unicom's and PECO's markets and the fact that

Unicom has no generation plants or positions in PJM -- that the merger would not create a market-power issue in Pennsylvania. My detailed analysis bears that out and leads me to conclude that the merger will not adversely impact competition in Pennsylvania and will not allow PECO to raise prices above the levels that it would have been able to charge if there had been no merger.

Q. Can you summarize briefly what Pennsylvania markets your FERC analysis considered?

A. Yes. The FERC analysis uses the concept of "destination markets" – defined geographic areas that are considered in isolation from other load centers. Implicit in this isolated treatment is a presumptive concern that sellers may be able to price discriminate, an assumption that, in my opinion, is increasingly irrelevant as wholesale markets become increasingly active and barriers in terms of what suppliers are allowed to serve what loads are eliminated. Nevertheless, it is convenient, in view of the statute in Pennsylvania, that the potential ability to discriminate among markets is assumed for purposes of market power analysis.

In granting market rate authority (i.e. removing regulatory restrictions on pricing) to PJM members, FERC accepted destination market definitions for PJM consisting of subsets of it defined by the various west-to-east constraints that sometimes affect the ability to move power within it. The smallest of these areas is PJM-East. The next is PJM-East and Central. The third includes all of PJM except the farthest west portion and the fourth is all of PJM. I used these areas in my analysis. Portions of Pennsylvania are included in each of these market

areas. Also contained wholly or partly in Pennsylvania are destination markets defined as the control areas of Allegheny, Duquesne, and First Energy. Suppliers who potentially can provide energy within these defined areas at costs no higher than 105 percent of the market price are included. The analysis takes into account the effects of transmission constraints, losses and pricing.

The FERC analysis focuses on electric energy. It encompasses two measures of the ability of potential suppliers to compete in a market. The first measure looks at the total deliverable economic supply of such suppliers. This is called Economic Capacity. The second measure looks at only that potential supply that is not needed to meet native load requirements. FERC properly views the former as the more important, in part because of increasing levels of retail access. In Pennsylvania, this is still more true than it is in general.

Consistent with the FERC requirements, my analysis looks at the market structure of deliverable economic capacity to each destination market. Because competitive conditions may differ by time of use, a number of analyses for different seasons and price levels are presented in it.

Q. Would you please summarize the portion of your results that are relevant to Pennsylvania?

A. Yes. The merger has virtually no effect on Pennsylvania Power markets. This is not surprising, in view of the fact that all of the utilities in ECAR and a number of utilities in MAIN are closer to Pennsylvania than is Commonwealth Edison (ComEd). Apart from sales that it makes to PECO in the midwest under a contract that the companies have offered to

divest as part of their FERC application, Unicom has historically made very few sales to PJM members. The analysis demonstrates similarly minor participation by Unicom in the Allegheny, First Energy and Duquesne market areas. Quite simply, since ComEd has almost no participation in the Pennsylvania markets, its elimination as an independent competitor has no material effect.

Q. Based on your analysis, is the proposed merger likely to result in anticompetitive or discriminatory conduct that will prevent retail electricity customers in Pennsylvania from obtaining the benefits of a functioning and workable competitive retail electricity market?

A. No. It follows from my analysis and conclusions that the proposed merger is not likely to result in anticompetitive or discriminatory conduct that will prevent retail electricity customers from obtaining the benefits of a properly functioning and workable competitive retail electricity market.

Q. Based on your analysis, is the proposed merger likely to result in anticompetitive or discriminatory conduct that will prevent retail natural gas customers in Pennsylvania from obtaining the benefits of a properly functioning and effectively competitive retail *natural gas market?*

A. No. While PECO operates a gas distribution system in four counties surrounding Philadelphia, Unicom does not own or control a natural gas system or participate in Pennsylvania gas markets in any way. Therefore, the merger is not likely to change the

structure or conduct of natural gas distributors or suppliers in Pennsylvania. Thus, the merger is not likely to result in discriminatory or anticompetitive conduct that will prevent retail gas customers from obtaining the benefits of a properly functioning and effectively competitive retail natural gas market.

Q. Does this conclude your testimony?

A. Yes, it does.

5/10/00

A-110550F0147

Q2Lo PD

RMS

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

APPLICATION OF PECO ENERGY COMPANY, PURSUANT TO CHAPTERS 11, 19, 21, 22 AND 28 OF THE PUBLIC UTILITY CODE, FOR APPROVAL OF (1) A PLAN OF CORPORATE RESTRUCTURING, INCLUDING THE CREATION OF A HOLDING COMPANY AND (2) THE MERGER OF THE NEWLY FORMED HOLDING COMPANY AND UNICOM CORPORATION	:	APPLICATION DOCKET NO. A-_____

VOLUME III

Contents:

Exhibit D - Agreement and Plan of Exchange and Merger

November 22, 1999

AGREEMENT AND PLAN OF EXCHANGE AND MERGER

Dated as of September 22, 1999,

Among

PECO ENERGY COMPANY,

NEWHOLDCO CORPORATION

And

UNICOM CORPORATION

TABLE OF CONTENTS

AGREEMENT AND PLAN OF EXCHANGE AND MERGER dated as of September 22, 1999 (this "Agreement"), among PECO ENERGY COMPANY, a Pennsylvania corporation ("Parent"), NEWHOLDCO CORPORATION (as defined herein), a Pennsylvania corporation and a wholly owned subsidiary of Parent ("Newco"), and UNICOM CORPORATION, an Illinois corporation (the "Company").

WHEREAS the respective Boards of Directors of Parent, Newco and the Company have approved the consummation of the business combination provided for in this Agreement, pursuant to which (a) Parent and Newco will, on the terms and subject to the conditions set forth in this Agreement, effect a mandatory share exchange (the "First Step Exchange") whereby each outstanding share of common stock, no par value, of Parent (the "Parent Common Stock") shall be acquired by Newco in exchange for common stock, no par value, of Newco (the "Newco Common Stock") or cash, as herein provided, (b) immediately thereafter, the Company will, on the terms and subject to the conditions set forth in this Agreement, merge with and into Newco (the "Second Step Merger" and, together with the First Step Exchange, the "Merger"), whereby each share of common stock, no par value, of the Company (the "Company Common Stock") will be converted into the right to receive Newco Common Stock or cash, as herein provided, (c) the holders of Parent Common Stock and Company Common Stock will together own all of the outstanding shares of Newco Common Stock and (d) each share of each other class of capital stock of Parent and the Company shall be unaffected and remain outstanding;

WHEREAS for Federal income tax purposes it is intended that the Merger constitutes transactions described in Section 351 of the Internal Revenue Code of 1986, as amended (the "Code"), and the Second Step Merger constitutes a transaction described in Section 368(a) of the Code; and

WHEREAS Parent, Newco and the Company desire to make certain representations, warranties, covenants and agreements in connection with the Merger and also to prescribe various conditions to the Merger.

NOW, THEREFORE, the parties hereto, intending to be legally bound hereby, agree as follows:

ARTICLE I

The Exchange and MergerARTICLE I The Exchange and Merger

SECTION 1.01. The Exchange and MergerSECTION 1.01. The Exchange and Merger. (a) On the terms and subject to the conditions set forth in this Agreement, in accordance with the Business Corporation Law of the Commonwealth of Pennsylvania ("PBCL"), Parent and Newco shall effect the First Step Exchange at the Exchange Effective Time (as defined in Section 1.03). As a result of the First Step Exchange, Parent shall become a wholly owned subsidiary of Newco. The effects and the consequences of the First Step Exchange and the Second Step Merger shall be as set forth in Section 1.04.

(b) On the terms and subject to the conditions set forth in this Agreement, in accordance with the Illinois Business Corporation Act (the "IBCA") and the PBCL, the Company shall be merged with and into Newco at the Merger Effective Time (as defined in Section 1.03). At the Merger Effective Time, the separate corporate existence of the Company shall cease and Newco shall continue as the surviving corporation (the "Surviving Corporation").

(c) The First Step Exchange, the Second Step Merger, the issuance by Newco of Newco Common Stock in connection with the Merger (the "Share Issuance") and the other transactions contemplated by this Agreement are referred to in this Agreement collectively as the "Transactions".

SECTION 1.02. ClosingSECTION 1.02. Closing. The closing (the "Closing") of the Merger shall take place at such location as shall be determined by the parties at 10:00 a.m. on the second business day following the satisfaction (or, to the extent permitted by Applicable Law (as defined in Section 3.05), waiver by all parties) of the conditions set forth in Section 7.01, or, if on such day any condition set forth in Section 7.02 or 7.03 has not been satisfied (or, to the extent permitted by Applicable Law, waived by the party or parties entitled to the benefits thereof), as soon as practicable after all the conditions set forth in Article VII have been satisfied (or, to the

extent permitted by Applicable Law, waived by the parties entitled to the benefits thereof), or at such other place, time and date as shall be agreed in writing between Parent and the Company. The date on which the Closing occurs is referred to in this Agreement as the "Closing Date".

SECTION 1.03. Merger Effective TimeSECTION 1.03. Merger Effective Time. (a) Prior to the Closing, Parent shall prepare, and on the Closing Date Parent shall file with the Department of State of the Commonwealth of Pennsylvania, articles of exchange or other appropriate documents (in any such case, the "Articles of Exchange") executed in accordance with the relevant provisions of the PBCL and shall make all other filings or recordings required under the PBCL to effect the First Step Exchange. The First Step Exchange shall become effective at such time as the Articles of Exchange are duly filed with such Department of State, or at such other time as Newco and Parent shall agree and specify in the Articles of Exchange (the time the First Step Exchange becomes effective being the "Exchange Effective Time").

(b) Prior to the Closing and after the Exchange Effective Time, Newco and the Company shall prepare, and on the Closing Date and after the Exchange Effective Time Newco and the Company shall (i) file with the Department of State of the Commonwealth of Pennsylvania, the articles of merger or other appropriate documents (in any such case, the "Pennsylvania Articles of Merger") executed in accordance with the relevant provisions of the PBCL and shall make all other filings or recordings required under the PBCL to effect the Second Step Merger and (ii) thereafter file with the Secretary of State of the State of Illinois, articles of merger or other appropriate documents (in any such case, the "Illinois Articles of Merger") executed in accordance with the relevant provisions of the IBCA and shall make all other filings or recordings required under the IBCA to effect the Second Step Merger. The Second Step Merger shall become effective at such time as the Illinois Articles of Merger are duly filed as provided by Applicable Law and the Secretary of State of the State of Illinois has issued a certificate of merger in respect of the Second Step Merger, or at such other time as Newco and the Company shall agree and specify as provided by Applicable Law (the time the Second Step Merger becomes effective being the "Merger

Effective Time").

SECTION 1.04. EffectsSECTION 1.04. Effects. The First Step Exchange shall have the effects set forth in Section 1931 of the PBCL. The Second Step Merger shall have the effects set forth in Section 1929 of the PBCL and Section 11.50 of the IBCA.

SECTION 1.05. Articles of Incorporation and By-lawsSECTION 1.05. Articles of Incorporation and By-laws. (a) At the Merger Effective Time, the Articles of Incorporation of Newco (the "Newco Articles") shall, until thereafter changed or amended as provided therein or by Applicable Law and as Parent and the Company shall have agreed prior to the Merger Effective Time, be the Articles of Incorporation of the Surviving Corporation and shall in any case be amended to provide that the name of Newco be changed to such name as shall be mutually agreed to by Parent and the Company.

(b) At the Merger Effective Time, the By-laws of Newco (the "Newco By-laws") shall, until thereafter changed or amended as provided therein or by Applicable Law and as Parent and the Company shall have agreed prior to the Merger Effective Time, be the By-laws of the Surviving Corporation, and shall in any case be amended by inserting the provisions set forth in Exhibit A as Article X thereof.

SECTION 1.06. Newco Board of DirectorsSECTION 1.06. Newco Board of Directors. (a) The directors of Parent immediately prior to the Exchange Effective Time shall be the directors of Newco as of the Exchange Effective Time, until the earlier of the Merger Effective Time or their resignation or removal or the due election and qualification of their respective successors, as the case may be.

(b) In accordance with the Newco By-laws, as amended pursuant to Section 1.05(b), as of the Merger Effective Time, the Board of Directors of the Surviving Corporation (the "Newco Board") shall consist of 16 members, eight of whom shall be serving as members of the Board of Directors of Parent immediately prior to the Merger Effective Time who are recommended by the Board of Directors of Parent immediately prior to the Merger Effective Time,

and eight of whom of whom shall be members of the Board of Directors of the Company immediately prior to the Merger Effective Time who are recommended by the Board of Directors of the Company immediately prior to the Merger Effective Time.

SECTION 1.07. Newco Senior OfficersSECTION 1.07. Newco Senior Officers. As of the Merger Effective Time the senior officers of Newco shall be as set forth in Exhibit B and shall hold office until their respective successors are duly elected and qualified, or until their earlier death, resignation or removal in accordance with the Newco By-Laws.

SECTION 1.08. Operations.1.08. Operations. (a) Corporate Offices. The Surviving Corporation shall maintain (i) in Chicago, Illinois offices serving as its corporate headquarters, (ii) in southeastern Pennsylvania offices serving as the headquarters of the generation and power marketing businesses of the Surviving Corporation and its subsidiaries, and (ii) offices in Chicago, Illinois and southeastern Pennsylvania as the headquarters of Commonwealth Edison Company, an Illinois corporation ("ComEd"), and Parent, respectively. The chief nuclear officer of the Surviving Corporation shall maintain offices in both Chicago, Illinois and Southeastern Pennsylvania.

(b) Charities. The parties agree that provision of charitable contribution and community support in the respective service areas of Parent and the Company and their respective subsidiaries serves a number of important goals. During the two-year period immediately following the Merger Effective Time, the Surviving Corporation shall provide, directly or indirectly, charitable contributions and traditional local community support within the respective service areas of Parent and the Company and each of their subsidiaries that are utilities at levels substantially comparable to and no less than the levels of charitable contributions and community support provided by Parent and the Company and such subsidiaries within their service areas within the two-year period immediately prior to the Merger Effective Time.

ARTICLE II

Effect on the Capital Stock of the Constituent Corporations; Exchange of Certificates

II Effect on the Capital Stock of the Constituent Corporations; Exchange of Certificates

SECTION 2.01. Effect on Capital StockSECTION 2.01. Effect on Capital Stock. (a) First Step Exchange. At the Exchange Effective Time, by virtue of the First Step Exchange and without any action on the part of the holder of any shares of Parent Common Stock or Newco Common Stock:

(i) Cancelation of Treasury Stock. Each share of Parent Common Stock that is owned by Parent shall automatically be canceled and retired and shall cease to exist, and no Newco Common Stock or other consideration shall be delivered or deliverable in exchange therefor.

(ii) Exchange of Parent Common Stock. (A) Subject to Section 2.01(a)(i) and Section 2.02(a)(iii), each issued share of Parent Common Stock shall be exchanged for either (1) $45.00 in cash (the "Parent Cash Consideration") or (2) one fully paid and nonassessable share of Newco Common Stock (the "Parent Exchange Ratio"), in each case as the holder thereof shall have elected or be deemed to have elected, in accordance with Section 2.01(a)(iv).

(B) The Parent Cash Consideration and shares of Newco Common Stock to be issued by Newco upon the exchange of shares of Parent Common Stock pursuant to this Section 2.01(a)(ii) are referred to collectively as "Exchange Consideration". As of the Exchange Effective Time, all such shares of Parent Common Stock shall be exchanged for Exchange Consideration and such shares of Parent Common Stock shall remain outstanding and shall be owned and held by Newco, and each holder of a certificate representing any such shares of Parent Common Stock shall cease to have any rights with respect thereto, except the right to receive Exchange Consideration upon surrender of such certificate in accordance with Section 2.02, without interest.

(iii) Allocation. Notwithstanding anything in this Agreement to the contrary, the number of shares of Parent Common Stock to be converted into the right to receive the Parent Cash Consideration in the First Step Exchange (the "Parent Cash Number") will be equal to 16,666,666 shares of Parent Common Stock. The number of shares of Parent Common Stock to be converted into the right to receive the Parent Stock Consideration in the First Step Exchange (the "Parent Stock Number") will be equal to (A) the number of shares of Parent Common Stock issued and outstanding immediately prior to the Exchange Effective Time (ignoring for this purpose any Parent Common Stock to be canceled pursuant to Section 2.01(a)(i)) less (B) the Parent Cash Number.

(iv) Election. Subject to allocation in accordance with the provisions of this Section 2.01(a), each record holder of shares of Parent Common Stock (other than shares to be canceled in accordance with Section 2.01(a)(i)) issued and outstanding immediately prior to the Election Deadline (as defined in Section 2.02(b)) will be entitled, in accordance with Section 2.02(b), (i) to elect to receive in respect of each such share (A) the Parent Cash Consideration (a "Parent Cash Election") or (B) the Parent Stock Consideration (a "Parent Stock Election") or (ii) to indicate that such record holder has no preference as to the receipt of the Parent Cash Consideration or the Parent Stock Consideration for all such shares held by such holder (a "Parent Non-Election"); provided, however, that record holders of Parent Common Stock who own, as of the date of the Election Deadline, less than 100 shares of Parent Common Stock in respect of which a Parent Non-Election is made or no election is made (all such shares, collectively with Parent Odd Lot Cash Election Shares (as hereinafter defined) being herein referred to as the "Parent Deminimis Shares"), will be deemed to have elected to receive the Parent Cash Consideration for such shares. "Parent Odd Lot Cash Election Shares" means shares of Parent Common Stock held by record holders of Parent Common Stock who, as of the date of the Election Deadline, own less than 100 shares of Parent Common Stock and have made Parent Cash Elections in respect of all such shares.

(v) Allocation of Parent Cash Election SharesAllocation of Parent Cash Election Shares. In the event that the aggregate number of shares in respect of which Parent Cash Elections have been made or are deemed to have been made in accordance with the proviso at the end of the first sentence of Section 2.01(a)(iv) (the "Parent Cash Election Shares") exceeds the Parent Cash Number, all shares of Parent Common Stock in respect of which Parent Stock Elections have been made ("the Parent Stock Election Shares") and all Parent Non-Election Shares (as defined in Section 2.01(a)(vii)) will be converted into the right to receive the Parent Stock Consideration, and the Parent Cash Election Shares will be converted into the right to receive the Parent Cash Consideration or the Parent Stock Consideration in the following manner:

(A) all Parent Deminimis Shares will be converted into the right to receive the Parent Cash Consideration;

(B) the number of Parent Cash Election Shares, other than Parent Deminimis Shares, covered by each Form of Election (as defined in Section 2.02(b)) to be converted into Parent Cash Consideration will be determined by multiplying the number of Parent Cash Election Shares covered by such Form of Election by a fraction, (A) the numerator of which is the Parent Cash Number less the number of Parent Deminimis Shares and (B) the denominator of which is the aggregate number of Parent Cash Election Shares less the number of Parent Deminimis Shares, rounded down to the nearest whole number; provided, however, that, if as a result of such proration, any holder of Parent Cash Election Shares would, but for this proviso, receive less than 100 shares of Newco Common Stock in accordance with Section 2.01(a)(v)(C), all Parent Cash Election Shares held by such holders (the "Parent Non-Prorated Cash Shares") will be converted into the Parent Cash Consideration and the remaining Parent Cash Election Shares to be converted into the Parent Cash Consideration will be determined by multiplying the number of Parent Cash Election

Shares covered by such Form of Election by a fraction, (A) the numerator of which is the Parent Cash Number less the sum of the number of Parent Deminimis Shares and Parent Non-Prorated Cash Shares and (B) the denominator of which is the aggregate number of Parent Cash Election Shares less the sum of the number of Parent Deminimis Shares and Parent Non-Prorated Cash Shares, rounded down to the nearest whole number; provided further, however, that, if the number of Parent Non-Prorated Cash Shares exceeds the difference between the Parent Cash Number and the number of Parent Deminimis Shares, the Parent Non-Prorated Cash Shares will be converted into the Parent Cash Consideration by selecting, by lottery or such other method as mutually agreed to by Parent and the Company, from among the record holders of Parent Non-Prorated Cash Shares a sufficient number of such holders (the "Parent Cash Designees") such that the number of Parent Cash Election Shares held by the Parent Cash Designees will, when added to the Parent Deminimis Shares, be equal as closely as practicable to the Parent Cash Number, and all such Parent Cash Election Shares held by such Parent Cash Designees will be converted into the right to receive the Parent Cash Consideration; and

(C) all Parent Cash Election Shares not converted into Parent Cash Consideration in accordance with Section 2.01(a)(v)(A) or (B) will be converted into the right to receive the Parent Stock Consideration.

(vi) Allocation of Parent Stock Election Shares. In the event that the aggregate number of Parent Stock Election Shares exceeds the Parent Stock Number, all Parent Cash Election Shares and all Parent Non-Election Shares (together, the "Parent Cash Shares") will be converted into the right to receive the Parent Cash Consideration, and all Parent Stock Election Shares will be converted into the right to receive the Parent Cash Consideration or the Parent Stock Consideration in the following manner:

(A) the number of Parent Stock Election

Shares covered by each Form of Election to be converted into Parent Cash Consideration will be determined by multiplying the number of Parent Stock Election Shares covered by such Form of Election by a fraction, (1) the numerator of which is the Parent Cash Number less the number of Parent Cash Shares and (2) the denominator of which is the aggregate number of Parent Stock Election Shares, rounded down to the nearest whole number; and

(B) all Parent Stock Election Shares not converted into Parent Cash Consideration in accordance with Section 2.01(a)(vi)(A) will be converted into the right to receive the Parent Stock Consideration.

(vii) No Allocation. In the event that neither Section 2.01(a)(v) nor Section 2.01(a)(vi) is applicable, all Parent Cash Election Shares and deemed Parent Cash Election Shares will be converted into the right to receive the Parent Cash Consideration, all Parent Stock Election Shares will be converted into the right to receive the Parent Stock Consideration, a number of Parent Non-Election Shares (as hereinafter defined) equal to the Parent Cash Number minus the sum of Parent Cash Election Shares and Parent Deminimis Shares will be converted into the right to receive the Parent Cash Consideration and a number of Parent Non-Election Shares equal to the Parent Stock Number minus Parent Stock Election Shares will be converted into the right to receive the Parent Stock Consideration. "Parent Non-Election Shares" means, collectively, shares of Parent Common Stock in respect of which a Parent Non-Election is made or as to which no election is made, other than Parent Deminimis Shares.

(viii) Computations. The Exchange Agent (as defined in Section 2.02(c)) consultation with Parent and the Company, will make all computations to give effect to this Section 2.01(a).

(ix) Parent Preferred Stock. The Parent Preferred Stock (as defined in Section 4.03(a)) outstanding immediately prior to the Exchange Effective

Time shall remain outstanding, without change, after the Exchange Effective Time, and no consideration shall be delivered or deliverable in exchange therefor.

(x) Dissent Rights. Notwithstanding anything in this Agreement to the contrary, shares ("Parent Dissent Shares") of Parent Common Stock that are outstanding immediately prior to the Exchange Effective Time and that are held by any person who is entitled to demand and properly demands payment of the fair value of such Parent Dissent Shares pursuant to, and who complies in all respects with, Subchapter D of Chapter 15 of the PBCL ("Subchapter D") shall not be converted into Exchange Consideration as provided in Section 2.01(a)(ii), but rather the holders of Parent Dissent Shares shall be entitled to payment of the fair value of such Parent Dissent Shares in accordance with Subchapter D; provided, however, that if any such holder shall fail to perfect or otherwise shall waive, withdraw or lose the right to receive payment of fair market value under Subchapter D, then the right of such holder to be paid the fair value of such holder's Parent Dissent Shares shall cease and such Parent Dissent Shares shall be deemed to have been converted as of the Exchange Effective Time into, and to have become exchangeable solely for the right to receive, Exchange Consideration as provided in Section 2.01(a)(ii).

(b) Second Step Merger. At the Merger Effective Time, by virtue of the Second Step Merger and without any action on the part of the holder of any shares of Company Common Stock or Newco Common Stock:

(i) Cancelation of Treasury Stock and Newco-Owned Stock. Each share of Company Common Stock that is owned by the Company or Newco shall no longer be outstanding and shall automatically be canceled and retired and shall cease to exist, and no Newco Common Stock or other consideration shall be delivered or deliverable in exchange therefor.

(ii) Conversion of Company Common Stock. (A) Subject to Sections 2.01(b)(i), 2.01(b)(iii) and 2.02(e), each issued share of Company Common Stock

shall be converted into the right to receive either (1) $42.75 in cash (the "Company Cash Consideration") or (2) 0.95 (the "Company Conversion Number") fully paid and nonassessable shares of Newco Common Stock (the "Company Exchange Ratio"), in each case as the holder thereof shall have elected or be deemed to have elected, in accordance with Section 2.01(b)(iv).

(B) The Company Cash Consideration, shares of Newco Common Stock to be issued upon the conversion of shares of Company Common Stock pursuant to this Section 2.01(b)(ii) and cash in lieu of fractional shares of Newco Common Stock as contemplated by Section 2.02(e) are referred to collectively as "Merger Consideration". As of the Merger Effective Time, all such shares of Company Common Stock shall no longer be outstanding and shall automatically be canceled and retired and shall cease to exist, and each holder of a certificate representing any such shares of Company Common Stock shall cease to have any rights with respect thereto, except the right to receive Merger Consideration upon surrender of such certificate in accordance with Section 2.02, without interest.

(iii) Allocation. Notwithstanding anything in this Agreement to the contrary, the number of shares of the Company Common Stock to be converted into the right to receive the Company Cash Consideration in the Second Step Merger (the "Company Cash Number") will be equal to 17,543,859 shares of the Company Common Stock. The number of shares of the Company Common Stock to be converted into the right to receive the Company Stock Consideration in the Second Step Merger (the "Company Stock Number") will be equal to (A) the number of shares of the Company Common Stock issued and outstanding immediately prior to the Merger Effective Time (ignoring for this purpose any Company Common Stock to be canceled pursuant to Section 2.01(b)(i)) less (B) the Company Cash Number.

(iv) ElectionElection. Subject to allocation in accordance with the provisions of this Section 2.01(b), each record holder of shares of the Company Common Stock (other than shares to be canceled in accordance with Section 2.01(b)(i)) issued and outstanding

immediately prior to the Election Deadline will be entitled, in accordance with Section 2.02(b), (i) to elect to receive in respect of each such share (A) the Company Cash Consideration (a "Company Cash Election") or (B) the Company Stock Consideration (a "Company Stock Election") or (ii) to indicate that such record holder has no preference as to the receipt of the Company Cash Consideration or the Company Stock Consideration for all such shares held by such holder (a "Company Non-Election"); provided, however, that record holders of Company Common Stock who own, as of the date of the Election Deadline, less than 100 shares of the Company Common Stock in respect of which a Company Non-Election is made or no election is made (all such shares, collectively with Company Odd Lot Cash Election Shares (as hereinafter defined) being herein referred to as the "Company Deminimis Shares") will be deemed to have elected to receive the Company Cash Consideration for such shares. "Company Odd Lot Cash Election Shares" means shares of Company Common Stock held by record holders of Company Common Stock who, as of the date of the Election Deadline, own less than 100 Shares of Company Common Stock and have made Company Cash Elections in respect of all such shares.

(v) Allocation of the Company Cash Election Shares. In the event that the aggregate number of shares in respect of which the Company Cash Elections have been made or are deemed to have been made in accordance with the proviso at the end of the first sentence of Section 2.01(b)(iv) (the "Company Cash Election Shares") exceeds the Company Cash Number, all shares of the Company Common Stock in respect of which the Company Stock Elections have been made (the "Company Stock Election Shares") and all the Company Non-Election Shares (as defined in Section 2.01(b)(vii)) will be converted into the right to receive the Company Stock Consideration (and cash in lieu of fractional interests in accordance with Section 2.02(e)), and the Company Cash Election Shares will be converted into the right to receive the Company Cash Consideration or the Company Stock Consideration in the following manner:

(A) all the Company Deminimis Shares will be

converted into the right to receive the Company Cash Consideration;

(B) the number of the Company Cash Election Shares, other than the Company Deminimis Shares, covered by each Form of Election to be converted into the Company Cash Consideration will be determined by multiplying the number of the Company Cash Election Shares covered by such Form of Election by a fraction, (A) the numerator of which is the Company Cash Number less the number of the Company Deminimis Shares and (B) the denominator of which is the aggregate number of the Company Cash Election Shares less the number of the Company Deminimis Shares, rounded down to the nearest whole number; provided, however, that, if as a result of such proration, any holder of the Company Cash Election Shares would, but for this proviso, receive less than 100 shares of Newco Common Stock in accordance with Section 2.01(b)(v)(C), all the Company Cash Election Shares held by such holders (the "Company Non-Prorated Cash Shares") will be converted into the Company Cash Consideration and the remaining the Company Cash Election Shares to be converted into the Company Cash Consideration will be determined by multiplying the number of the Company Cash Election Shares covered by such Form of Election by a fraction, (A) the numerator of which is the Company Cash Number less the sum of the number of the Company Deminimis Shares and the Company Non-Prorated Cash Shares and (B) the denominator of which is the aggregate number of the Company Cash Election Shares less the sum of the number of the Company Deminimis Shares and the Company Non-Prorated Cash Shares, rounded down to the nearest whole number; provided further, however, that, if the number of the Company Non-Prorated Cash Shares exceeds the difference between the Company Cash Number and the number of the Company Deminimis Shares, the Company Non-Prorated Cash Shares will be converted into the Company Cash Consideration by selecting, by lottery or such other method as mutually agreed to by Parent and the Company, from among the record holders of the Company Non-Prorated Cash Shares a sufficient number of such holders (the "Company Cash Designees") such that the number of the Company Cash Election Shares held by the Company Cash Designees will, when added to the

Company Deminimis Shares, be equal as closely as practicable to the Company Cash Number, and all such the Company Cash Election Shares held by such the Company Cash Designees will be converted into the right to receive the Company Cash Consideration; and

(C) all Company Cash Election Shares not converted into the Company Cash Consideration in accordance with Section 2.01(b)(v)(A) or (B) will be converted into the right to receive the Company Stock Consideration (and cash in lieu of fractional interests in accordance with Section 2.02(e)).

(vi) Allocation of the Company Stock Election Shares. In the event that the aggregate number of the Company Stock Election Shares exceeds the Company Stock Number, all the Company Cash Election Shares and all the Company Non-Election Shares (together, the "Company Cash Shares") will be converted into the right to receive the Company Cash Consideration, and all the Company Stock Election Shares will be converted into the right to receive the Company Cash Consideration or the Company Stock Consideration in the following manner:

(A) the number of the Company Stock Election Shares covered by each Form of Election to be converted into the Company Cash Consideration will be determined by multiplying the number of the Company Stock Election Shares covered by such Form of Election by a fraction, (A) the numerator of which is the Company Cash Number less the number of the Company Cash Shares and (B) the denominator of which is the aggregate number of the Company Stock Election Shares, rounded down to the nearest whole number; and

(B) all the Company Stock Election Shares not converted into the Company Cash Consideration in accordance with Section 2.01(b)(vi)(A) will be converted into the right to receive the Company Stock Consideration (and cash in lieu of fractional interests in accordance with Section 2.02(e)).

(vii) No Allocation(vii) No Allocation. In the event that neither Section 2.01(b)(v) nor

Section 2.01(b)(vi) is applicable, all the Company Cash Election Shares and deemed Company Cash Election Shares shall be converted into the right to receive the Company Cash Consideration, all the Company Stock Election Shares shall be converted into the right to receive the Company Stock Consideration (and cash in lieu of fractional interests in accordance with Section 2.02(e)), a number of Company Non-Election Shares (as hereinafter defined) equal to the Company Cash Number minus the sum of Company Cash Election Shares and Company Deminimis Shares will be converted into the right to receive the Company Cash Consideration and a number of Company Non-Election Shares equal to the Company Stock Number minus Company Stock Election Shares will be converted into the right to receive the Company Stock Consideration (and cash in lieu of fractional interests in accordance with Section 2.02(e)). "Company Non-Election Shares" means, collectively, shares of Company Common Stock in respect of which a Company Non-Election is made or as to which no election is made, other than Company Deminimis Shares.

(viii) Computations. The Exchange Agent, in consultation with Parent and the Company, will make all computations to give effect to this Section 2.01(b).

(ix) Newco Common Stock. The Newco Common Stock outstanding immediately prior to the Merger Effective Time issued as contemplated by Section 2.01(a)(ii) shall remain outstanding, without change, after the Merger Effective Time, and no Merger Consideration shall be delivered or deliverable in exchange therefor.

(x) Dissent Rights. Notwithstanding anything in this Agreement to the contrary, shares ("Company Dissent Shares") of Company Common Stock that are outstanding immediately prior to the Merger Effective Time and that are held by any person who is entitled to demand and properly demands payment of the fair value of such Company Dissent Shares pursuant to, and who complies in all respects with, Sections 11.65 and 11.70 of the IBCA ("Sections 11.65 and 11.70") shall be converted into the right to receive Merger Consideration as provided in Section 2.01(b)(ii), and

shall thereafter be subject to sale and purchase rights in accordance with Sections 11.65 and 11.70.

SECTION 2.02. Exchange of CertificatesSECTION 2.02. Exchange of Certificates. (a) Exchange Agent. Promptly following the Merger Effective Time, Newco shall deposit with such bank or trust company as may be designated by Newco and reasonably acceptable to Parent and the Company (the "Exchange Agent"), for the benefit of the holders of shares of Parent Common Stock and Company Common Stock, for exchange in accordance with this Article II, through the Exchange Agent, cash equal to the sum of the total aggregate Parent Cash Consideration and Company Cash Consideration and certificates representing the shares of Newco Common Stock issuable pursuant to Section 2.01 in exchange for outstanding Company Certificates or Parent Certificates. Newco shall provide to the Exchange Agent on a timely basis, as and when needed after the Merger Effective Time, cash equal to the sum of the total aggregate Parent Cash Consideration and Company Cash Consideration (such shares of Newco Common Stock and cash, together with any dividends or distributions with respect thereto, being hereinafter referred to as the "Exchange Fund"). For the purposes of such deposit, Newco shall assume that there will not be any fractional shares of Newco Common Stock. Newco shall make available to the Exchange Agent, for addition to the Exchange Fund, from time to time as needed, cash sufficient to pay cash in lieu of fractional shares in accordance with Section 2.02(e).

(b) Exchange Procedures. (i) Not more than 90 days nor fewer than 30 days prior to the Closing Date, the Exchange Agent will mail a form of election (a "Form of Election") to holders of record of shares of Parent Common Stock and to the holders of record of shares of Company Common Stock (as of a record date as close as practicable to the date of mailing and mutually agreed to by Parent and Company). In addition, the Exchange Agent will use its best efforts to make the Form of Election available to all persons who become shareholders of Parent or Company during the period between such record date and the Closing Date. Any election to receive the Exchange Consideration contemplated by Section 2.01(a)(iv) or the Merger Consideration contemplated by Section 2.01(b)(iv) will have been properly made only if the Exchange Agent shall have

received at its designated office or offices, by 5:00 p.m., New York City time, on the fifth business day immediately preceding the Closing Date or such other date as may be agreed to by Parent and the Company (the "Election Deadline"), a Form of Election properly completed and accompanied by a Parent Certificate (as hereinafter defined) or a Company Certificate (as hereinafter defined), as the case may be for the shares to which such Form of Election relates, duly endorsed in blank or otherwise acceptable for transfer on the books of Parent or Company, as the case may be (or an appropriate guarantee of delivery), as set forth in such Form of Election. An election may be revoked only by written notice received by the Exchange Agent prior to 5:00 p.m., New York City time, on the Election Deadline. A revoked election cannot be reinstated without valid resubmission, by the Election Deadline of a valid Election Form, and a revocation will not constitute an election for any other consideration. Revoked elections can only be replaced by a new Form of Election properly completed and accompanied by the applicable Parent Certificate or a Company Certificate, duly endorsed in blank or otherwise acceptable for transfer in accordance with the previous sentence that is received by the Exchange Agent by the Election Deadline. All elections shall automatically be revoked if the Exchange Agent is notified in writing by Parent and Company that either of the First Step Exchange or the Second Step Merger has been abandoned. If an election is so revoked, the Certificate(s) (as hereinafter defined) (or guarantee of delivery, as appropriate) to which such election relates will be promptly returned to the person submitting the same to the Exchange Agent. In the case of multiple Forms of Elections are received by the Exchange Agent in respect of the same share of Company Common Stock or Parent Common Stock, as the case may be, the last dated (or if not dated, the last received) will govern.

(ii) Two or more holders of Parent Common Stock or Company Common Stock who are determined to constructively own the shares of Parent Common Stock or Company Common Stock, as the case may be, owned by each other by virtue of Section 318(a) of the Code, and who so certify to Parent's and Company's satisfaction, and any single holder of shares of Parent Common Stock or Company Common Stock who holds his shares in two or more different names and who so certifies to Parent's and Company's satisfaction, may submit a joint

Form of Election covering the aggregate shares of Parent Common Stock or Company Common Stock, as the case may be, owned by all such holders or by such single holder, as the case may be. For all purposes of this Agreement, each such group of holders that, and each such single holder who, submits a joint Form of Election shall be treated as a single holder of Parent Common Stock or Company Common Stock, as the case may be.

(iii) Record holders of Parent Common Stock or Company Common Stock who are nominees only may submit a separate Form of Election for each beneficial owner for whom such record holder is a nominee; provided, however, that on the request of Parent or Company, such record holder shall certify to the satisfaction of Parent or Company that such record holder holds such Parent Common Stock or Company Common Stock, as the case may be, as nominee for the beneficial owner thereof. For purposes of this Agreement, each beneficial owner for which a Form of Election is submitted will be treated as a separate holder of Parent Common Stock or Company Common Stock, as the case may be, subject, however, to the immediately preceding sub-paragraph (ii) dealing with joint Forms of Election and the immediately following sub-paragraph (iii) dealing with dividend reinvestment plans.

(iv) Any dividend reinvestment plan, employee stock ownership plan or similar plan of the Company may be treated as a single holder of Company Common Stock or Parent Common Stock for the purposes of Section 2.02(e).

(v) As soon as reasonably practicable after the Merger Effective Time, the Exchange Agent shall mail to each holder of record of a certificate or certificates that immediately prior to the Exchange Effective Time represented outstanding shares of Parent Common Stock that were converted into the right to receive Exchange Consideration (the "Parent Certificates") or that immediately prior to the Merger Effective Time represented outstanding shares of Company Common Stock that were converted into the right to receive Merger Consideration (the "Company Certificates" and, together with the Parent Certificates, the "Certificates"), in each case, pursuant to Section 2.01, (i) a letter of transmittal (which shall specify that delivery shall be effected, and risk of loss and title to

the Certificates shall pass, only upon delivery of the Certificates to the Exchange Agent and shall be in such form and have such other provisions as Parent and the Company may reasonably specify) and (ii) instructions for use in effecting the surrender of the Certificates in exchange for Exchange Consideration or Merger Consideration, as the case may be.

(vi) With respect to properly made elections in accordance with Section 2.02(b)(i), upon surrender of a Certificate for cancelation to the Exchange Agent, together with such letter of transmittal, duly executed, and such other documents as may reasonably be required by the Exchange Agent, the holder of such Certificate shall be entitled to receive in exchange therefor Parent Cash Consideration or Company Cash Consideration and a certificate representing that number of whole shares of Newco Common Stock (together with cash in lieu of fractional shares), in each case, that such holder has the right to receive pursuant to the provisions of this Article II, and the Certificate so surrendered shall forthwith be canceled. Until such time as a certificate representing Newco Common Stock is issued to or at the direction of the holder of a surrendered Company Certificate or Parent Certificate, such Newco Common Stock shall be deemed not outstanding and shall not be entitled to vote on any matter. In the event of a transfer of ownership of Parent Common Stock or Company Common Stock that is not registered in the transfer records of Parent or the Company, as the case may be, payment may be made and a certificate representing the appropriate number of shares of Newco Common Stock may be issued to a person other than the person in whose name the Certificate so surrendered is registered, if such Certificate shall be properly endorsed or otherwise be in proper form for transfer and the person requesting such payment shall pay any transfer or other taxes required by reason of such payment or the issuance of shares of Newco Common Stock to a person other than the registered holder of such Certificate or establish to the satisfaction of Newco that such tax has been paid or is not applicable. Subject to Sections 11.65 and 11.70 of the IBCA (in the case of a Company Certificate) or Subchapter D of Chapter 15 of the PBCL (in the case of Parent Certificates) until surrendered as contemplated by this Section 2.02, each Company Certificate or Parent Certificate shall be deemed at any time after the Merger

Effective Time or Exchange Effective Time, as applicable, to represent only the right to receive upon such surrender Merger Consideration or Exchange Consideration, as applicable, as contemplated by this Section 2.02. No interest shall be paid or accrue on any cash payable, whether in respect of Exchange Consideration, Merger Consideration, dividends or otherwise, upon surrender of any Certificate.

(c) Distributions with Respect to Unexchanged Shares. No dividends or other distributions with respect to Newco Common Stock with a record date after the Merger Effective Time shall be paid to the holder of any unsurrendered Company Certificate or Parent Certificate with respect to the shares of Newco Common Stock issuable upon surrender thereof, and no cash payment in lieu of fractional shares shall be paid to any such holder pursuant to Section 2.02(e), until the surrender of such certificate in accordance with this Article II. Subject to Applicable Law, following surrender of any such Certificate, there shall be paid to the holder of the certificate representing whole shares of Newco Common Stock issued in exchange therefor, without interest, (i) at the time of such surrender, the amount of any cash payable in lieu of a fractional share of Newco Common Stock to which such holder is entitled pursuant to Section 2.02(e) and the amount of dividends or other distributions with a record date after the Merger Effective Time theretofore paid with respect to such whole shares of Newco Common Stock, and (ii) at the appropriate payment date, the amount of dividends or other distributions with a record date after the Merger Effective Time but prior to such surrender and a payment date subsequent to such surrender payable with respect to such whole shares of Newco Common Stock.

(d) No Further Ownership Rights in Parent Common Stock or Company Common Stock. The Exchange Consideration and Merger Consideration issued (and paid) in accordance with the terms of this Article II upon conversion and exchange of any shares of Parent Common Stock or Company Common Stock, as the case may be, shall be deemed to have been issued (and paid) in full satisfaction of all rights pertaining to such shares of Parent Common Stock or Company Common Stock, subject, however, to (i) the Surviving Corporation's obligations to pay or provide for the rights

of dissenters and (ii) the Surviving Corporation's obligation to pay any dividends or make any other distributions with a record date prior to the Merger Effective Time that may have been declared or made by the Parent on such shares of Parent Common Stock or the Company on such shares of Company Common Stock, respectively, in accordance with the terms of this Agreement or prior to the date of this Agreement and which remain unpaid at the Merger Effective Time, and after the Merger Effective Time there shall be no further registration of transfers on the stock transfer books of the Surviving Corporation of shares of Parent Common Stock or Company Common Stock that were outstanding immediately prior to the Merger Effective Time. If, after the Merger Effective Time, any certificates formerly representing shares of Parent Common Stock or Company Common Stock, as the case may be, are presented to the Surviving Corporation or the Exchange Agent for any reason, they shall be canceled and exchanged as provided in this Article II.

(e) No Fractional Shares. (i) No certificates or scrip representing fractional shares of Newco Common Stock shall be issued upon the conversion of Company Common Stock pursuant to Section 2.01, and such fractional share interests shall not entitle the owner thereof to vote or to any rights of a holder of Newco Common Stock. For purposes of this Section 2.02(e), all fractional shares to which a single record holder would be entitled shall be aggregated and calculations shall be rounded to three decimal places.

(ii) As promptly as practicable following the Merger Effective Time, the Exchange Agent shall determine the excess of (A) the number of shares of Newco Common Stock delivered to the Exchange Agent by Newco pursuant to Section 2.02(a) over (B) the aggregate number of whole shares of Newco Common Stock to be issued to holders of Company Common Stock pursuant to Section 2.02(b) (such excess being herein called the "Excess Shares"). As soon after the Merger Effective Time as practicable, the Exchange Agent, as agent for the holders of Company Common Stock, shall sell the Excess Shares at then prevailing prices on the New York Stock Exchange (the "NYSE"), all in the manner provided in Section 2.02(e)(iii).

(iii) The sale of the Excess Shares by the

Exchange Agent shall be executed on the NYSE through one or more member firms of the NYSE and shall be executed in round lots to the extent practicable. The proceeds from such sale or sales available for distribution to the holders of Company Common Stock shall be reduced by transfer taxes in connection with such sale or sales of the Excess Shares. Until the net proceeds of such sale or sales have been distributed to the holders of Company Common Stock entitled thereto, the Exchange Agent shall hold such proceeds in trust for such holders of Company Common Stock (the "Common Shares Trust"). The Exchange Agent shall determine the portion of the Common Shares Trust to which each holder of a Certificate shall be entitled, if any, by multiplying the amount of the aggregate net proceeds comprising the Common Shares Trust by a fraction, the numerator of which is the amount of the fractional share interest in a share of Newco Common Stock to which such holder is entitled under Section 2.01(b)(ii) (or would be entitled but for this Section 2.02(e)) and the denominator of which is the aggregate amount of fractional interests in a share of Newco Common Stock to which all holders of Company Common Stock are entitled.

(iv) As soon as practicable after the determination of the amount of cash, if any, to be paid to holders of Company Common Stock in lieu of any fractional share interests in Newco Common Stock, the Exchange Agent shall make available such amounts, without interest, to such holders entitled to receive such cash.

(f) Termination of Exchange Fund. Any portion of the Exchange Fund that remains undistributed to the holders of Parent Common Stock or Company Common Stock for six months after the Merger Effective Time shall be delivered to Newco, upon demand, and any holder of Parent Common Stock or Company Common Stock who has not theretofore complied with this Article II shall thereafter look only to Newco for payment of its claim for Exchange Consideration or Merger Consideration, as the case may be, and any dividends or distributions with respect to Newco Common Stock as contemplated by Section 2.02(c).

(g) No Liability. None of Parent, Newco, the Company or the Exchange Agent shall be liable to any person in respect of any shares of Newco Common Stock (or dividends

or distributions with respect thereto) or cash from the Exchange Fund delivered to a public official pursuant to any applicable abandoned property, escheat or similar Applicable Law. If any Company Certificate or Parent Certificate has not been surrendered prior to five years after the Merger Effective Time (or immediately prior to such earlier date on which Merger Consideration or Exchange Consideration or any dividends or distributions with respect to Newco Common Stock as contemplated by Section 2.02(c)(i) in respect of such Company Certificate or Parent Certificate would otherwise escheat to or become the property of any Governmental Entity (as defined in Section 3.05)), any such shares, cash, dividends or distributions in respect of such Company Certificate shall, to the extent permitted by Applicable Law, become the property of the Surviving Corporation, free and clear of all claims or interest of any person previously entitled thereto.

(h) Investment of Exchange Fund. The Exchange Agent shall invest any cash included in the Exchange Fund, as directed by Newco, on a daily basis. Any interest and other income resulting from such investments shall be paid to Newco.

(i) Withholding Rights. Newco shall be entitled to deduct and withhold from the consideration otherwise payable to any holder of Parent Common Stock or Company Common Stock pursuant to this Agreement such amounts as may be required to be deducted and withheld with respect to the making of such payment under the Code, or under any provision of state, local or foreign tax law. To the extent that amounts are so withheld and paid over to the appropriate taxing authority, Newco will be treated as though it withheld an appropriate amount of the type of consideration otherwise payable pursuant to this Agreement to any holder of Parent Common Stock or Company Common Stock, sold such consideration for an amount of cash equal to the fair market value of such consideration at the time of such deemed sale and paid such cash proceeds to the appropriate taxing authority.

(j) Determination of Proper Elections. Without limiting the generality or effect of any other provision hereof, the Exchange Agent will have discretion to determine whether or not elections have been properly made or revoked

pursuant to this Article II with respect to Parent Common Stock or Company Common Stock and when elections and revocations were received by it. If the Exchange Agent determines that any election was not properly made with respect to Parent Company Stock or Company Common Stock, such Parent Company Stock or Company Common Stock will be treated by the Exchange Agent as, and for all purposes of this Agreement will be deemed to be, Parent Non-Election Shares or Company Non-Election Shares, as the case may be, at the Exchange Effective Time or the Merger Effective Time, as the case may be. The Exchange Agent will also make computations as to the allocation and proration contemplated by this Article II and any such computation will be conclusive and binding. The Exchange Agent may, with the mutual agreement of Parent and the Company, make such equitable changes in the procedures set forth herein for the implementation of the elections provided for in this Article II as it determines to be necessary or desirable to effect fully such elections.

Section 2.03. Certain AdjustmentsSection 2.03. Certain Adjustments. (a) Parent and the Company may, upon mutual agreement, and in order to prevent the failure of the closing conditions set forth in Section 7.02(d) and 7.03(d) or to ensure that the Merger and the other Transactions are treated as a purchase of the Company by Parent under GAAP, change the Parent Cash Number and the Parent Stock Number and the Company Cash Number and the Company Stock Number (the "Reallocation") so long as the sum of the (i) product of the Parent Cash Number and the Parent Cash Consideration and (ii) the product of the Company Cash Number and the Company Cash Consideration, does not change as a result of the Reallocation.

(b) If after the date hereof and on or prior to the Closing Date, the outstanding shares of Parent Common Stock or Company Common Stock shall be changed into a different number of shares by reason of any reclassification, recapitalization, split-up, combination or exchange of shares, or any dividend payable in stock or other securities is declared thereon with a record date within such period, or any similar event shall occur, the Exchange Consideration and the Merger Consideration will be adjusted accordingly to provide to the holders of Parent Common Stock and Company Common Stock, respectively, the

same economic effect as contemplated by this Agreement prior to such reclassification, recapitalization, split-up, combination, exchange or dividend or similar event. This provision is not intended to affect the need for either party to obtain the other party's consent to take such an action under any other provision of this Agreement.

ARTICLE III

Representations and Warranties of the CompanyARTICLE III Representations and Warranties of the Company

The Company represents and warrants to Parent and Newco as follows:

SECTION 3.01. Organization, Standing and PowerSECTION 3.01. Organization, Standing and Power. Each of the Company and each of its subsidiaries (the "Company Subsidiaries") is duly organized, validly existing and in good standing (with respect to jurisdictions which recognize the concept of good standing) under the laws of the jurisdiction in which it is organized and has full corporate power and authority and possesses all governmental franchises, licenses, permits, authorizations and approvals necessary to enable it to own, lease or otherwise hold its properties and assets and to conduct its businesses as conducted as of the date of this Agreement, other than such franchises, licenses, permits, authorizations and approvals the lack of which, individually or in the aggregate, has not had and could not reasonably be expected to have a Material Adverse Effect on the Company (a "Company Material Adverse Effect"). The Company and each Company Subsidiary is duly qualified to do business in each jurisdiction where the nature of its business or their ownership or leasing of its properties make such qualification necessary, other than such qualifications the lack of which, individually or in the aggregate, has not had and could not reasonably be expected to have a Company Material Adverse Effect. The Company has made available to Parent true and complete copies of the articles of incorporation of the Company, as amended to the date of this Agreement (as so amended, the "Company Charter"), and the By-laws of the Company, as amended to the date of this Agreement (as so amended, the "Company By-laws"), and the comparable charter or

organizational documents of each Company Subsidiary, in each case as amended through the date of this Agreement.

SECTION 3.02. Company Subsidiaries; Equity InterestsSECTION 3.02. Company Subsidiaries; Equity Interests. (a) The letter, dated as of the date of this Agreement, from the Company to Parent and Newco (the "Company Disclosure Letter") lists each Company Subsidiary and its jurisdiction of organization and specifies each of the Company Subsidiaries that is (i) a "public-utility company", a "holding company", a "subsidiary company", an "affiliate" of any public-utility company, an "exempt wholesale generator" or a "foreign utility company" within the meaning of Section 2(a)(5), 2(a)(7), 2(a)(8), 2(a)(11), 32(a)(1) or 33(a)(3) of the Public Utility Holding Company Act of 1935, as amended ("PUHCA"), respectively, (ii) a "public utility" within the meaning of Section 201(e) of the Federal Power Act (the "Power Act") or (iii) a "qualifying facility" within the meaning of the Public Utility Regulatory Policies Act of 1978, as amended ("PURPA"), or that owns such a qualifying facility. All the outstanding shares of capital stock of each Company Subsidiary have been validly issued and are fully paid and nonassessable and, except as set forth in the Company Disclosure Letter, are owned by the Company, by another Company Subsidiary or by the Company and another Company Subsidiary, free and clear of all pledges, liens, charges, mortgages, encumbrances and security interests of any kind or nature whatsoever (collectively, "Liens").

(b) Except for its interests in the Company Subsidiaries and except for the ownership interests set forth in the Company Disclosure Letter or interests acquired after the date of this Agreement without violating any covenant of this Agreement, the Company does not own, directly or indirectly, any capital stock, membership interest, partnership interest, joint venture interest or other equity interest with a fair market value as of the date of this Agreement in excess of $500,000 in any person, as reasonably determined by the Company.

SECTION 3.03. Capital StructureSECTION 3.03. Capital Structure. (a) The authorized capital stock of the Company consists of 400,000,000 shares of Company Common Stock. At the close of business on August 31, 1999, (i) 217,411,003 shares of Company Common Stock were issued

and outstanding, (ii) 264,406 shares of Company Common Stock were held by the Company in its treasury, (iii) 4,625,691 shares of Company Common Stock were subject to outstanding Company Employee Stock Options (as defined in Section 6.04) and 4,700,637 additional shares of Company Common Stock were reserved for issuance pursuant to the Company Stock Plans (as defined in Section 6.04), (iv) 368,171 shares of Company Common Stock were reserved for issuance pursuant to the Company's Employee Stock Purchase Plan, (v) 164,845 shares of Company Common Stock were reserved for issuance pursuant to the Company's 1996 Directors' Fee Plan, (vi) 88,526 shares of Company Common Stock were subject to exchange for the common stock, $12.50 par value of ComEd, and (vii) 400,000 shares of Company Common Stock were reserved for issuance in connection with the rights (the "Company Rights") issued pursuant to the Rights Agreement dated as of February 2, 1998 (as amended from time to time, the "Company Rights Agreement"), between the Company and First Chicago Trust Company of New York, as Rights Agent.

(b) Except as set forth in clause (a) of this Section 3.03 or in the Company Disclosure Letter, at the close of business on August 31, 1999, no shares of capital stock or other voting securities of the Company were issued, reserved for issuance or outstanding.

(c) All outstanding shares of Company Common Stock are, and all such shares that may be issued prior to the Merger Effective Time will be when issued, duly authorized, validly issued, fully paid and nonassessable and not subject to or issued in violation of any purchase option, call option, right of first refusal, preemptive right, subscription right or any similar right under any provision of the IBCA, the Company Charter, the Company By-laws or any Contract (as defined in Section 3.05) to which the Company is a party or otherwise bound.

(d) There are not any bonds, debentures, notes or other indebtedness of the Company having the right to vote (or convertible into, or exchangeable for, securities having the right to vote) on any matters on which holders of Company Common Stock may vote ("Voting Company Debt").

(e) Except as set forth in clause (a) of this Section 3.03 or in the Company Disclosure Letter, as of the

date of this Agreement, there are not any options, warrants, rights, convertible or exchangeable securities, "phantom" stock rights, stock appreciation rights, stock-based performance units, commitments, Contracts, arrangements or undertakings of any kind to which the Company or any Company Subsidiary is a party or by which any of them is bound (i) obligating the Company or any Company Subsidiary to issue, deliver or sell, or cause to be issued, delivered or sold, additional shares of capital stock or other equity interests in, or any security convertible or exercisable for or exchangeable into any capital stock of or other equity interest in, the Company or of any Company Subsidiary or any Voting Company Debt or (ii) obligating the Company or any Company Subsidiary to issue, grant, extend or enter into any such option, warrant, call, right, security, commitment, Contract, arrangement or undertaking.

(f) As of the date of this Agreement, except as described in the Company Disclosure Letter, there are not any outstanding contractual obligations of the Company or any Company Subsidiary to repurchase, redeem or otherwise acquire any shares of capital stock of the Company or any Company Subsidiary.

(g) The Company has delivered to Parent a complete and correct copy of the Company Rights Agreement, as amended to the date of this Agreement.

SECTION 3.04. Authority; Execution and Delivery; EnforceabilitySECTION 3.04. Authority; Execution and Delivery; Enforceability. (a) The Company has all requisite corporate power and authority to execute and deliver this Agreement and to consummate the Transactions. The execution and delivery by the Company of this Agreement and the consummation by the Company of the Transactions have been duly authorized by all necessary corporate action on the part of the Company, subject, in the case of the Second Step Merger, to receipt of the Company Shareholder Approval (as defined in Section 3.04(c)). The Company has duly executed and delivered this Agreement, and this Agreement constitutes its legal, valid and binding obligation, enforceable against it in accordance with its terms.

(b) The Board of Directors of the Company (the "Company Board"), at a meeting duly called and held, duly

and unanimously adopted resolutions (i) approving this Agreement, the Merger and the other Transactions, (ii) determining that the terms of the Second Step Merger and the other Transactions are fair to and in the best interests of the Company and its shareholders and (iii) directing that this Agreement be submitted to a vote of the Company's shareholders and recommending that they approve this Agreement. Such resolutions are sufficient to render inapplicable to Parent and Newco and this Agreement, to the extent otherwise applicable, the Merger and the other Transactions the provisions of Sections 7.85 and 11.75 of the IBCA. To the Company's knowledge, no other state takeover statute or similar statute or regulation applies or purports to apply to the Company with respect to this Agreement, the Second Step Merger or any other Transaction.

(c) The only vote of holders of any class or series of Company securities necessary to approve and adopt this Agreement and the Second Step Merger is the approval of this Agreement by the holders of at least two-thirds of the shares of outstanding Company Common Stock entitled to vote (the "Company Shareholder Approval"). The affirmative vote of the holders of Company Common Stock, or any of them, is not necessary to consummate any Transaction other than the Second Step Merger.

SECTION 3.05. No Conflicts; ConsentsSECTION 3.05. No Conflicts; Consents. (a) Except as set forth in the Company Disclosure Letter, the execution and delivery by the Company of this Agreement does not, and the consummation of the Merger and the other Transactions and compliance with the terms hereof and thereof will not, conflict with, or result in any violation of or default (with or without notice or lapse of time, or both) under, or give rise to a right of termination, consent, approval, cancelation or acceleration of any obligation or to loss of a material benefit under, or to increased, additional, accelerated or guaranteed rights or entitlements of any person under, or result in the creation of any Lien upon any of the properties or assets of the Company or any Company Subsidiary under, any provision of (i) the Company Charter, the Company By-laws or the comparable charter or organizational documents of any Company Subsidiary, (ii) any loan or credit agreement, contract, lease, license, indenture, note, bond, agreement, permit, concession,

franchise or other instrument (a "Contract") to which the Company or any Company Subsidiary is a party or by which any of their respective properties or assets is bound or (iii) subject to the filings and other matters referred to in Section 3.05(b), any judgment, order or decree ("Judgment") or statute, law, ordinance, rule or regulation ("Applicable Law") or writ, permit or license applicable to the Company or any Company Subsidiary or their respective properties or assets (other than immaterial consents, approvals, licenses, permits, orders, authorizations, registrations, declarations or filings, including with respect to communications systems, zoning, name changes, occupancy and similar routine regulatory approvals), other than, in the case of clauses (ii) and (iii) above, any such items that, individually or in the aggregate, have not had and could not reasonably be expected to have a Company Material Adverse Effect.

(b) No consent, approval, license, permit, order or authorization (other than immaterial consents, approvals, licenses, permits, orders, authorizations, registrations, declarations or filings, including with respect to communications systems, zoning, name changes, occupancy and similar routine regulatory approvals) ("Consent") of, action by or in respect of, or registration, declaration or filing with, or notice to, any Federal, state, local or foreign government or any court of competent jurisdiction, administrative or regulatory agency or commission or other governmental authority or instrumentality or any non-governmental self-regulatory agency, commission or authority, domestic or foreign (a "Governmental Entity") is required to be obtained or made by or with respect to the Company or any Company Subsidiary in connection with the execution, delivery and performance of this Agreement or the consummation of the Transactions, other than (i) compliance with and filings under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"), (ii) the filing with the Securities and Exchange Commission (the "SEC") of (A) a proxy or information statement relating to the approval of this Agreement by the Company's shareholders (the "Proxy Statement"), and (B) such reports under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as may be required in connection with this Agreement, the Second Step Merger and the other Transactions, (iii) the filing of the Illinois Articles of

Merger with, and the issuance of a certificate of merger by, the Secretary of State of the State of Illinois, the filing of the Pennsylvania Articles of Merger with the Department of State of Pennsylvania and the filing of appropriate documents with the relevant authorities of the other jurisdictions in which the Company is qualified to do business, (iv) notice to, and the consent and approval of, the Federal Energy Regulatory Commission ("FERC") under the Power Act, (v) notice to, and the consent and approval of, the Nuclear Regulatory Commission (the "NRC") under the Atomic Energy Act of 1954, as amended (the "Atomic Energy Act"), (vi) notice to the Illinois Commerce Commission (the "ICC"), (vii) the consents, filings and approvals required under PUHCA, (viii) compliance with and such filings as may be required under applicable Environmental Laws (as defined in Section 3.17), (ix) such filings as may be required in connection with the taxes described in Section 6.09 and (x) such other items as are set forth in the Company Disclosure Letter (collectively, whether or not legally required to be obtained, the "Company Required Statutory Approvals").

(c) The Company and the Company Board have taken all action necessary to (i) render the Company Rights inapplicable to this Agreement, the Merger and the other Transactions and (ii) ensure that (A) neither Parent nor any of its affiliates or associates is or will become an "Acquiring Person" (as defined in the Company Rights Agreement) by reason of this Agreement, the Merger or any other Transaction, (B) a "Distribution Date" (as defined in the Company Rights Agreement) shall not occur by reason of this Agreement, the Merger or any other Transaction and (C) the Company Rights shall expire immediately prior to the Merger Effective Time.

SECTION 3.06. SEC Documents; Undisclosed LiabilitiesSECTION 3.06. SEC Documents; Undisclosed Liabilities. The Company and the Company Subsidiaries have filed all reports, schedules, forms, statements and other documents required to be filed by the Company or any Company Subsidiary with the SEC since January 1, 1998 (the "Company SEC Documents"). Each Company SEC Document complied in all material respects as of its respective date with the requirements of the Exchange Act or the Securities Act of 1933, as amended (the "Securities Act"), as the case may be, and the rules and regulations of the SEC promulgated

thereunder applicable to such Company SEC Document, and except to the extent that information contained in any Company SEC Document has been revised or superseded by a later filed Company SEC Document, does not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. The consolidated financial statements of the Company included in the Company SEC Documents comply as to form in all material respects with applicable accounting requirements and the published rules and regulations of the SEC with respect thereto, have been prepared in accordance with generally accepted accounting principles ("GAAP") (except, in the case of unaudited statements, as permitted by Form 10-Q of the SEC) applied on a consistent basis during the periods involved (except as may be indicated in the notes thereto) and fairly present the consolidated financial position of the Company and its consolidated subsidiaries as of the dates thereof and the consolidated results of their operations and cash flows for the periods then ended (subject, in the case of unaudited statements, to normal year-end audit adjustments). Except as set forth in the Filed Company SEC Documents (as defined in Section 3.08) or the Company Disclosure Letter or incurred after the date hereof in the usual, regular and ordinary course of business in substantially the same manner as previously conducted and not prohibited by this Agreement, neither the Company nor any Company Subsidiary has any liabilities or obligations of any nature (whether accrued, absolute, contingent or otherwise) required by GAAP to be set forth on a consolidated balance sheet of the Company and its consolidated subsidiaries or in the notes thereto and that, individually or in the aggregate, could reasonably be expected to have a Company Material Adverse Effect.

SECTION 3.07. Information SuppliedSECTION 3.07. Information Supplied. None of the information supplied or to be supplied by the Company for inclusion or incorporation by reference in (i) the registration statement on Form S-4 to be filed with the SEC by Newco in connection with the Share Issuance (the "Form S-4") will, at the time the Form S-4 is filed with the SEC, at any time it is amended or supplemented or at the time it becomes effective under the Securities Act, contain any untrue statement of a material

fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading, or (ii) the Proxy Statement will, at the date it is first mailed to the Company's shareholders or Parent's shareholders or at the time of the Company Shareholders Meeting (as defined in Section 6.01) or the Parent Shareholders Meeting (as defined in Section 6.01), contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading. The Proxy Statement will comply as to form in all material respects with the requirements of the Exchange Act and the rules and regulations thereunder, except that no representation is made by the Company with respect to statements made or incorporated by reference therein based on information supplied by or on behalf of Parent or Newco for inclusion or incorporation by reference in the Proxy Statement.

SECTION 3.08. Absence of Certain Changes or EventsSECTION 3.08. Absence of Certain Changes or Events. Except as disclosed in the Company SEC Documents filed and publicly available prior to the date of this Agreement (the "Filed Company SEC Documents") or in the Company Disclosure Letter:

(a) since December 31, 1998, there has not been any event, change, effect or development that, individually or in the aggregate, has had or could reasonably be expected to have a Company Material Adverse Effect, other than events, changes, effects and developments relating to the economy in general or to the Company's industry in general and not specifically relating to the Company or any Company Subsidiary; and

(b) from December 31, 1998 to the date of this Agreement, the Company has conducted its business only in the ordinary course, and during such period there has not been:

(i) any declaration, setting aside or payment of any dividend or other distribution (whether in cash, stock or property) with respect to any Company Common Stock or any repurchase for value by the Company of any

Company Common Stock;

(ii) any split, combination or reclassification of any Company Common Stock or any issuance or the authorization of any issuance of any other securities in respect of, in lieu of or in substitution for shares of Company Common Stock; or

(iii) any change in accounting methods, principles or practices by the Company or any Company Subsidiary materially affecting the consolidated assets, liabilities or results of operations of the Company, except insofar as may have been required by a change in GAAP.

SECTION 3.09. TaxesSECTION 3.09. Taxes.

(a) Each of the Company and each Company Subsidiary has timely filed, or has caused to be timely filed on its behalf, all Tax Returns required to be filed by it (or requests for extensions to file such Tax Returns have been timely filed and granted and have not expired), and all such Tax Returns are true, complete and accurate, except to the extent any failure to file or any inaccuracies in any filed Tax Returns would not, individually or in the aggregate, have a Company Material Adverse Effect. All Taxes shown to be due on such Tax Returns, or otherwise owed by the Company or any Company Subsidiary, have been timely paid, except to the extent that any failure to pay, individually or in the aggregate, has not had and could not reasonably be expected to have a Company Material Adverse Effect.

(b) Except as set forth in the Company Disclosure Letter, the most recent financial statements contained in the Filed Company SEC Documents reflect an adequate reserve for all current Taxes payable by the Company and the Company Subsidiaries (in addition to any reserve for deferred Taxes established to reflect timing differences between book and Tax income) for all Taxable periods and portions thereof through the date of such financial statements. Except as set forth in the Company Disclosure Letter, no deficiency with respect to any Taxes has, to the best knowledge of the Company, been proposed, asserted or assessed against the Company or any Company Subsidiary, and no requests for waivers of the time to assess any such Taxes are pending, except to the extent any such deficiency or request for

waiver, individually or in the aggregate, has not had and could not reasonably be expected to have a Company Material Adverse Effect.

(c) The Federal income Tax Returns of the Company and each Company Subsidiary consolidated in such Returns have been examined by and settled with the United States Internal Revenue Service for all years through 1995. Except as set forth in the Company Disclosure Letter, all material assessments for Taxes due with respect to such completed and settled examinations or any concluded litigation have been fully paid.

(d) There are no material Liens for Taxes (other than for current Taxes not yet due and payable) on the assets of the Company or any Company Subsidiary. Except as set forth in the Company Disclosure Letter, neither the Company nor any Company Subsidiary is bound by any agreement with respect to Taxes.

(e) The Company and each Company Subsidiary have complied with all applicable statutes, laws, ordinances, rules and regulations relating to the payment and withholding of taxes (including withholding of taxes pursuant to Sections 1441, 1442, 3121 and 3402 of the Code or similar provisions under any Federal, state or local laws, domestic and foreign) and have, within the time and in the manner prescribed by law, withheld from and paid over to the proper governmental authorities all amounts required to be so withheld and paid over under applicable laws, except to the extent that any failure to withhold or to pay, individually or in the aggregate, has not had and could not reasonably be expected to have a Company Material Adverse Effect.

(f) The Company knows of no fact and neither the Company nor any Company Subsidiary has taken or agreed to take any action that could reasonably be expected to prevent (i) the Merger from constituting transactions described in Section 351 of the Code or (ii) the Second Step Merger from constituting a transaction described in Section 368(a) of the Code.

(g) For purposes of this Agreement:

"Taxes" includes all forms of taxation, whenever created or imposed, and whether of the United States or elsewhere, and whether imposed by a local, municipal, state, foreign, Federal or other Governmental Entity, or in connection with any agreement with respect to Taxes, including all interest, penalties and additions imposed with respect to such amounts.

"Tax Return" means all Federal, state, local, provincial and foreign Tax returns, declarations, statements, reports, schedules, forms and information returns and any amended Tax return required to be filed with any taxing authority with respect to Taxes.

SECTION 3.10. Absence of Changes in Benefit PlansSECTION 3.10. Absence of Changes in Benefit Plans. Except as disclosed in the Company Disclosure Letter, from December 31, 1998 to the date of this Agreement, there has not been any adoption or amendment in any material respect by the Company or any Company Subsidiary of (a) any collective bargaining agreements, (b) any bonus, pension, profit sharing, deferred compensation, incentive compensation, stock ownership, stock purchase, stock option, phantom stock, retirement, vacation, severance, disability, death benefit, hospitalization, medical or other plan, program, policy, arrangement or understanding (whether or not legally binding) providing benefits to any current or former employee, officer or director of the Company or any Company Subsidiary or any beneficiary or dependent thereof, that is sponsored or maintained by the Company or any Company Subsidiary or to which the Company or any Company Subsidiary contributes or is obligated to contribute (collectively, "Company Benefit Plans") or (c) any Company Employment Arrangements (as defined herein). Except as disclosed in the Company Disclosure Letter, as of the date of this Agreement there are not any employment, consulting, indemnification, change-of-control, severance or termination agreements or arrangements between the Company or any Company Subsidiary and any current or former employee, officer or director of the Company or any Company Subsidiary (collectively, the "Company Employment Arrangements").

SECTION 3.11. ERISA Compliance; Excess Parachute PaymentsSECTION 3.11. ERISA Compliance; Excess Parachute Payments. (a) The Company Disclosure Letter includes a

complete list of all material Company Benefit Plans and Company Employment Arrangements as of the date of this Agreement. With respect to each Company Benefit Plan (other than a multiemployer plan within the meaning of Section 4001(a)(3) of ERISA) and Company Employment Arrangement, the Company has delivered to Parent true, complete and correct copies of (i) each such Company Benefit Plan or Company Employment Arrangement (or, in the case of any unwritten plan or arrangement, a description thereof), (ii) the most recent annual report on the applicable Form 5500 series filed with the Internal Revenue Service (if any such report was required), including all schedules and attachments thereto, (iii) the most recent summary plan description (if a summary plan description is required) and all summaries of material modifications thereto, (iv) each trust agreement, group annuity contract or other funding vehicle relating to any such Company Benefit Plan or Company Employment Arrangement, (v) the most recent actuarial report or valuation relating thereto and (vi) the most recent determination letters issued by the Internal Revenue Service with respect to Company Benefit Plans that are intended to be qualified and exempt from Federal income taxes under Sections 401(a) and 501(a), respectively, of the Code ("Qualified Plans") and letters of recognition of exemption with respect to any Company Benefit Plan or related trust that is intended to meet the requirements of Section 501(c)(9) of the Code.

(b) With respect to the Company Benefit Plans and Company Employment Arrangements, individually and in the aggregate, no event has occurred and, to the knowledge of the Company, there exists no condition or set of circumstances, in connection with which the Company or any Company Subsidiary could be subject to any liability that has had or could reasonably be expected to have a Company Material Adverse Effect (except liability for benefits claims and funding obligations payable in the ordinary course) under the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), the Code or any other applicable law. For purposes of this Section 3.11(b), the term "Company Benefit Plan" shall also include any employee benefit plan within the meaning of Section 3(3) of ERISA that, within the last six years, was sponsored or maintained by any entity which would be treated under Section 414 of the Code as a single employer with the Company or any

Company Subsidiary or to which any such entity contributed or was obligated to contribute.

(c) Each Company Benefit Plan and each Company Employment Arrangement has been administered in accordance with its terms except for any failures so to administer any Company Benefit Plan or Company Employment Arrangement as have not had and could not reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect. The Company, all Company Subsidiaries and all the Company Benefit Plans and Company Employment Arrangements are in compliance with the applicable provisions of ERISA, the Code and all other applicable laws and the rules and regulations thereunder and the terms of all applicable collective bargaining agreements, except for any failures to be in such compliance as have not had and could not reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect. Except as disclosed in the Company Disclosure Letter, there are no pending or, to the knowledge of the Company, threatened or anticipated claims under or with respect to any Company Benefit Plan or Company Employment Arrangement by or on behalf of any current or former employee, officer or director, or dependent or beneficiary thereof, or otherwise (other than routine claims for benefits).

(d) Except as disclosed in the Company Disclosure Letter, (i) no current or former employee, officer or director of the Company or any Company Subsidiary will be entitled to any additional rights or benefits or any acceleration of the time of payment or vesting of any benefits under any Company Benefit Plan or Company Employment Arrangement, and no trustee under any "rabbi trust", or similar arrangement maintained in connection with any Company Benefit Plan or Company Employment Arrangement will be entitled to any payment, as a result (either alone or upon the occurrence of any additional or further acts or events) of the execution of this Agreement or the consummation, announcement or other actions relating to the Transactions and (ii) no amount payable to any current or former employee, officer or director of the Company or any Company Subsidiary will fail to be deductible by reason of Section 280G of the Code.

(e) Each Company Benefit Plan intended to be a

Qualified Plan has received a favorable determination letter from the Internal Revenue Service that it is so qualified and nothing has occurred since the date of such letter that could reasonably be expected to affect the qualified status of such Company Benefit Plan.

(f) The aggregate accumulated benefit obligations of each Company Benefit Plan subject to Title IV of ERISA (as of the date of the most recent actuarial valuation prepared for such Company Benefit Plan) do not exceed the fair market value of the assets of such plan (as of the date of such valuation).

(g) All contributions and other payments required to have been made for any completed historical period by the Company or any Company Subsidiary to any Company Benefit Plan or Company Employment Arrangement (or to any person pursuant to the terms thereof) have been timely made or paid in full, or, to the extent not required to be made or paid for such period, have been reflected in the consolidated financial statements of the Company.

(h) Except as disclosed in the Company Disclosure Letter, no Company Benefit Plan is a multiemployer plan within the meaning of Section 4001(a)(3) of ERISA, and none of the Company or any Company Subsidiary has, at any time during the last six years, contributed to or been obligated to contribute to any such multiemployer plan. For purposes of the representations and warranties made in the last sentence of Section 3.11(c) and in Sections 3.11(e) and (f), the term "Company Benefit Plan" shall be deemed to exclude any such multiemployer plan.

SECTION 3.12. LitigationSECTION 3.12. Litigation. Except as disclosed in the Filed Company SEC Documents or in the Company Disclosure Letter, there is no suit, action or proceeding pending or, to the knowledge of the Company, threatened against the Company or any Company Subsidiary that, individually or in the aggregate, has had or could reasonably be expected to have a Company Material Adverse Effect, nor is there any Judgment outstanding against the Company or any Company Subsidiary that has had or could reasonably be expected to have a Company Material Adverse Effect.

SECTION 3.13. Compliance with Applicable Laws; PermitsSECTION 3.13. Compliance with Applicable Laws; Permits. (a) Except as disclosed in the Filed Company SEC Documents or in the Company Disclosure Letter, the Company and the Company Subsidiaries are in compliance with the terms of all Company Permits (as defined in Section 3.13(b)) and all Applicable Laws, except for instances of noncompliance that, individually and in the aggregate, have not had and could not reasonably be expected to have a Company Material Adverse Effect. This Section 3.13 does not relate to matters with respect to Taxes, which are the subject of Section 3.09, Environmental Laws, which are the subject of Section 3.17, benefits plans, which are the subject of Section 3.11 and the operation of nuclear power plants, which are the subject of Section 3.19.

(b) Except as disclosed in the Filed Company SEC Documents or in the Company Disclosure Letter, the Company and the Company Subsidiaries own or have sufficient rights and consents to use under existing franchises, permits, easements, leases, and license agreements (the "Company Permits") all properties, rights and assets necessary for the conduct of their business and operations as currently conducted, except where the failure to own or have sufficient rights to such properties, rights and assets, individually or in the aggregate, have not had and could not reasonably be expected to have a Company Material Adverse Effect. Except as provided in the Illinois Electric Customer Choice and Rate Relief Law of 1997, to the knowledge of the Company, no other private corporation can commence electric public utility operations in any part of the respective territories now served by the Company or any Company Subsidiary, without obtaining a certificate of public convenience and necessity from the applicable state utility commission.

SECTION 3.14. Brokers; Schedule of Fees and ExpensesSECTION 3.14. Brokers; Schedule of Fees and Expenses. No broker, investment banker, financial advisor or other person, other than Wasserstein Perella & Co. and Goldman Sachs & Co., the fees and expenses of which will be paid by the Company, is entitled to any broker's, finder's, financial advisor's or other similar fee or commission in connection with the Second Step Merger and the other Transactions based upon arrangements made by or on behalf of

the Company.

SECTION 3.15. Opinion of Financial AdvisorSECTION 3.15. Opinion of Financial Advisor. The Company has received the opinion of Wasserstein Perella & Co., dated the date of this Agreement, to the effect that, as of such date, the Company Merger Consideration is fair to the holders of Company Common Stock from a financial point of view, a signed copy of which opinion has been delivered to Parent.

SECTION 3.16. Year 2000SECTION 3.16. Year 2000. The Company SEC Documents fairly summarize the status of the Company's computer applications and components, modification or readiness plan, communications with suppliers and vendors, contingency plans and estimated cost of remediation as they relate to the Year 2000 issue. The Company has made available to Parent copies of all correspondence between the Company and its third party suppliers and vendors concerning their Year 2000 compliance.

SECTION 3.17. Environmental MattersSECTION 3.17. Environmental Matters. (a) Compliance. Except as set forth in the Filed Company SEC Documents or in the Company Disclosure Letter, the Company and each of the Company Subsidiaries is and has been in compliance with all applicable Environmental Laws (as defined below), except where the failure to so comply, individually or in the aggregate, has not had and could not reasonably be expected to have a Company Material Adverse Effect.

(b) Environmental Permits. Except as set forth in the Filed Company SEC Documents or in the Company Disclosure Letter, (i) the Company and each of the Company Subsidiaries has obtained or has applied for all Environmental Permits (as defined below) necessary for the construction of their facilities or the conduct of their operations, except where the failure to so obtain, individually or in the aggregate, has not had and could not reasonably be expected to have a Company Material Adverse Effect and (ii) all such Environmental Permits are in good standing or, where applicable, a renewal application has been timely filed and is pending agency approval, except where the failure of such Environmental Permits to be in good standing or to have filed a renewal application on a timely basis has not had and could not reasonably be

expected to have, individually or in the aggregate, a Company Material Adverse Effect.

(c) Environmental Claims. Except as set forth in the Filed Company SEC Documents or in the Company Disclosure Letter, there are no Environmental Claims (as defined below) that have had or could reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect, pending or, to the knowledge of the Company, threatened against the Company or any of the Company Subsidiaries.

(d) Releases. Except as set forth in the Filed Company SEC Documents or in the Company Disclosure Letter, there have been no Releases (as defined below) of any Hazardous Materials (as defined below) that could be reasonably likely to form the basis of any Environmental Claim against the Company or any of the Company Subsidiaries, except for any Environmental Claim which, individually or in the aggregate, has not had and could not reasonably be expected to have a Company Material Adverse Effect.

(e) Assumed and Retained Liabilities. Except as disclosed in the Filed Company SEC Documents or in the Company Disclosure Letter, none of the Company or the Company Subsidiaries has retained or assumed either contractually or by operation of law any liabilities or obligations that could reasonably be likely to form the basis for any Environmental Claim, which has had and could reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect.

(f) Definitions. As used in this Agreement:

(i) "Environmental Claims" means, in respect of any person, any and all administrative, regulatory or judicial actions, suits, orders, decrees, suits, demands, directives, claims, liens, investigations, proceedings or notices of noncompliance or violation by any person, alleging potential liability (including potential responsibility or liability for enforcement costs, investigatory costs, cleanup costs, governmental response costs, removal costs, remedial costs, mining restoration or rehabilitation costs, natural resources

damages, property damages, personal injuries or penalties) arising out of, based on or resulting from (A) the presence or Release of any Hazardous Materials at any location, whether or not owned, operated, leased or managed by such person; or (B) circumstances forming the basis of any violation or alleged violation of any Environmental Law or (C) any and all claims by any third party seeking damages, contribution, indemnification, cost recovery, compensation or injunctive relief resulting from the presence, Release of, or exposure to, any Hazardous Materials.

(ii) "Environmental Laws" means all federal, state, local and foreign laws (including international conventions, protocols and treaties), common law, rules, regulations, orders, decrees, judgments, binding agreements or Environmental Permits issued, promulgated or entered into by or with any Governmental Entity, relating to pollution or the environment (including ambient air, surface water, groundwater, land surface or subsurface strata), including laws and regulations relating to noise levels, nuclear operations, Releases of Hazardous Materials, or otherwise relating to the generation, manufacture, processing, distribution, use, treatment, storage, transport or handling of Hazardous Materials.

(iii) "Environmental Permits" means all permits, licenses, registrations and other governmental authorizations required under applicable Environmental Laws.

(iv) "Hazardous Materials" means (A) any petroleum or petroleum products, radioactive materials or wastes, spent nuclear fuel, coal ash, asbestos in any form that is or could become friable, urea formaldehyde foam insulation and polychlorinated biphenyls ("PCBs"); (B) any chemicals, materials, substances or wastes which are defined as or included in the definition of "hazardous substances," "hazardous wastes," "hazardous materials," "extremely hazardous wastes," "restricted hazardous wastes," "pollutant," "toxic substances," "source," "special nuclear," and "byproducts" or words of similar import under any Environmental Law; and (C) any chemical, material, substance or waste that is prohibited, limited or

regulated pursuant to any Environmental Law.

(v) "Release" means any actual or threatened release, spill, emission, leaking, dumping, injection, pouring, deposit, disposal, discharge, dispersal, leaching or migration into the environment (including ambient air, surface water, groundwater, land surface or subsurface strata) or within any building, structure, facility or fixture.

SECTION 3.18. Labor and Employee RelationsSECTION 3.18. Labor and Employee Relations. (a) Except as set forth in the Company Disclosure Letter, (i) neither the Company nor any of the Company Subsidiaries is a party to any collective bargaining agreement or other labor agreement with any union or labor organization and (ii) to the knowledge of the Company, there is no current union representation question involving employees of the Company or any of the Company Subsidiaries, nor does the Company have knowledge of any activity or proceeding of any labor organization (or representative thereof) or employee group to organize any such employees, except to the extent it, individually or in the aggregate, has not had and could not reasonably be expected to have a Company Material Adverse Effect.

(b) Except as set forth in the Company Disclosure Letter, or except to the extent the following, individually or in the aggregate, have not had and could not reasonably be expected to have a Company Material Adverse Effect, (A) there is no unfair labor practice, employment discrimination or other charge, claim, suit, action or proceeding against the Company or any of the Company Subsidiaries pending, or to the knowledge of the Company, threatened before any court, governmental department, commission, agency, instrumentality or authority or any arbitrator and (B) there is no strike, lockout or material dispute, slowdown or work stoppage pending or, to the knowledge of the Company, threatened against or involving the Company.

SECTION 3.19. Operations of Nuclear Power PlantsSECTION 3.19. Operations of Nuclear Power Plants. Except as set forth in the Filed Company SEC Documents or in the Company Disclosure Letter, (a) the operations of the

nuclear generation stations (collectively, the "Company Nuclear Facilities") currently or formerly owned, in whole or part, by the Company or any of its affiliates are and have been conducted in compliance with all Applicable Laws and Company Permits, except for such failures to comply that, individually or in the aggregate, have not had and could not reasonably be expected to have a Company Material Adverse Effect, (b) each of the Company Nuclear Facilities maintains, and is in compliance with, (i) emergency plans designed to respond to an unplanned Release therefrom of radioactive materials, (ii) plans for the decommissioning of each of the Company Nuclear Facilities, (iii) plans for the storage and disposal of spent nuclear fuel, and each such plan enumerated in (i) through (iii) conform with the requirements of Applicable Law, and (c) the Company has *funded consistent with reasonable budget projections* the current or future decommissioning of each Company Nuclear Facility and the storage and disposal of spent nuclear fuel.

SECTION 3.20. Parent Share OwnershipSECTION 3.20. Parent Share Ownership. Neither the Company nor any Company Subsidiary owns any shares of Parent Capital Stock or other securities convertible into Parent Capital Stock.

SECTION 3.21. Regulation as a UtilitySECTION 3.21. Regulation as a Utility. ComEd is regulated as a public utility by the State of Illinois. Commonwealth Edison Company of Indiana, Inc., an Indiana corporation, is regulated as a public utility by the State of Indiana and by no other state. Except as set forth in the previous sentence, neither the Company nor any "subsidiary company" or "affiliate" of the Company is subject to regulation as a public utility or public service company (or similar designation) by any other state in the United States or any foreign country. The Company and ComEd are public utility holding companies as defined by PUHCA, but currently claim exemptions from registration under PUHCA under Sections 3(a)(1) and 3(a)(2), respectively, of PUHCA pursuant to orders of the SEC issued thereunder.

SECTION 3.22. Contracts; No DefaultSECTION 3.22. Contracts; No Default. Except as disclosed in the Filed Company SEC Documents or entered into after the date of this Agreement without violating any covenant of this Agreement, there are no contracts or agreements that are

material to the business, properties, assets, condition (financial or otherwise), results of operations or prospects of the Company and the Company Subsidiaries taken as a whole. Neither the Company nor any of the Company Subsidiaries is in violation of or in default under (nor does there exist any condition which upon the passage of time or the giving of notice would cause such a violation of or default under) any loan or credit agreement, note, bond, mortgage, indenture, lease, permit, concession, franchise, license or any other contract, agreement, arrangement or understanding, to which it is a party or by which it or any of its properties or assets is bound, except for violations or defaults that have not had and could not reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect.

SECTION 3.23. Title to PropertiesSECTION 3.23. Title to Properties. Except as set forth in the Company Disclosure Letter each of the Company and each of the Company Subsidiaries has good and sufficient title to its physical properties and assets, or valid leasehold interests, easements or other appropriate interests therein or thereto sufficient to conduct its business as presently conducted or intended to be conducted, except for such as are no longer used or useful in the conduct of its businesses or as have been disposed of in the ordinary course of business and except for Liens, defects in title, easements, restrictive covenants and similar encumbrances or impediments set forth in the Company Disclosure Letter or that, in the aggregate, do not and will not materially interfere with its ability to conduct its business as currently conducted or intended to be conducted.

SECTION 3.24. Intellectual PropertySECTION 3.24. Intellectual Property. The Company and the Company Subsidiaries own, or are validly licensed or otherwise have the right to use, all patents, patent rights, trademarks, trademark rights, trade names, trade name rights, service marks, service mark rights, copyrights and other proprietary intellectual property rights and computer programs (collectively, "Intellectual Property Rights") which are material to the conduct of the business of the Company and the Company Subsidiaries, taken as a whole. Except as set forth in the Company Disclosure Letter, no claims are pending or, to the knowledge of the Company, threatened that

the Company or any of the Company Subsidiaries is infringing or otherwise adversely affecting the rights of any person with regard to any Intellectual Property Right. To the knowledge of the Company, except as set forth in the Company Disclosure Letter, no person is infringing the rights of the Company or any of the Company Subsidiaries with respect to any Intellectual Property Right except as has not had and could not reasonably be expected to have a Company Material Adverse Effect.

Section 3.25. Hedging. 3.25. Hedging. Except as set forth in the Company Disclosure Letter, none of the Company or the Company Subsidiaries engages in any natural gas, electricity or other futures or options trading or is a party to any price swaps, hedges, futures or similar instruments, except for transactions and agreements entered into, or hedge contracts, for the purchase or sale of electricity or hydrocarbons to which the Company or any Company Subsidiary is a party that are in accordance with the general practices of other similarly situated companies in the industry.

Section 3.26. Regulatory Proceedings. 3.26. Regulatory Proceedings. Except as set forth in the Company Disclosure Letter, and other than fuel adjustment or purchase gas adjustment or similar adjusting rate mechanisms, none of the Company or the Company Subsidiaries all or part of whose rates or services are regulated by a Governmental Entity (a) is a party to any rate proceeding before a Governmental Entity that would reasonably be expected to result in orders having a Company Material Adverse Effect or (b) has rates that have been or are being collected subject to refund, pending final resolution of any rate proceeding pending before a Governmental Entity or on appeal to a court.

ARTICLE IV

IV Representations and Warranties of Parent and Newco
Representations and Warranties of Parent and Newco

Parent and Newco, jointly and severally, represent and warrant to the Company as follows:

SECTION 4.01. Organization, Standing and

PowerSECTION 4.01. Organization, Standing and Power. Each of Parent and each of its subsidiaries, including Newco (the "Parent Subsidiaries"), is duly organized, validly existing and in good standing under the laws of the jurisdiction in which it is organized and has full corporate power and authority and possesses all governmental franchises, licenses, permits, authorizations and approvals necessary to enable it to own, lease or otherwise hold its properties and assets and to conduct its businesses as conducted as of the date of this Agreement, other than such franchises, licenses, permits, authorizations and approvals the lack of which, individually or in the aggregate, has not had and could not reasonably be expected to have a Material Adverse Effect on Parent (a "Parent Material Adverse Effect"). Parent and each Parent Subsidiary is duly qualified to do business in each jurisdiction where the nature of its business or their ownership or leasing of its properties make such qualification necessary, other than such qualifications the lack of which, individually or in the aggregate, has not had and could not reasonably be expected to have a Parent Material Adverse Effect. Parent has made available to the Company true and complete copies of the amended and restated articles of incorporation of Parent, as amended to the date of this Agreement (as so amended, the "Parent Charter"), and the By-laws of Parent, as amended to the date of this Agreement (as so amended, the "Parent By-laws"), and the comparable charter or organizational documents of Newco and each other Parent Subsidiary, in each case as amended through the date of this Agreement.

SECTION 4.02. Parent Subsidiaries; Equity InterestsSECTION 4.02. Parent Subsidiaries; Equity Interests. (a) The letter, dated as of the date of this Agreement, from Parent to the Company (the "Parent Disclosure Letter") lists each Parent Subsidiary and its jurisdiction of organization and specifies each of the Parent Subsidiaries that is, and as of the date of this Agreement AmerGen (as hereinafter defined is not), (i) a "public-utility company", a "holding company", a "subsidiary company", an "affiliate" of any public-utility company, an "exempt wholesale generator" or a "foreign utility company" within the meaning of Section 2(a)(5), 2(a)(7), 2(a)(8), 2(a)(11), 32(a)(1) or 33(a)(3) of PUHCA, respectively, (ii) a "public utility" within the meaning of Section 201(e) of the Power Act or (iii) a "qualifying facility" within the

meaning of PURPA, or that owns such a qualifying facility. All the outstanding shares of capital stock of each Parent Subsidiary have been validly issued and are fully paid and nonassessable and, except as set forth in Parent Disclosure Letter, are owned by Parent, by another Parent Subsidiary or by Parent and another Parent Subsidiary, free and clear of all Liens.

(b) Except for its interests in Parent Subsidiaries and except for the ownership interests set forth in Parent Disclosure Letter or interests acquired after the date of this Agreement without violating any covenant of this Agreement, Parent does not own, directly or indirectly, any capital stock, membership interest, partnership interest, joint venture interest or other equity interest with a fair market value as of the date of this Agreement in excess of $500,000 in any person, as reasonably determined by Parent.

(c) Since the date of its incorporation, Newco has not carried on any business or conducted any operations other than the execution of this Agreement, the performance of its obligations hereunder and thereunder and matters ancillary thereto. As of the date of this Agreement, Newco has no material assets or liabilities.

SECTION 4.03. Capital StructureSECTION 4.03. Capital Structure. (a) The authorized capital stock of Parent consists of 500,000,000 shares of Parent Common Stock and shares of preferred stock as set forth in the Parent Disclosure Letter (the "Parent Preferred Stock" and, together with the Parent Common Stock, the "Parent Capital Stock"). At the close of business on August 31, 1999, (i) 203,392,956 shares of Parent Common Stock were issued and outstanding and shares of Parent Preferred Stock were issued and outstanding as set forth in the Parent Disclosure Letter, (ii) 38,721,900 shares of Parent Common Stock were held by Parent in its treasury and (iii) 5,800,841 shares of Parent Common Stock were subject to outstanding Parent Employee Stock Options (as defined in Section 6.04) and 5,166,533 additional shares of the Parent Common Stock were reserved for issuance pursuant to Parent Stock Plans (as defined in Section 6.04).

(b) Except as set forth in clause (a) of this

Section 4.03 or in the Parent Disclosure Letter, at the close of business on August 31, 1999, no shares of capital stock or other voting securities of Parent were issued, reserved for issuance or outstanding.

(c) All outstanding shares of Parent Capital Stock are, and all such shares that may be issued prior to the Merger Effective Time will be when issued, duly authorized, validly issued, fully paid and nonassessable and not subject to or issued in violation of any purchase option, call option, right of first refusal, preemptive right, subscription right or any similar right under any provision of the PBCL, the Parent Charter, the Parent By-laws or any Contract to which Parent is a party or otherwise bound.

(d) There are not any bonds, debentures, notes or other indebtedness of Parent having the right to vote (or convertible into, or exchangeable for, securities having the right to vote) on any matters on which holders of Parent Common Stock may vote ("Voting Parent Debt").

(e) Except as set forth in clause (a) of this Section 4.03 or in the Parent Disclosure Letter, as of the date of this Agreement, there are not any options, warrants, rights, convertible or exchangeable securities, "phantom" stock rights, stock appreciation rights, stock-based performance units, commitments, Contracts, arrangements or undertakings of any kind to which Parent or any Parent Subsidiary is a party or by which any of them is bound (i) obligating Parent or any Parent Subsidiary to issue, deliver or sell, or cause to be issued, delivered or sold, additional shares of capital stock or other equity interests in, or any security convertible or exercisable for or exchangeable into any capital stock of or other equity interest in, Parent or of any Parent Subsidiary or any Voting Parent Debt or (ii) obligating Parent or any Parent Subsidiary to issue, grant, extend or enter into any such option, warrant, call, right, security, commitment, Contract, arrangement or undertaking.

(f) As of the date of this Agreement, except as described in the Parent Disclosure Letter, there are not any outstanding contractual obligations of Parent or any Parent Subsidiary to repurchase, redeem or otherwise acquire any

shares of capital stock of Parent or any Parent Subsidiary.

(g) The authorized capital stock of Newco consists of 500,000,000 shares of common stock, no par value, 100,000,000 shares of preferred stock, no par value, and 100,000,000 shares of series preference stock, no par value, of which only 100 shares of common stock have been validly issued, are fully paid and nonassessable and are owned by Parent free and clear of any Lien.

SECTION 4.04. Authority; Execution and Delivery; EnforceabilitySECTION 4.04. Authority; Execution and Delivery; Enforceability. (a) Each of Parent and Newco has all requisite corporate power and authority to execute and deliver this Agreement and to consummate the Transactions. The execution and delivery by each of Parent and Newco of this Agreement and the consummation by it of the Transactions have been duly authorized by all necessary corporate action on the part of Parent and Newco, subject (i) in the case of the Merger and the Share Issuance, to receipt of the Parent Shareholder Approval (as defined in Section 4.04(c)) and (ii) adoption by Parent, as sole shareholder of Newco, of this Agreement. Each of Parent and Newco has duly executed and delivered this Agreement, and this Agreement constitutes its legal, valid and binding obligation, enforceable against it in accordance with its terms.

(b) The Board of Directors of Parent (the "Parent Board"), at a meeting duly called and held, duly and unanimously adopted resolutions (i) approving this Agreement, the Merger, the Share Issuance and the other Transactions, (ii) determining that the terms of the Merger, the Share Issuance and the other Transactions are fair to and in the best interests of Parent and its shareholders and (iii) directing that this Agreement be submitted to a vote of Parent's shareholders and recommending that they adopt this Agreement and approve the Share Issuance. Such resolutions are sufficient to render inapplicable to this Agreement, the Merger, the Share Issuance and the other Transactions, to the extent otherwise applicable, the provisions of Subchapters D (Section 2538), E, F, G, H, I and J of Chapter 25 of the PBCL and (ii) the provisions of Sections 508 and 509 of the Parent Charter. To Parent's knowledge, no other state takeover statute or similar

statute or regulation applies or purports to apply to Parent or Newco with respect to this Agreement, the Merger, the Share Issuance or any other Transaction.

(c) The only vote of holders of any class or series of Parent securities necessary to approve and adopt this Agreement, the Merger, the Share Issuance and the other Transactions is the adoption of this Agreement by the affirmative vote of a majority of the votes cast by all holders of Parent Common Stock entitled to vote (collectively, the "Parent Shareholder Approval"). The affirmative vote of the holders of Parent Capital Stock, or any of them, is not necessary to consummate any Transaction other than the Share Issuance and the Merger.

SECTION 4.05. No Conflicts; ConsentsSECTION 4.05. No Conflicts; Consents. (a) Except as set forth in the Parent Disclosure Letter, the execution and delivery by each of Parent and Newco of this Agreement does not, and the consummation of the Merger, the Share Issuance and the other Transactions and compliance with the terms hereof and thereof will not, conflict with, or result in any violation of or default (with or without notice or lapse of time, or both) under, or give rise to a right of termination, consent, approval, cancelation or acceleration of any obligation or to loss of a material benefit under, or to increased, additional, accelerated or guaranteed rights or entitlements of any person under, or result in the creation of any Lien upon any of the properties or assets of Parent or any Parent Subsidiary under, any provision of (i) Parent Charter, Parent By-laws or the comparable charter or organizational documents of any Parent Subsidiary, (ii) any Contract to which Parent or any Parent Subsidiary is a party or by which any of their respective properties or assets is bound or (iii) subject to the filings and other matters referred to in Section 4.05(b), any Judgment or Applicable Law or writ, permit or license applicable to Parent or any Parent Subsidiary or their respective properties or assets (other than immaterial consents, approvals, licenses, permits, orders, authorizations, registrations, declarations or filings, including with respect to communications systems, zoning, name changes, occupancy and similar routine regulatory approvals), other than, in the case of clauses (ii) and (iii) above, any such items that, individually or in the aggregate, have not had and could not reasonably be

expected to have a Parent Material Adverse Effect.

(b) No Consent of, action by or in respect of, or registration, declaration or filing with, or notice to, any Governmental Entity is required to be obtained or made by or with respect to Parent or any Parent Subsidiary in connection with the execution, delivery and performance of this Agreement or the consummation of the Transactions, other than (i) compliance with and filings under the HSR Act, (ii) the filing with the SEC of (A) the Form S-4 and the Proxy Statement and (B) such reports under the Exchange Act, as may be required in connection with this Agreement, the Merger and the other Transactions, (iii) the filing of the Articles of Exchange, Pennsylvania Articles of Merger and the Charter Amendment with the Department of State of the Commonwealth of Pennsylvania, the filing of the Illinois Articles of Merger with, and issuance of a certificate of merger by, the Secretary of State of the State of Illinois and the filing of appropriate documents with the relevant authorities of the other jurisdictions in which the Company is qualified to do business, (iv) notice to, and the consent and approval of, FERC under the Power Act, (v) notice to, and the consent and approval of, the NRC under the Atomic Energy Act, (vi) notice to and the consent and approval of the Pennsylvania Public Utility Commission (the "PPUC"), (vii) the consents, filings and approvals required under PUHCA, (viii) compliance with and such filings as may be required under applicable Environmental Laws, (ix) such filings as may be required in connection with the taxes described in Section 6.09 and (x) such other items as are set forth in the Parent Disclosure Letter (collectively, whether or not legally required to be obtained, the "Parent Required Statutory Approvals").

SECTION 4.06. SEC Documents; Undisclosed LiabilitiesSECTION 4.06. SEC Documents; Undisclosed Liabilities. Parent has filed all reports, schedules, forms, statements and other documents required to be filed by Parent with the SEC since January 1, 1998 (the "Parent SEC Documents"). Each Parent SEC Document complied in all material respects as of its respective date with the requirements of the Exchange Act or the Securities Act, as the case may be, and the rules and regulations of the SEC promulgated thereunder applicable to such Parent SEC Document, and except to the extent that information

contained in any Parent SEC Document has been revised or superseded by a later filed Parent SEC Document, does not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. The consolidated financial statements of Parent included in the Parent SEC Documents comply as to form in all material respects with applicable accounting requirements and the published rules and regulations of the SEC with respect thereto, have been prepared in accordance with GAAP (except, in the case of unaudited statements, as permitted by Form 10-Q of the SEC) applied on a consistent basis during the periods involved (except as may be indicated in the notes thereto) and fairly present the consolidated financial position of Parent and its consolidated subsidiaries as of the dates thereof and the consolidated results of their operations and cash flows for the periods then ended (subject, in the case of unaudited statements, to normal year-end audit adjustments). Except as set forth in the Filed Parent SEC Documents (as defined in Section 4.08) or the Parent Disclosure Letter or incurred after the date hereof in the usual, regular and ordinary course of business in substantially the same manner as previously conducted and not prohibited by this Agreement, neither Parent nor any Parent Subsidiary has any liabilities or obligations of any nature (whether accrued, absolute, contingent or otherwise) required by GAAP to be set forth on a consolidated balance sheet of Parent and its consolidated subsidiaries or in the notes thereto and that, individually or in the aggregate, could reasonably be expected to have a Parent Material Adverse Effect. None of the Parent Subsidiaries is, or has at any time since January 1, 1998 been, subject to the reporting requirements of Sections 13(a) and 15(d) of the Exchange Act.

SECTION 4.07. Information SuppliedSECTION 4.07. Information Supplied. None of the information supplied or to be supplied by Parent or Newco for inclusion or incorporation by reference in (i) the Form S-4 will, at the time the Form S-4 is filed with the SEC, at any time it is amended or supplemented or at the time it becomes effective under the Securities Act, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements

therein not misleading, or (ii) the Proxy Statement will, at the date it is first mailed to the Company's shareholders or Parent's shareholders or at the time of the Company Shareholders Meeting or the Parent Shareholders Meeting, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading. The Form S-4 will comply as to form in all material respects with the requirements of the Securities Act and the rules and regulations thereunder, except that no representation is made by Parent or Newco with respect to statements made or incorporated by reference therein based on information supplied by or on behalf of the Company for inclusion or incorporation by reference therein.

SECTION 4.08. Absence of Certain Changes or EventsSECTION 4.08. Absence of Certain Changes or Events. Except as disclosed in the Parent SEC Documents filed and publicly available prior to the date of this Agreement (the "Filed Parent SEC Documents") or in the Parent Disclosure Letter:

(a) since December 31, 1998, there has not been any event, change, effect or development that, individually or in the aggregate, has had or could reasonably be expected to have a Parent Material Adverse Effect, other than events, changes, effects and developments relating to the economy in general or to Parent's industry in general and not specifically relating to Parent or any Parent Subsidiary; and

(b) from December 31, 1998 to the date of this Agreement, Parent has conducted its business only in the ordinary course, and during such period there has not been:

(i) any declaration, setting aside or payment of any dividend or other distribution (whether in cash, stock or property) with respect to any Parent Capital Stock or any repurchase for value by Parent of any Parent Capital Stock;

(ii) any split, combination or reclassification of any Parent Capital Stock or any issuance or the authorization of any issuance of any other securities

in respect of, in lieu of or in substitution for shares of Parent Capital Stock; or

(iii) any change in accounting methods, principles or practices by Parent or any Parent Subsidiary materially affecting the consolidated assets, liabilities or results of operations of Parent, except insofar as may have been required by a change in GAAP.

SECTION 4.09. TaxesSECTION 4.09. Taxes. (a) Each of Parent and each Parent Subsidiary has timely filed, or has caused to be timely filed on its behalf, all Tax Returns required to be filed by it (or requests for extensions to file such Tax Returns have been timely filed and granted and have not expired), and all such Tax Returns are true, complete and accurate, except to the extent any failure to file or any inaccuracies in any filed Tax Returns would not, individually or in the aggregate, have a Parent Material Adverse Effect. All Taxes shown to be due on such Tax Returns, or otherwise owed by Parent or any Parent Subsidiary, have been timely paid, except to the extent that any failure to pay, individually or in the aggregate, has not had and could not reasonably be expected to have a Parent Material Adverse Effect.

(b) Except as set forth in the Parent Disclosure Letter, the most recent financial statements contained in the Filed Parent SEC Documents reflect an adequate reserve for all current Taxes payable by Parent and the Parent Subsidiaries (in addition to any reserve for deferred Taxes established to reflect timing differences between book and Tax income) for all Taxable periods and portions thereof through the date of such financial statements. Except as set forth in the Parent Disclosure Letter, no deficiency with respect to any Taxes has, to the best knowledge of Parent, been proposed, asserted or assessed against Parent or any Parent Subsidiary, and no requests for waivers of the time to assess any such Taxes are pending, except to the extent any such deficiency or request for waiver, individually or in the aggregate, has not had and could not reasonably be expected to have a Parent Material Adverse Effect.

(c) The Federal income Tax Returns of Parent and each Parent Subsidiary consolidated in such Returns have

been examined by and settled with the United States Internal Revenue Service for all years through 1990. Except as set forth in the Parent Disclosure Letter, all material assessments for Taxes due with respect to such completed and settled examinations or any concluded litigation have been fully paid.

(d) There are no material Liens for Taxes (other than for current Taxes not yet due and payable) on the assets of Parent or any Parent Subsidiary. Except as set forth in the Parent Disclosure Letter, neither Parent nor any Parent Subsidiary is bound by any agreement with respect to Taxes.

(e) The Parent and each Parent Subsidiary have complied with all applicable statutes, laws, ordinances, rules and regulations relating to the payment and withholding of taxes (including withholding of taxes pursuant to Sections 1441, 1442, 3121 and 3402 of the Code or similar provisions under any Federal, state or local laws, domestic and foreign) and have, within the time and in the manner prescribed by law, withheld from and paid over to the proper governmental authorities all amounts required to be so withheld and paid over under applicable laws, except to the extent that any failure to withhold or to pay, individually or in the aggregate, has not had and could not reasonably be expected to have a Parent Material Adverse Effect.

(f) Parent knows of no fact and neither Parent nor any Parent Subsidiary has taken or agreed to take any action that could reasonably be expected to prevent (i) the Merger from constituting transactions described in Section 351 of the Code or (ii) the Second Step Merger from constituting a transaction described in Section 368(a) of the Code.

SECTION 4.10. Absence of Changes in Benefit PlansSECTION 4.10. Absence of Changes in Benefit Plans. Except as disclosed in the Parent Disclosure Letter, from December 31, 1998 to the date of this Agreement, there has not been any adoption or amendment in any material respect by Parent or any Parent Subsidiary of (a) any collective bargaining agreements, (b) any bonus, pension, profit sharing, deferred compensation, incentive compensation,

stock ownership, stock purchase, stock option, phantom stock, retirement, vacation, severance, disability, death benefit, hospitalization, medical or other plan, program, policy, arrangement or understanding (whether or not legally binding) providing benefits to any current or former employee, officer or director of Parent or any Parent Subsidiary or any beneficiary or dependent thereof, that is sponsored or maintained by Parent or any Parent Subsidiary or to which Parent or any Parent Subsidiary contributes or is obligated to contribute (collectively, "Parent Benefit Plans") or (c) any Parent Employment Arrangements (as defined herein). Except as disclosed in the Parent Disclosure Letter, as of the date of this Agreement there are not any employment, consulting, indemnification, change-of-control, severance or termination agreements or arrangements between Parent or any Parent Subsidiary and any current or former employee, officer or director of the Parent or any Parent Subsidiary (collectively, the "Parent Employment Arrangements").

SECTION 4.11. ERISA Compliance; Excess Parachute PaymentsSECTION 4.11. ERISA Compliance; Excess Parachute Payments. (a) The Parent Disclosure Letter includes a complete list of all material Parent Benefit Plans and Parent Employment Arrangements as of the date of this Agreement. With respect to each Parent Benefit Plan (other than a multiemployer plan within the meaning of Section 4001(a)(3) of ERISA) and Parent Employment Arrangement, Parent has delivered to the Company true, complete and correct copies of (i) each such Parent Benefit Plan or Parent Employment Arrangement (or, in the case of any unwritten plan or arrangement, a description thereof), (ii) the most recent annual report on the applicable Form 5500 series filed with the Internal Revenue Service (if any such report was required), including all schedules and attachments thereto, (iii) the most recent summary plan description (if a summary plan description is required) and all summaries of material modifications thereto, (iv) each trust agreement, group annuity contract or other funding vehicle relating to any such Parent Benefit Plan or Parent Employment Arrangement, (v) the most recent actuarial report or valuation relating thereto and (vi) the most recent determination letters issued by the Internal Revenue Service with respect to Parent Benefit Plans that are intended to be Qualified Plans and letters of recognition of exemption with

respect to any Parent Benefit Plan or related trust that is intended to meet the requirements of Section 501(c)(9) of the Code.

(b) With respect to the Parent Benefit Plans and Parent Employment Arrangements, individually and in the aggregate, no event has occurred and, to the knowledge of Parent, there exists no condition or set of circumstances, in connection with which Parent or any Parent Subsidiary could be subject to any liability that has had or could reasonably be expected to have a Parent Material Adverse Effect (except liability for benefits claims and funding obligations payable in the ordinary course) under ERISA, the Code or any other applicable law. For purposes of this Section 4.11(b), the term "Parent Benefit Plan" shall also include any employee benefit plan within the meaning of Section 3(3) of ERISA that, within the last six years, was sponsored or maintained by any entity which would be treated under Section 414 of the Code as a single employer with Parent or any Parent Subsidiary or to which any such entity contributed or was obligated to contribute.

(c) Each Parent Benefit Plan and each Parent Employment Arrangement has been administered in accordance with its terms except for any failures so to administer any Parent Benefit Plan or Parent Employment Arrangement as have not had and could not reasonably be expected to have, individually or in the aggregate, a Parent Material Adverse Effect. Parent, all Parent Subsidiaries and all the Parent Benefit Plans and Parent Employment Arrangements are in compliance with the applicable provisions of ERISA, the Code and all other applicable laws and the rules and regulations thereunder and the terms of all applicable collective bargaining agreements, except for any failures to be in such compliance as have not had and could not reasonably be expected to have, individually or in the aggregate, a Parent Material Adverse Effect. Except as disclosed in the Parent Disclosure Letter, there are no pending or, to the knowledge of Parent, threatened or anticipated claims under or with respect to any Parent Benefit Plan or Parent Employment Arrangement by or on behalf of any current or former employee, officer or director, or dependent or beneficiary thereof, or otherwise (other than routine claims for benefits).

(d) Except as disclosed in the Parent Disclosure Letter, (i) no current or former employee, officer or director of Parent or any Parent Subsidiary will be entitled to any additional rights or benefits or any acceleration of the time of payment or vesting of any benefits under any Parent Benefit Plan or Parent Employment Arrangement, and no trustee under any "rabbi trust", or similar arrangement maintained in connection with any Parent Benefit Plan or Parent Employment Arrangement will be entitled to any payment, as a result (either alone or upon the occurrence of any additional or further acts or events) of the execution of this Agreement or the consummation, announcement or other actions relating to the Transactions and (ii) no amount payable to any current or former employee, officer or director of Parent or any Parent Subsidiary will fail to be deductible by reason of Section 280G of the Code.

(e) Each Parent Benefit Plan intended to be a Qualified Plan has received a favorable determination letter from the Internal Revenue Service that it is so qualified and nothing has occurred since the date of such letter that could reasonably be expected to affect the qualified status of such Parent Benefit Plan.

(f) The aggregate accumulated benefit obligations of each Parent Benefit Plan subject to Title IV of ERISA (as of the date of the most recent actuarial valuation prepared for such Parent Benefit Plan) do not exceed the fair market value of the assets of such plan (as of the date of such valuation).

(g) All contributions and other payments required to have been made for any completed historical period by Parent or any Parent Subsidiary to any Parent Benefit Plan or Parent Employment Arrangement (or to any person pursuant to the terms thereof) have been timely made or paid in full, or, to the extent not required to be made or paid for such period, have been reflected in the consolidated financial statements of Parent.

(h) Except as disclosed in the Parent Disclosure Letter, no Parent Benefit Plan is a multiemployer plan within the meaning of Section 4001(a)(3) of ERISA, and none of Parent or any Parent Subsidiary has, at any time during the last six years, contributed to or been obligated to

contribute to any such multiemployer plan. For purposes of the representations and warranties made in the last sentence of Section 4.11(c) and in Sections 4.11 (e) and (f), the term "Parent Benefit Plan" shall be deemed to exclude any such multiemployer plan.

SECTION 4.12. LitigationSECTION 4.12. Litigation. Except as disclosed in the Filed Parent SEC Documents or in the Parent Disclosure Letter, there is no suit, action or proceeding pending or, to the knowledge of Parent, threatened against Parent or any Parent Subsidiary that, individually or in the aggregate, has had or could reasonably be expected to have a Parent Material Adverse Effect, nor is there any Judgment outstanding against Parent or any Parent Subsidiary that has had or could reasonably be expected to have a Parent Material Adverse Effect.

SECTION 4.13. Compliance with Applicable Laws; PermitsSECTION 4.13. Compliance with Applicable Laws; Permits. (a) Except as disclosed in the Filed Parent SEC Documents or in the Parent Disclosure Letter, Parent and Parent Subsidiaries are in compliance with the terms of all applicable Parent Permits (as defined in Section 4.13(b)) and all Applicable Laws, except for instances of noncompliance that, individually and in the aggregate, have not had and could not reasonably be expected to have a Parent Material Adverse Effect. This Section 4.13 does not relate to matters with respect to Taxes, which are the subject of Section 4.09, Environmental Laws, which are the subject of Section 4.17, benefits plans, which are the subject of Section 4.11 and the operation of nuclear power plants which are the subject of Section 4.19.

(b) Except as disclosed in the Filed Parent SEC Documents or in the Parent Disclosure Letter, Parent and the Parent Subsidiaries own or have sufficient rights and consents to use under existing franchises, permits, easements, leases, and license agreements (the "Parent Permits") all properties, rights and assets necessary for the conduct of their business and operations as currently conducted, except where the failure to own or have sufficient rights to such properties, rights and assets, individually or in the aggregate, have not had and could not reasonably be expected to have a Parent Material Adverse Effect. Except as provided in the Pennsylvania Electricity

Generation Customer Choice and Competition Act of 1996, to the knowledge of Parent, no other private corporation can commence electric public utility operations in any part of the respective territories now served by Parent or any Parent Subsidiary, without obtaining a certificate of public convenience and necessity from the applicable state utility commission.

SECTION 4.14. Brokers; Schedule of Fees and ExpensesSECTION 4.14. Brokers; Schedule of Fees and Expenses. No broker, investment banker, financial advisor or other person, other than Salomon Smith Barney Inc. and Morgan Stanley & Company Incorporated, the fees and expenses of which will be paid by Parent, is entitled to any broker's, finder's, financial advisor's or other similar fee or commission in connection with the Merger and the other Transactions based upon arrangements made by or on behalf of Parent or Newco.

SECTION 4.15. Opinions of Financial AdvisorsSECTION 4.15. Opinions of Financial Advisors. Parent has received the opinions of Salomon Smith Barney Inc. and Morgan Stanley & Company Incorporated, dated the date of this Agreement, to the effect that, as of such date, the Exchange Consideration is fair to the holders of Parent Common Stock from a financial point of view, signed copies of which opinions have been delivered to the Company.

SECTION 4.16. Year 20004.16. Year 2000. The Parent SEC Documents fairly summarize the status of Parent's computer applications and components, modification or readiness plan, communications with suppliers and vendors, contingency plans and estimated cost of remediation as they relate to the Year 2000 issue. Parent has made available to the Company copies of all correspondence between Parent and its third party suppliers and vendors concerning their Year 2000 compliance.

SECTION 4.17. Environmental MattersSECTION 4.17. Environmental Matters. (a) Compliance. Except as set forth in the Filed Parent SEC Documents or in the Parent Disclosure Letter, Parent and each of the Parent Subsidiaries is and has been in compliance with all applicable Environmental Laws, except where the failure to so comply, individually or in the aggregate, has not had and

could not reasonably be expected to have a Parent Material Adverse Effect.

(b) Environmental Permits. Except as set forth in the Filed Parent SEC Documents or in the Parent Disclosure Letter, (i) Parent and each of the Parent Subsidiaries has obtained or has applied for all Environmental Permits necessary for the construction of their facilities or the conduct of their operations, except where the failure to so obtain, individually or in the aggregate, has not had and could not reasonably be expected to have a Parent Material Adverse Effect, and (ii) all such Environmental Permits are in good standing or, where applicable, a renewal application has been timely filed and is pending agency approval, except where the failure of such Environmental Permits to be in good standing or to have filed a renewal application on a timely basis has not had and could not reasonably be expected to have, individually or in the aggregate, a Parent Material Adverse Effect.

(c) Environmental Claims. Except as set forth in the Filed Parent SEC Documents or in the Parent Disclosure Letter, there are no Environmental Claims that have had or could reasonably be expected to have, individually or in the aggregate, a Parent Material Adverse Effect, pending or, to the knowledge of Parent, threatened against Parent or any of the Parent Subsidiaries.

(d) Releases. Except as set forth in the Filed Parent SEC Documents or in the Parent Disclosure Letter, there have been no Releases of any Hazardous Materials that could be reasonably likely to form the basis of any Environmental Claim against Parent or any of the Parent Subsidiaries, except for any Environmental Claim which, individually or in the aggregate, has not had and could not reasonably be expected to have a Parent Material Adverse Effect.

(e) Assumed and Retained Liabilities. Except as disclosed in the Filed Parent SEC Documents or in the Parent Disclosure Letter, none of Parent or the Parent Subsidiaries has retained or assumed either contractually or by operation of law any liabilities or obligations that could reasonably be likely to form the basis for any Environmental Claim, which has had and could reasonably be expected to have,

individually or in the aggregate, a Parent Material Adverse Effect.

SECTION 4.18. Labor and Employee RelationsSECTION 4.18. Labor and Employee Relations. (a) Except as set forth in the Parent Disclosure Letter, (i) neither Parent nor any of the Parent Subsidiaries is a party to any collective bargaining agreement or other labor agreement with any union or labor organization and (ii) to the knowledge of Parent, there is no current union representation question involving employees of Parent or any of the Parent Subsidiaries, nor does Parent have knowledge of any activity or proceeding of any labor organization (or representative thereof) or employee group to organize any such employees, except to the extent it, individually or in the aggregate, has not had and could not reasonably be expected to have a Parent Material Adverse Effect.

(b) Except as set forth in the Parent Disclosure Letter, or except to the extent the following, individually or in the aggregate, have not had and could not reasonably be expected to have a Parent Material Adverse Effect, (A) there is no unfair labor practice, employment discrimination or other charge, claim, suit, action or proceeding against Parent or any of the Parent Subsidiaries pending, or to the knowledge of Parent, threatened before any court, governmental department, commission, agency, instrumentality or authority or any arbitrator and (B) there is no strike, lockout or material dispute, slowdown or work stoppage pending or, to the knowledge of Parent, threatened against or involving Parent.

SECTION 4.19. Operations of Nuclear Power PlantsSECTION 4.19. Operations of Nuclear Power Plants. (a) Except as set forth in the Filed Parent SEC Documents or in the Parent Disclosure Letter, (a) the operations of the nuclear generation stations (collectively, the "Parent Nuclear Facilities") currently or formerly owned, in whole or part, by Parent or any of its affiliates are and have been conducted in compliance with all Applicable Laws and Parent Permits, except for such failures to comply that, individually or in the aggregate, have not had and could not reasonably be expected to have a Parent Material Adverse Effect, (b) each of the Parent Nuclear Facilities maintains, and is in compliance with, (i) emergency plans designed to

respond to an unplanned Release therefrom of radioactive materials, (ii) plans for the decommissioning of each of the Parent Nuclear Facilities, (iii) plans for the storage and disposal of spent nuclear fuel, and each such plan enumerated in (i) through (iii) conform with the requirements of Applicable Law, and (c) Parent has funded consistent with reasonable budget projections the current or future decommissioning of each Parent Nuclear Facility and the storage and disposal of spent nuclear fuel.

(b) To the best knowledge of Parent, recognizing that AmerGen does not as of the date of this Agreement, own, or hold any operating licenses for, nuclear generating stations, (i) the operations of the nuclear generation stations which are the subject of an existing purchase, operating or similar agreement by AmerGen or any of its affiliates or assignees (the "AmerGen Nuclear Facilities") are and have been conducted in compliance with all Applicable Laws and necessary permits of Governmental Entities, except for such failures to comply that, individually or in the aggregate, have not had and could not reasonably be expected to have a Parent Material Adverse Effect, (ii) each of the AmerGen Nuclear Facilities maintains, and is in compliance with, (A) emergency plans designed to respond to an unplanned Release therefrom of radioactive materials, (B) plans for the decommissioning of each of the AmerGen Nuclear Facilities and (C) plans for the storage and disposal of spent nuclear fuel, and each such plan enumerated in (A) through (C) conform with the requirements of Applicable Law, and (iii) the current owner has funded consistent with reasonable budget projections the current or future decommissioning of each AmerGen Nuclear Facility and the storage and disposal of spent nuclear fuel.

(c) Parent hereby makes each of the representations and warranties contained in Sections 4.05(a), 4.05(b), 4.12, 4.13 and 4.17 with respect to AmerGen, as if AmerGen were a Parent Subsidiary as defined in this Agreement, it being understood that the Company acknowledges and agrees that as of the date hereof AmerGen is not a subsidiary and therefore no representation or warranty is made concerning AmerGen or its business or operations except as expressly set forth in this Section 4.19(c) and the first sentence of Section 4.02(a) and Section 4.19(b), and each such representation and

warranty pertaining to AmerGen is qualified to the best knowledge of Parent recognizing that AmerGen does not as of the date of this Agreement, own, or hold any operating licenses for, nuclear generating stations.

SECTION 4.20. Company Share OwnershipSECTION 4.20. Company Share Ownership. Neither Parent nor any Parent Subsidiary owns any shares of Company Common Stock or other securities convertible into Company Common Stock.

SECTION 4.21. Regulation as a UtilitySECTION 4.21. Regulation as a Utility. Parent is regulated as a public utility by the Commonwealth of Pennsylvania and by no other state. Except as set forth in the previous sentence, neither Parent nor any "subsidiary company" or "affiliate" of Parent is subject to regulation as a public utility or public service company (or similar designation) by any other state in the United States or any foreign country. Parent is a public utility holding company as defined by PUHCA, but currently claims exemption under Section 3(a)(2) of PUHCA pursuant to orders of the SEC thereunder.

SECTION 4.22. Contracts; No DefaultSECTION 4.22. Contracts; No Default. Except as disclosed in the Filed Parent SEC Documents or entered into after the date of this Agreement without violating any covenant of this Agreement, there are no contracts or agreements that are material to the business, properties, assets, condition (financial or otherwise), results of operations or prospects of Parent and the Parent Subsidiaries taken as a whole. Neither Parent nor any of the Parent Subsidiaries is in violation of or in default under (nor does there exist any condition which upon the passage of time or the giving of notice would cause such a violation of or default under) any loan or credit agreement, note, bond, mortgage, indenture, lease, permit, concession, franchise, license or any other contract, agreement, arrangement or understanding, to which it is a party or by which it or any of its properties or assets is bound, except for violations or defaults that have not had and could not reasonably be expected to have, individually or in the aggregate, a Parent Material Adverse Effect.

SECTION 4.23. Title to PropertiesSECTION 4.23. Title to Properties. Except as set forth in the Parent Disclosure Letter each of Parent and each of the Parent Subsidiaries has good and sufficient title to its physical

properties and assets, or valid leasehold interests, easements or other appropriate interests therein or thereto sufficient to conduct its business as presently conducted or intended to be conducted, except for such as are no longer used or useful in the conduct of its businesses or as have been disposed of in the ordinary course of business and except for defects in title, easements, restrictive covenants and similar encumbrances or impediments set forth in the Parent Disclosure Letter or that, in the aggregate, do not and will not materially interfere with its ability to conduct its business as currently conducted or intended to be conducted.

SECTION 4.24. Intellectual PropertySECTION 4.24. Intellectual Property. Parent and the Parent Subsidiaries own, or are validly licensed or otherwise have the right to use, all Intellectual Property Rights which are material to the conduct of the business of Parent and the Parent Subsidiaries taken as a whole. Except as set forth in the Parent Disclosure Letter, no claims are pending or, to the knowledge of Parent, threatened that Parent or any of the Parent Subsidiaries is infringing or otherwise adversely affecting the rights of any person with regard to any Intellectual Property Right. To the knowledge of Parent, except as set forth in the Parent Disclosure Letter, no person is infringing the rights of Parent or any of the Parent Subsidiaries with respect to any Intellectual Property Right except as has not had and could not reasonably be expected to have a Parent Material Adverse Effect.

Section 4.25. Hedging.Section 4.25. Hedging. Except as set forth in the Parent Disclosure Letter, none of Parent or the Parent Subsidiaries engages in any natural gas, electricity or other futures or options trading or is a party to any price swaps, hedges, futures or similar instruments, except for transactions and agreements entered into, or hedge contracts, for the purchase or sale of electricity or hydrocarbons to which Parent or any Parent Subsidiary is a party that are in accordance with the general practices of other similarly situated companies in the industry.

Section 4.26. Regulatory Proceedings. 4.26. Regulatory Proceedings. Except as set forth in the Parent

Disclosure Letter and other than fuel adjustment or purchase gas adjustment or similar adjusting rate mechanisms, none of Parent or the Parent Subsidiaries all or part of whose rates or services are regulated by a Governmental Entity (a) is a party to any rate proceeding before a Governmental Entity that would reasonably be expected to result in orders having a Parent Material Adverse Effect or (b) has rates that have been or are being collected subject to refund, pending final resolution of any rate proceeding pending before a Governmental Entity or on appeal to a court.

ARTICLE V

Covenants Relating to Conduct of BusinessV
Covenants Relating to Conduct of Business

SECTION 5.01. Conduct of BusinessSECTION 5.01. Conduct of Business. (a) Conduct of Business by the Company. Except for matters set forth in the Company Disclosure Letter or otherwise expressly contemplated by this Agreement, from the date of this Agreement to the Merger Effective Time the Company shall, and shall cause each Company Subsidiary to, conduct its business in all material respects in the usual, regular and ordinary course substantially the same manner as previously conducted and use reasonable best efforts to preserve intact its current business organization in all material respects, subject to prudent management of work force and business needs, keep available the services of its current officers and key employees and keep its relationships with Governmental Entities, customers, suppliers, licensors, licensees, distributors and others having business dealings with them to the end that its goodwill and ongoing business shall be unimpaired in all material respects at the Merger Effective Time. In addition, and without limiting the generality of the foregoing, except for matters set forth in the Company Disclosure Letter or otherwise expressly contemplated by this Agreement, from the date of this Agreement to the Merger Effective Time, the Company shall not, and shall not permit any Company Subsidiary to, do any of the following without the prior written consent of Parent:

(i) (A) declare, set aside or pay any dividends on, or make any other distributions in respect of, any

of its capital stock, other than (1) dividends and distributions by a direct or indirect wholly owned subsidiary of the Company to its parent, (2) regular quarterly cash dividends with respect to the Company Common Stock, not in excess of $0.40 per share, in accordance with the Company's past dividend policy, and (3) regular cash dividends with respect to preferred stock of the Company or its subsidiaries in accordance with the current terms thereof, (B) split, combine or reclassify any of its capital stock or issue or authorize the issuance of any other securities in respect of, in lieu of or in substitution for shares of its capital stock, or (C) purchase, redeem or otherwise acquire any shares of capital stock of the Company or any Company Subsidiary or any other securities thereof or any rights, warrants or options to acquire any such shares or other securities;

(ii) issue, deliver, sell or grant (A) any shares of its capital stock, (B) any Voting Company Debt or other voting securities, (C) any securities convertible into or exchangeable for, or any options, warrants or rights to acquire, any such shares, Voting Company Debt, voting securities or convertible or exchangeable securities or (D) any "phantom" stock, "phantom" stock rights, stock appreciation rights or stock-based performance units, other than (1) the issuance of Company Common Stock (and associated Company Rights) upon the exercise of Company Employee Stock Options outstanding on the date of this Agreement and in accordance with their present terms or pursuant to the terms of any Company Benefit Plan or Company Employment Arrangement as in effect on the date of this Agreement or as amended in accordance with or as permitted by its Agreement, (2) the issuance, subject to Section 5.01(a)(v), of up to an additional 5,000,000 Company Employee Stock Options pursuant to the Company Stock Plans in accordance with their present terms and the terms of the Company stock options issued in the ordinary course prior to the date of this Agreement and the issuance of Company Common Stock (and associated Company Rights) upon the exercise of such Company Employee Stock Options and (3) the issuance of "phantom" stock or "phantom" stock rights or, subject to Section 5.01(a)(v), stock appreciation rights or

stock-based performance units, pursuant to the terms of any Company Benefit Plan or Company Employment Arrangement in effect on the date of this Agreement or as amended in accordance with or as permitted by this Agreement, and (4) the issuance of Company Common Stock upon the exercise of Company Rights;

(iii) amend its certificate of incorporation, by-laws or other comparable charter or organizational documents, except for such amendments to its certificate of incorporation, by-laws and other comparable charter or organizational documents that do not have an adverse affect on the Merger and the other Transactions;

(iv) acquire or agree to acquire (A) by merging or consolidating with, or by purchasing a substantial equity interest in or portion of the assets of, or by any other manner, any business or any corporation, partnership, joint venture, association or other business organization or division thereof or (B) any assets that in either case are material, individually or in the aggregate, to the Company and the Company Subsidiaries, taken as a whole;

(v) except to the extent required by Applicable Law or by the terms of any Company Benefit Plan, Company Employment Arrangement or collective bargaining agreement in effect as of the date of this Agreement, (A) grant to any current or former employee, officer or director of the Company or any Company Subsidiary any increase in compensation or benefits or new incentive compensation grants, except in the ordinary course of business consistent with prior practice, (B) grant to any current or former employee, officer or director of the Company or any Company Subsidiary any increase in severance, pay to stay or termination pay, except to the extent consistent with past practice and that, in the aggregate, does not result in a material increase in benefits or compensation expenses, (C) enter into or amend any Company Employment Arrangement with any such current or former employee, officer or director, except to the extent permitted in subsection (B) above, (D) establish, adopt, enter into or amend in any material respect any collective bargaining agreement or Company Benefit Plan, except, with respect to any

Company Benefit Plan that is a Qualified Plan, as may be required to facilitate or obtain a determination from the Internal Revenue Service that such Company Benefit Plan is a Qualified Plan or (E) take or permit to be taken any action to accelerate any rights or benefits or the funding thereof, or make or permit to be made any material determinations not in the ordinary course of business consistent with prior practice, under any collective bargaining agreement, Company Benefit Plan or Company Employment Arrangement; provided, however, that notwithstanding anything herein to the contrary, the foregoing shall not restrict the Company or the Company Subsidiaries from (1) entering into or making available to newly hired officers and employees or to officers and employees in the context of promotions based on job performance or workplace requirements in the ordinary course of business consistent with past practice, plans, agreements, benefits and compensation arrangements (including incentive grants) that have, consistent with past practice, been made available to newly hired or promoted officers and employees, or (2) entering into or amending collective bargaining agreements with existing collective bargaining representatives so as to increase compensation or benefits in a manner that does not materially increase the benefits or compensation expenses of the Company and the Company Subsidiaries;

(vi) make any change in accounting methods, principles or practices materially affecting the reported consolidated assets, liabilities or results of operations of the Company, except as required by a change in GAAP;

(vii) sell, lease (as lessor), license or otherwise dispose of or subject to any Lien any properties or assets that are material, individually or in the aggregate, to the Company and the Company Subsidiaries, taken as a whole, except sales of inventory and excess or obsolete assets in the ordinary course of business consistent with past practice;

(viii) except in the ordinary course of business consistent with prior practice, (A) incur any indebtedness for borrowed money or guarantee any such

indebtedness of another person, issue or sell any debt securities or warrants or other rights to acquire any debt securities of the Company or any Company Subsidiary, guarantee any debt securities of another person, enter into any "keep well" or other agreement to maintain any financial statement condition of another person or enter into any arrangement having the economic effect of any of the foregoing, in each case, other than in connection with a refinancing on commercially reasonable terms, or (B) make any loans, advances or capital contributions to, or investments in, any other person, other than to or in the Company or any direct or indirect wholly owned subsidiary of the Company;

(ix) make or agree to make any new capital expenditure or expenditures other than as permitted under Section 5.01(a)(iv) that, individually, is in excess of $50,000,000 or, in the aggregate during such period, are in excess of $250,000,000, except to the extent made or agreed to be made in order to ensure compliance with the rules and regulations or an order of the NRC or any other Governmental Entity or to ensure compliance with the terms of any Permit;

(x) make any material Tax election or settle or compromise any material Tax liability or refund;

(xi) engage in any activities which would cause a change in its status under PUHCA, or that would impair the ability of the Company or ComEd to claim an exemption as of right under Rule 2 of PUHCA prior to the Merger, other than the application to the SEC under PUHCA contemplated by this Agreement;

(xii) enter into or commit to any agreement for the purchase of capacity and/or energy ("Power Purchase Agreement") except for any Power Purchase Agreement that, in the ordinary course of business, can be entered into without the prior approval of the Board of Directors or a committee thereof of the Company (the threshold for requiring submission to the board or a committee not to be made substantially higher than that in effect on the date hereof) unless the Company consults with Parent regarding such Power Purchase

Agreement and the Company has obtained the prior written consent of Parent to such Power Purchase Agreement or such Power Purchase Agreement is fully compliant with criteria to which Parent has previously given a generic consent, in each case, which consent shall not be unreasonably withheld, it being understood that in such consultation process the Company and Parent shall comply with all Applicable Law and any applicable confidentiality or similar third party agreement; or

(xiii) authorize any of, or commit or agree to take any of, the foregoing actions.

(b) Conduct of Business by Parent. Except for matters set forth in Parent Disclosure Letter or otherwise expressly contemplated by this Agreement, from the date of this Agreement to the Merger Effective Time Parent shall, and shall cause each Parent Subsidiary to, conduct its business in all material respects in the usual, regular and ordinary substantially the same manner as previously conducted and use all reasonable efforts to preserve intact its current business organization in all material respects, subject to prudent management of work force and business needs, keep available the services of its current officers and employees and keep its relationships with Governmental Entities, customers, suppliers, licensors, licensees, distributors and others having business dealings with them to the end that its goodwill and ongoing business shall be unimpaired in all material respects at the Merger Effective Time. In addition, and without limiting the generality of the foregoing, except for matters set forth in the Parent Disclosure Letter or otherwise expressly contemplated by this Agreement, from the date of this Agreement to the Merger Effective Time, Parent shall not, and shall not permit any Parent Subsidiary to, do any of the following without the prior written consent of the Company:

(i) (A) declare, set aside or pay any dividends on, or make any other distributions in respect of, any of its capital stock, other than (1) dividends and distributions by a direct or indirect wholly owned subsidiary of Parent to its parent, (2) regular quarterly cash dividends with respect to the Parent Common Stock, not in excess of $0.25 per share, in

accordance with Parent's past dividend policy and (3) regular cash dividends with respect to preferred stock of Parent or its subsidiaries in accordance with the current terms thereof, (B) split, combine or reclassify any of its capital stock or issue or authorize the issuance of any other securities in respect of, in lieu of or in substitution for shares of its capital stock, or (C) purchase, redeem or otherwise acquire any shares of capital stock of Parent or any Parent Subsidiary or any other securities thereof or any rights, warrants or options to acquire any such shares or other securities;

(ii) issue, deliver, sell or grant (A) any shares of its capital stock, (B) any Voting Parent Debt or other voting securities, (C) any securities convertible into or exchangeable for, or any options, warrants or rights to acquire, any such shares, Voting Parent Debt, voting securities or convertible or exchangeable securities or (D) any "phantom" stock, "phantom" stock rights, stock appreciation rights or stock-based performance units, other than (1) the issuance of Parent Common Stock upon the exercise of Parent Employee Stock Options outstanding on the date of this Agreement and in accordance with their present terms or pursuant to the terms of any Parent Benefit Plan or Parent Employment Arrangement as in effect on the date of this Agreement or as amended in accordance with or as permitted by this Agreement, (2) the issuance, subject to Section 5.01(b)(v), of up to an additional 4,900,000 Parent Employee Stock Options and 100,000 shares of restricted stock pursuant to the Parent Stock Plans in accordance with their present terms and the terms of the Parent stock options issued in the ordinary course prior to the date of this Agreement and the issuance of Parent Common Stock upon the exercise of such Parent Employee Stock Options and (3) the issuance of "phantom" stock or "phantom" stock rights or, subject to Section 5.01 (b)(v), stock appreciation rights or stock-based performance units, pursuant to the terms of any Parent Benefit Plan or Parent Employment Arrangement in effect on the date of this Agreement or as amended in accordance with or as permitted by this Agreement;

(iii) amend its certificate of incorporation, by-laws or other comparable charter or organizational documents, except for such amendments to its certificate of incorporation, by-laws and other comparable charter or organizational documents that do not have an adverse affect on the Merger and the other Transactions;

(iv) acquire or agree to acquire (A) by merging or consolidating with, or by purchasing a substantial equity interest in or portion of the assets of, or by any other manner, any business or any corporation, partnership, joint venture, association or other business organization or division thereof, (B) any assets that are material, individually or in the aggregate, to Parent and the Parent Subsidiaries, taken as a whole, except Parent or a Parent Subsidiary may acquire or otherwise invest in any assets, other than nuclear plants, so long as Parent consults with the Company concerning any acquisition or investment that is not listed in the Parent Disclosure Letter and involves an expenditure that, individually, is the excess of $50,000,000, or in the aggregate during such period, are in excess of $250,000,000 or (C) any nuclear plants (whether through AmerGen Energy Company, LLC, a limited liability company organized under the laws of Delaware ("AmerGen"), or otherwise) other than those nuclear plants in respect of which Parent or AmerGen has made written offers or has signed agreements as of the date of this Agreement unless (1) Parent involves the Company in any review or consideration of such acquisition of additional nuclear plants, which involvement shall be for the purpose of ensuring that any such acquisition will be consistent with a rate of nuclear generation acquisitions and growth that will not impair Newco's ability to provide and maintain adequate resources and performance focus for the entire Newco fleet and (2) Parent has obtained the express written consent of the Company, which consent shall not be unreasonably withheld, prior to entering into, or permitting any Parent Subsidiary or AmerGen to enter into, the binding contract to acquire any such additional nuclear plant, or otherwise expanding its, or permitting any Parent Subsidiary or AmerGen to expand their, nuclear capacity;

(v) except to the extent required by Applicable Law or by the terms of any Parent Benefit Plan, Parent Employment Arrangement or collective bargaining agreement in effect as of the date of this Agreement, (A) grant to any current or former employee, officer or director of Parent or any Parent Subsidiary any increase in compensation or benefits or new incentive compensation grants, except in the ordinary course of business consistent with prior practice, (B) grant to any current or former employee, officer or director of Parent or any Parent Subsidiary any increase in severance, pay to stay or termination pay, except to the extent consistent with past practice and that, in the aggregate, does not result in a material increase in benefits or compensation expenses, (C) enter into or amend any Parent Employment Arrangement with any such current or former employee, officer or director, except to the extent permitted in subsection (B) above, (D) establish, adopt, enter into or amend in any material respect any collective bargaining agreement or Parent Benefit Plan, except, with respect to any Parent Benefit Plan that is a Qualified Plan, as may be required to facilitate or obtain a determination from the Internal Revenue Service that such Parent Benefit Plan is a Qualified Plan or (E) take or permit to be taken any action to accelerate any rights or benefits or the funding thereof, or make or permit to be made any material determinations not in the ordinary course of business consistent with prior practice, under any collective bargaining agreement, Parent Benefit Plan or Parent Employment Arrangement; provided, however, that notwithstanding anything herein to the contrary, the foregoing shall not restrict Parent or the Parent Subsidiaries from (1) entering into or making available to newly hired officers and employees or to officers and employees in the context of promotions based on job performance or workplace requirements in the ordinary course of business consistent with past practice, plans, agreements, benefits and compensation arrangements (including incentive grants) that have, consistent with past practice, been made available to newly hired or promoted officers and employees, or (2) entering into or amending collective bargaining agreements with existing collective bargaining

representatives so as to increase compensation or benefits in a manner that does not materially increase the benefits or compensation expenses of Parent and the Parent Subsidiaries;

(vi) make any change in accounting methods, principles or practices materially affecting the reported consolidated assets, liabilities or results of operations of Parent, except as required by a change in GAAP;

(vii) sell, lease (as lessor), license or otherwise dispose of or subject to any Lien any properties or assets that are material, individually or in the aggregate, to Parent and the Parent Subsidiaries, taken as a whole, except sales of inventory and excess or obsolete assets in the ordinary course of business consistent with past practice;

(viii) except in the ordinary course of business consistent with prior practice, (A) incur any indebtedness for borrowed money or guarantee any such indebtedness of another person, issue or sell any debt securities or warrants or other rights to acquire any debt securities of Parent or any Parent Subsidiary, guarantee any debt securities of another person, enter into any "keep well" or other agreement to maintain any financial statement condition of another person or enter into any arrangement having the economic effect of any of the foregoing, in each case, other than in connection with a refinancing on commercially reasonable terms, or (B) make any loans, advances or capital contributions to, or investments in, any other person, other than to or in Parent or any direct or indirect wholly owned subsidiary of Parent;

(ix) make or agree to make any new capital expenditure or expenditures other than as permitted by Section 5.01(b)(iv) that, individually, is in excess of $50,000,000 or, in the aggregate, are in excess of $250,000,000, except to the extent made or agreed to be made in order to ensure compliance with the rules and regulations or an order of the NRC or any other Governmental Entity or to ensure compliance with the terms of any Permit;

(x) make any material Tax election or settle or compromise any material Tax liability or refund;

(xi) engage in any activities which would cause a change in its status under PUHCA, or that would impair the ability of Parent to claim an exemption as of right under Rule 2 of PUHCA prior to the Merger, other than the application to the SEC under PUHCA contemplated by this Agreement;

(xii) enter into or commit to any Power Purchase Agreement except for any Power Purchase Agreement that, in the ordinary course of business, can be entered into without the prior approval of the Board of Directors or a committee thereof of Parent (the threshold for requiring submission to the board or a committee not to be made substantially higher than that in effect on the date hereof) unless Parent consults with the Company regarding such Power Purchase Agreement and Parent has obtained the prior written consent of the Company to such Power Purchase Agreement or such Power Purchase Agreement is fully compliant with criteria to which the Company has previously given a generic consent, in each case, which consent shall not be unreasonably withheld, it being understood that in such consultation process Parent and the Company shall comply with all Applicable Law and any applicable confidentiality or similar third party agreement; or

(xiii) authorize any of, or commit or agree to take any of, the foregoing actions.

(c) Conduct of Business by Newco. Parent shall cause Newco to perform its obligations under this Agreement and shall not permit Newco to take any action other than in furtherance of this Agreement and the Transactions.

(d) Other Actions. The Company and Parent shall not, and shall not permit any of their respective subsidiaries to, take any action that would, or that could reasonably be expected to, result in (i) any of the representations and warranties of such party set forth in this Agreement that is qualified as to materiality becoming untrue, (ii) any of such representations and warranties that

is not so qualified becoming untrue in any material respect or (iii) except as otherwise permitted by Section 5.02 or 5.03, any condition to the Merger set forth in Article VII not being satisfied.

(e) Advice of Changes. The Company and Parent shall promptly advise the other orally and in writing of any change or event that has or could reasonably be expected to have a Company Material Adverse Effect or Parent Material Adverse Effect, as the case may be.

(f) Coordination of Dividends. Each of Parent and the Company shall coordinate with the other regarding the declaration and payment of dividends in respect of Parent Common Stock and Company Common Stock and the record dates and payment dates relating thereto, it being the intention of Parent and the Company that no holder of Parent Common Stock, Company Common Stock or Newco Common Stock shall receive two dividends, or fail to receive one dividend, for any single calendar quarter with respect to its shares of Parent Common Stock or Company Common Stock, as the case may be, and/or any shares of Newco Common Stock any such holder receives in exchange therefor pursuant to the Merger.

(g) Reorganizations. The parties hereto agree that this Agreement shall not in any manner restrict (i) Parent from forming a holding company and such subsidiaries as Parent considers appropriate to separate its regulated and unregulated businesses (the "Parent Reorganization") and (ii) the Company from forming such subsidiaries as the Company considers appropriate to separate its regulated and unregulated businesses (the "Company Reorganization"). The parties to this Agreement acknowledge and agree that implementation by Parent of the Parent Reorganization or by the Company of the Company Reorganization shall not constitute (x) a breach of or failure to perform any of the representations, warranties or covenants in this Agreement or (y) otherwise result in the failure of any condition to the obligation of the Company or Parent, as applicable, to consummate the Merger to be satisfied.

SECTION 5.02. No Solicitation by CompanySECTION 5.02. No Solicitation by Company. (a) The Company

agrees that, during the term of this Agreement, it shall not, and shall not authorize or permit any of its subsidiaries or any director, officer, employee, agent or representative (collectively, "Representatives") of the Company or any of its subsidiaries, directly or indirectly, to (i) solicit, initiate, encourage or facilitate, or furnish or disclose non-public information in furtherance of, any inquiries or the making of any proposal with respect to a Company Competing Transaction (as defined herein) or (ii) negotiate, explore or otherwise engage in discussions with any person (other than Parent or Newco or their respective Representatives) with respect to any Company Competing Transaction. The term "Company Competing Transaction" means any recapitalization, merger, consolidation or other business combination involving the Company, or acquisition of any material portion of the capital stock or assets (except for (A) acquisitions of assets in the ordinary course of business, (B) acquisitions by the Company that do not and could not reasonably be expected to impede the consummation of the Merger and do not violate any other covenant in this Agreement, (C) transactions disclosed in the Company Disclosure Letter and (D) the Transactions) of the Company, or any combination of the foregoing. The Company will immediately cease all existing activities, discussions and negotiations with any parties conducted heretofore with respect to any of the foregoing and shall use its reasonable best efforts to enforce any confidentiality or similar agreement relating to a Company Competing Transaction. From and after the execution of this Agreement, the Company shall immediately advise Parent in writing of the receipt, directly or indirectly, of any inquiries, discussions, negotiations, or proposals relating to a Company Competing Transaction (including the specific terms thereof), and promptly furnish to Parent a copy of any such proposal or inquiry in addition to any information provided to or by any third party relating thereto and if such proposal or inquiry is not in writing, the identity of the person making such proposal or inquiry. Notwithstanding the foregoing, prior to receipt of the Company Shareholder Approval, the Company may, but only to the extent that the Board of Directors of the Company shall conclude in good faith, based upon the advice of its outside counsel, that failure to take such action could reasonably be expected to constitute a breach of the fiduciary obligations of such Board of Directors under

Applicable Law, in response to a proposal for a Company Competing Transaction that constitutes a Qualifying Company Proposal (as defined in Section 5.02(d)) that did not result from the breach or a deemed breach of this Section 5.02, and subject to compliance with the notification provisions of this Section 5.02, (A) furnish non-public information with respect to the Company to the person proposing such Company Competing Transaction and its Representatives pursuant to a confidentiality agreement with terms no less restrictive of such person than those set forth in the Confidentiality Agreement (as defined in Section 6.02) and (B) participate in discussions or negotiations with such person and its Representatives regarding such Company Competing Transaction. Without limiting the foregoing, it is agreed that any violation of the restrictions set forth in this Section 5.02(a) by any Representative or affiliate of the Company or any Company Subsidiary, whether or not such person is purporting to act on behalf of the Company or any Company Subsidiary or otherwise, shall be deemed to be a breach of this Section 5.02(a) by the Company.

(b) Neither the Board of Directors of the Company nor any committee thereof shall (i) withdraw or modify, or propose to withdraw or modify, in a manner adverse to Parent, the approval or recommendation by the Board of Directors of the Company of this Agreement and the Transactions, (ii) approve, or permit or cause the Company to enter into, any definitive agreement providing for the implementation of any Company Competing Transaction (each a "Company Acquisition Agreement") or (iii) approve or recommend, or propose to approve or recommend, any Company Competing Transaction. Notwithstanding the foregoing, prior to receipt of the Company Shareholder Approval, and only to the extent that the Board of Directors of the Company shall conclude in good faith, based upon the advice of its outside counsel, that failure to take such action could reasonably be expected to constitute a breach of the fiduciary obligations of such Board of Directors under Applicable Law in response to a proposal for a Company Competing Transaction that constitutes a Qualifying Company Proposal that did not result from the breach or a deemed breach of this Section 5.02, (A) the Board of Directors of the Company may withdraw or modify its approval or recommendation of this Agreement and the Transactions and, in connection therewith, approve or recommend such Qualifying Company

Proposal and (B) the Board of Directors of the Company may approve and the Company may enter into a Company Acquisition Agreement contemporaneously with its termination of this Agreement pursuant to Section 8.01(f).

(c) Nothing contained in this Section 5.02 shall prohibit the Company from taking and disclosing to its shareholders a position contemplated by Rule 14e-2(a) promulgated under the Exchange Act or from making any disclosure to its shareholders if, in the good faith judgment of the Board of Directors of the Company after consultation with outside counsel, failure to so disclose would be inconsistent with its obligations under Applicable Law.

(d) For purposes of this Agreement, "Qualifying Company Proposal" means any proposal made by a third party to acquire all of the equity securities or all or substantially all of the assets of the Company, pursuant to a tender offer, a merger, a consolidation, a recapitalization, a sale of its assets or otherwise, that is (A) for consideration that is comprised solely of cash or marketable securities, or a combination thereof, and not conditioned on financing, (B) on terms which the Board of Directors of the Company determines in its good faith judgment (based on the advice of a nationally recognized independent investment banking firm) to be superior from a financial point of view to the holders of Company Common Stock to the Transactions (taking into account all of the terms of any proposal by Parent to amend or modify the terms of the Transactions) and to be more favorable generally to the Company's shareholders than the Transactions (taking into account all financial and strategic considerations, including relevant legal, financial, regulatory and other aspects of such proposal and the third party making such proposal and the conditions and prospects for completion of such proposal, the strategic direction of and benefits sought by the Company and all of the terms of any proposal by Parent to amend or modify the terms of the Transactions) and (C) reasonably capable of being completed within 18 months of the termination of this Agreement or by the Outside Date, whichever is later, taking into account all legal, financial, regulatory and other aspects of such proposal and the third party making such proposal.

SECTION 5.03. No Solicitation by ParentSECTION

5.03. No Solicitation by Parent. (a) Parent agrees that, during the term of this Agreement, it shall not, and shall not authorize or permit any of its subsidiaries or any of its or its subsidiaries' Representatives, directly or indirectly, to (i) solicit, initiate, encourage or facilitate, or furnish or disclose non-public information in furtherance of, any inquiries or the making of any proposal with respect to a Parent Competing Transaction (as defined herein) or (ii) negotiate, explore or otherwise engage in discussions with any person (other than Company or Newco or their respective Representatives) with respect to any Parent Competing Transaction. The term "Parent Competing Transaction" means any recapitalization, merger, consolidation or other business combination involving Parent, or acquisition of any material portion of the capital stock or assets (except for (A) acquisitions of assets in the ordinary course of business, (B) acquisitions by Parent that do not and could not reasonably be expected to impede the consummation of the Merger and do not violate any other covenant in this Agreement, (C) transactions disclosed in the Parent Disclosure Letter and (D) the Transactions) of Parent, or any combination of the foregoing. Parent will immediately cease all existing activities, discussions and negotiations with any parties conducted heretofore with respect to any of the foregoing and shall use its reasonable best efforts to enforce any confidentiality or similar agreement relating to a Parent Competing Transaction. From and after the execution of this Agreement, Parent shall immediately advise the Company in writing of the receipt, directly or indirectly, of any inquiries, discussions, negotiations, or proposals relating to a Parent Competing Transaction (including the specific terms thereof), and promptly furnish to the Company a copy of any such proposal or inquiry in addition to any information provided to or by any third party relating thereto and if such proposal or inquiry is not in writing, the identity of the person making such proposal or inquiry. Notwithstanding the foregoing, prior to receipt of the Parent Shareholder Approval, Parent may, but only to the extent that the Board of Directors of Parent shall conclude in good faith, based upon the advice of its outside counsel, that failure to take such action could reasonably be expected to constitute a breach of the fiduciary obligations of such Board of Directors under Applicable Law, in response to a proposal for a Parent Competing Transaction that

constitutes a Qualifying Parent Proposal (as defined in Section 5.03(d)) that did not result from the breach or a deemed breach of this Section 5.03, and subject to compliance with the notification provisions of this Section 5.03, (A) furnish non-public information with respect to Parent to the person proposing such Parent Competing Transaction and its Representatives pursuant to a confidentiality agreement with terms no less restrictive of such person than those set forth in the Confidentiality Agreement (as defined in Section 6.02) and (B) participate in discussions or negotiations with such person and its Representatives regarding such Parent Competing Transaction. Without limiting the foregoing, it is agreed that any violation of the restrictions set forth in this Section 5.03(a) by any Representative or affiliate of Parent or any Parent Subsidiary, whether or not such person is purporting to act on behalf of Parent or any Parent Subsidiary or otherwise, shall be deemed to be a breach of this Section 5.03(a) by Parent.

(b) Neither the Board of Directors of Parent nor any committee thereof shall (i) withdraw or modify, or propose to withdraw or modify, in a manner adverse to the Company, the approval or recommendation by the Board of Directors of Parent of this Agreement and the Transactions, (ii) approve, or permit or cause Parent to enter into, any definitive agreement providing for the implementation of any Parent Competing Transaction (each a "Parent Acquisition Agreement") or (iii) approve or recommend, or propose to approve or recommend, any Parent Competing Transaction. Notwithstanding the foregoing, prior to receipt of the Parent Shareholder Approval, and only to the extent that the Board of Directors of Parent shall conclude in good faith, based upon the advice of its outside counsel, that failure to take such action could reasonably be expected to constitute a breach of the fiduciary obligations of such Board of Directors under Applicable Law in response to a proposal for a Parent Competing Transaction that constitutes a Qualifying Parent Proposal that did not result from the breach or a deemed breach of this Section 5.03, (A) the Board of Directors of Parent may withdraw or modify its approval or recommendation of this Agreement and the Transactions and, in connection therewith, approve or recommend such Qualifying Parent Proposal and (B) the Board of Directors of Parent may approve and Parent may enter into

a Parent Acquisition Agreement contemporaneously with its termination of this Agreement pursuant to Section 8.01(h).

(c) Nothing contained in this Section 5.03 shall prohibit Parent from taking and disclosing to its shareholders a position contemplated by Rule 14e-2(a) promulgated under the Exchange Act or from making any disclosure to its shareholders if, in the good faith judgment of the Board of Directors of Parent after consultation with outside counsel, failure to so disclose would be inconsistent with its obligations under Applicable Law.

(d) For purposes of this Agreement, "Qualifying Parent Proposal" means any proposal made by a third party to acquire all of the equity securities or all or substantially all of the assets of Parent, pursuant to a tender offer, a merger, a consolidation, a recapitalization, a sale of its assets of otherwise, that is (A) for consideration that is comprised solely of cash or marketable securities, or a combination thereof, and not conditioned on financing, (B) on terms which the Board of Directors of Parent determines in its good faith judgment (based on the advice of a nationally recognized independent investment banking firm) to be superior from a financial point of view to the holders of Parent Common Stock to the Transactions (taking into account all of the terms of any proposal by Company to amend or modify the terms of the Transactions) and to be more favorable generally to Parent's shareholders than the Transactions (taking into account all financial and strategic considerations, including relevant legal, financial, regulatory and other aspects of such proposal and the third party making such proposal and the conditions and prospects for completion of such proposal, the strategic direction of and benefits sought by Parent and all of the terms of any proposal by the Company to amend or modify the terms of the Transactions) and (C) reasonably capable of being completed within 18 months of the termination of this Agreement or by the Outside Date, whichever is later, taking into account all legal, financial, regulatory and other aspects of such proposal and the third party making such proposal.

ARTICLE VI

Additional AgreementsVI Additional Agreements

SECTION 6.01. Preparation of the Form S-4 and the Proxy Statement; Shareholders MeetingsSECTION 6.01. Preparation of the Form S-4 and the Proxy Statement; Shareholders Meetings; Adoption by Sole Shareholder. (a) As soon as practicable following the date of this Agreement, the Company, Parent and Newco shall prepare and file with the SEC the Proxy Statement in preliminary form and Parent, the Company and Newco shall prepare and file with the SEC the Form S-4, in which the Proxy Statement will be included as a prospectus. Each of the Company, Parent and Newco shall use its reasonable best efforts to have the Form S-4 declared effective under the Securities Act as promptly as practicable after such filing. Each of the Company, Parent and Newco shall use its reasonable best efforts to cause the Proxy Statement to be mailed to its respective shareholders as promptly as practicable after the Form S-4 is declared effective under the Securities Act. Newco shall also take any action (other than qualifying to do business in any jurisdiction in which it is not now so qualified) required to be taken under any applicable state securities laws in connection with the issuance of Newco Common Stock in the Merger and under the Company Stock Plans and the Parent Stock Plans, and the Company and Parent shall furnish all information concerning the Company or Parent, as applicable, and the holders of the Company Common Stock or Parent Common Stock and rights to acquire Company Common Stock or Parent Common Stock pursuant to the Company Stock Plans or the Parent Stock Plans as may be reasonably requested in connection with any such action. The parties shall notify each other promptly of the receipt of any comments from the SEC or its staff and of any request by the SEC or its staff for amendments or supplements to the Proxy Statement or the Form S-4 or for additional information and shall supply each other with copies of all correspondence between such party or any of its Representatives, on the one hand, and the SEC or its staff, on the other hand, with respect to the Proxy Statement, the Form S-4 or the Merger.

(b) If prior to the Merger Effective Time any event occurs with respect to the Company or any Company Subsidiary or any change occurs with respect to information supplied by or on behalf of the Company for inclusion in the

Proxy Statement or the Form S-4 which, in each case, is required to be described in an amendment of, or a supplement to, the Proxy Statement or the Form S-4, the Company shall promptly notify Parent of such event, and the Company shall cooperate with Parent and Newco in the prompt filing with the SEC of any necessary amendment or supplement to the Proxy Statement and Form S-4 and, as required by law, in disseminating the information contained in such amendment or supplement to the Company's shareholders and to Parent's shareholders.

(c) If prior to the Merger Effective Time any event occurs with respect to Parent or any Parent Subsidiary or any change occurs with respect to information supplied by or on behalf of Parent for inclusion in the Proxy Statement or the Form S-4 which, in each case, is required to be described in an amendment of, or a supplement to, the Proxy Statement or the Form S-4, Parent shall promptly notify the Company of such event, and Parent shall cooperate with Company in the prompt filing with the SEC of any necessary amendment or supplement to the Proxy Statement and the Form S-4 and, as required by law, in disseminating the information contained in such amendment or supplement to the Company's shareholders and to Parent's shareholders.

(d) The Company shall, as soon as practicable following effectiveness of the Form S-4, duly call, give notice of, convene and hold a meeting of its shareholders (the "Company Shareholders Meeting") for the purpose of seeking the Company Shareholder Approval. The Company shall use its reasonable best efforts to cause the Proxy Statement to be mailed to the Company's shareholders as promptly as practicable after the Form S-4 is declared effective under the Securities Act. Subject to Section 5.02(b), the Company shall, through its Board of Directors, recommend to its shareholders that they give the Company Shareholder Approval. Without limiting the generality of the foregoing, the Company agrees that its obligations pursuant to the first two sentences of this Section 6.01(d) shall not be affected by the commencement, public proposal, public disclosure or communication to the Company of any Company Competing Transaction.

(e) Parent shall, as soon as practicable following the date of this Agreement, duly call, give notice

of, convene and hold a meeting of its shareholders (the "Parent Shareholders Meeting") for the purpose of seeking the Parent Shareholder Approval. The Parent shall use its reasonable best efforts to cause the Proxy Statement to be mailed to the Parent's shareholders as promptly as practicable after the Form S-4 is declared effective under the Securities Act. Subject to Section 5.03(b), Parent shall, through its Board of Directors, recommend to its shareholders that they give the Parent Shareholder Approval. Without limiting the generality of the foregoing, Parent agrees that its obligations pursuant to the first two sentences of this Section 6.01(e) shall not be affected by the commencement, public proposal, public disclosure or communication to Parent of any Parent Competing Transaction.

(f) The Company shall use its reasonable best efforts to cause to be delivered to Parent a letter of Arthur Andersen LLP, the Company's independent public accountants, dated a date within two business days before the date on which the Form S-4 shall become effective and addressed to Parent, in form and substance reasonably satisfactory to Parent and customary in scope and substance for letters delivered by independent public accountants in connection with registration statements similar to the Form S-4.

(g) Parent shall use its reasonable best efforts to cause to be delivered to the Company a letter of PricewaterhouseCoopers LLP, Parent's independent public accountants, dated a date within two business days before the date on which the Form S-4 shall become effective and addressed to the Company, in form and substance reasonably satisfactory to the Company and customary in scope and substance for letters delivered by independent public accountants in connection with registration statements similar to the Form S-4.

(h) Parent, as sole shareholder of Newco, shall adopt this Agreement.

SECTION 6.02. Access to Information; ConfidentialitySECTION 6.02. Access to Information; Confidentiality. Each of the Company and Parent after reasonable notice shall, and shall cause each of its respective subsidiaries to, afford to the other party and to the officers,

employees, accountants, counsel, financial advisors and other representatives of such other party, reasonable access during normal business hours during the period prior to the Merger Effective Time to all their respective properties, books, contracts, commitments, personnel and records and, during such period, each of the Company and Parent shall, and shall cause each of its respective subsidiaries to, furnish promptly to the other party (a) a copy of each report, schedule, registration statement and other document filed by it during such period pursuant to the requirements of Federal or state securities laws and (b) all other information concerning its business, properties and personnel as such other party may reasonably request. Without limiting the generality of the foregoing, each of the Company and Parent shall, within two business days of request therefor, provide to the other the information (x) described in Rule 14a-7(a)(2)(ii) under the Exchange Act, (y) to which a holder of Company Common Stock would be entitled under Section 7.75 of the IBCA (assuming such holder met the requirements of such Section) and (z) to which a holder of Parent Common Stock would be entitled under Section 1508 of the PBCL (assuming such holder met the requirements of such Section). All information exchanged pursuant to this Section 6.02 shall be subject to the confidentiality agreement dated July 15, 1999, between the Company and Parent (the "Confidentiality Agreement"), and this Agreement constitutes a Definitive Agreement as defined therein.

SECTION 6.03. Regulatory Matters; Reasonable Best EffortsSECTION 6.03. Regulatory Matters; Reasonable Best Efforts. (a) Regulatory Approvals. Upon the terms and subject to the conditions set forth in this Agreement, and subject to actions taken in compliance with Section 5.02(b) or 5.03(b), as the case may be, each of the parties hereto shall cooperate and promptly prepare and file all necessary documentation, to effect all necessary applications, notices, petitions, filings and other documents, and shall use reasonable best efforts to obtain all necessary Consents of all Governmental Entities necessary or advisable to consummate and make effective, in the most expeditious manner practicable, the Merger and the other Transactions, including the Parent Required Statutory Approvals and the Company Required Statutory Approvals. Parent shall have the right to review and approve in advance all characterizations

of the information relating to the Company, on the one hand, and the Company shall have the right to review and approve in advance all characterizations of the information relating to Parent, on the other hand, in either case, which appear in any filing made in connection with the Merger or the other Transactions. Parent and the Company agree that they will consult with each other with respect to the obtaining of all such necessary Consents of Governmental Entities.

(b) Further Actions. Upon the terms and subject to the conditions set forth in this Agreement, each of the parties agrees to use reasonable best efforts to take, or cause to be taken, all actions, and to do, or cause to be done, and to assist and cooperate with the other parties in doing, all things necessary, proper or advisable to consummate and make effective, in the most expeditious manner practicable, the Merger and the other Transactions, including (i) the obtaining of all necessary consents, approvals or waivers from third parties, (ii) the defending of any lawsuits or other legal proceedings, whether judicial or administrative, challenging this Agreement or the consummation of the Transactions, including seeking to have any stay or temporary restraining order entered by any court or other Governmental Entity vacated or reversed, and (iii) the execution and delivery of any additional instruments necessary to consummate the Transactions and to fully carry out the purposes of this Agreement. Notwithstanding the foregoing, the Company and its Representatives and Parent and its Representatives shall not be prohibited under this Section 6.03(b) from taking any actions in compliance with Section 5.02(b) or 5.03(b), respectively.

(c) State Anti-Takeover Statutes. In connection with and without limiting the generality of Section 6.03(b), Parent and the Company shall (i) take all action necessary to ensure that no state anti-takeover statute or similar statute or regulation is or becomes applicable to any Transaction or this Agreement and (ii) if any state anti-takeover statute or similar statute or regulation becomes applicable to any Transaction or this Agreement, take all action necessary to ensure that the Merger and the other Transactions may be consummated as promptly as practicable on the terms contemplated by this Agreement and otherwise to minimize the effect of such statute or regulation on the

Merger and the other Transactions. Notwithstanding the foregoing, the Company and its Representatives and Parent and its Representatives shall not be prohibited under this Section 6.03(c) from taking any action permitted by Section 5.02(b) or 5.03(b), respectively.

(d) Notices. The Company shall give prompt notice to Parent, and Parent or Newco shall give prompt notice to the Company, of (i) any representation or warranty made by it contained in this Agreement that is qualified as to materiality becoming untrue or inaccurate in any respect or any such representation or warranty that is not so qualified becoming untrue or inaccurate in any material respect or (ii) the failure by it to comply with or satisfy in any material respect any covenant, condition or agreement to be complied with or satisfied by it under this Agreement; provided, however, that no such notification shall affect the representations, warranties, covenants or agreements of the parties or the conditions to the obligations of the parties under this Agreement.

SECTION 6.04. Company and Parent Stock Options and Other Stock Plans.6.04. Company and Parent Stock Options and Other Stock Plans. (a) Prior to the Merger Effective Time, the Company Board (or, if appropriate, any committee administering the Company Stock Plans) shall adopt such resolutions or take such other actions as may be required to effect the following:

(i) adjust the terms of all outstanding Company Employee Stock Options to provide that, at the Merger Effective Time, each Company Employee Stock Option outstanding immediately prior to the Merger Effective Time shall be deemed to constitute an option to acquire, on the same terms and conditions as were applicable under such Company Employee Stock Option, the same number of shares of Newco Common Stock as the holder of such Company Employee Stock Option would have been entitled to receive pursuant to the Merger had such holder exercised such Company Employee Stock Option in full immediately prior to the Merger Effective Time, at a price per share equal to (A) the aggregate exercise price for the shares of Company Common Stock otherwise purchasable pursuant to such Company Employee Stock Option immediately prior to the Merger Effective Time

(whether or not exercisable) divided by (B) the number of shares of Newco Common Stock deemed purchasable pursuant to such Company Employee Stock Option; provided, however, that in the case of any qualified stock options under Sections 422-424 of the Code, the option price, the number of shares purchasable pursuant to such option and the terms and conditions of exercise of such option shall be determined in order to comply with Section 424(a) of the Code;

(ii) make such other changes to the Company Stock Plans and the terms of any Company Employee Stock Options as it deems appropriate to give effect to the Merger (subject to the approval of Parent, which shall not be unreasonably withheld); and

(iii) ensure that, after the Merger Effective Time, no Company Employee Stock Options may be granted under any Company Stock Plan.

(b) Prior to the Exchange Effective Time, the Parent Board (or, if appropriate, any committee administering the Parent Stock Plans) shall adopt such resolutions or take such other actions as may be required to effect the following:

(i) adjust the terms of all outstanding Parent Employee Stock Options to provide that, at the Exchange Effective Time, each Parent Employee Stock Option outstanding immediately prior to the Exchange Effective Time shall be deemed to constitute an option to acquire, on the same terms and conditions as were applicable under such Parent Employee Stock Option, the same number of shares of Newco Common Stock as the holder of such Parent Employee Stock Option would have been entitled to receive pursuant to the Merger had such holder exercised such Parent Employee Stock Option in full immediately prior to the Exchange Effective Time, at a price per share equal to (A) the aggregate exercise price for the shares of Parent Common Stock otherwise purchasable pursuant to such Parent Employee Stock Option immediately prior to the Exchange Effective Time (whether or not exercisable) divided by (B) the number of shares of Newco Common Stock deemed purchasable pursuant to such Parent Employee Stock

Option; provided, however, that in the case of any qualified stock options under Sections 422-424 of the Code, the option price, the number of shares purchasable pursuant to such option and the terms and conditions of exercise of such option shall be determined in order to comply with Section 424(a) of the Code;

(ii) make such other changes to the Parent Stock Plans and the terms of outstanding Parent Employee Stock Options as it deems appropriate to give effect to the Merger (subject to the approval of the Company, which shall not be unreasonably withheld); and

(iii) ensure that, after the Exchange Effective Time, no Parent Employee Stock Options may be granted under any Parent Stock Plan.

(c) At the Merger Effective Time, and subject to compliance by the Company with Section 6.04(a), Newco shall assume all the obligations of the Company under the Company Stock Plans, each outstanding Company Employee Stock Option and the agreements evidencing the grants thereof. As soon as practicable after the Merger Effective Time, Newco shall deliver to the holders of Company Employee Stock Options appropriate notices setting forth such holders' rights pursuant to the respective Company Stock Plans, and the agreements evidencing the grants of such Company Employee Stock Options shall continue in effect on the same terms and conditions (subject to the adjustments required by this Section 6.04 after giving effect to the Merger). Newco shall comply with the terms of the Company Stock Plans and ensure, to the extent required by, and subject to the provisions of, such Company Stock Plans, that the Company Employee Stock Options that qualified as qualified stock options prior to the Merger Effective Time continue to qualify as qualified stock options after the Merger Effective Time.

(d) At the Exchange Effective Time, and subject to compliance by Parent with Section 6.04(b), Newco shall assume all the obligations of Parent under the Parent Stock Plans, each outstanding Parent Employee Stock Option and Parent SAR the agreements evidencing the grants thereof. As soon as practicable after the Exchange Effective Time, Newco shall deliver to the holders of Parent Employee Stock

Options and Parent SARs appropriate notices setting forth such holders' rights pursuant to the respective Parent Stock Plans, and the agreements evidencing the grants of such Parent Employee Stock Options and Parent SARs shall continue in effect on the same terms and conditions (subject to the adjustments required by this Section 6.04 after giving effect to the Merger). Newco shall comply with the terms of the Parent Stock Plans and ensure, to the extent required by, and subject to the provisions of, such Parent Stock Plans, that the Parent Employee Stock Options that qualified as qualified stock options prior to the Exchange Effective Time continue to qualify as qualified stock options after the Exchange Effective Time.

(e) With respect to each employee or director benefit or compensation plan, program or arrangement, other than the Company Stock Plans and the Parent Stock Plans, under which Company Common Stock or Parent Common Stock is required to be used for purposes of the payment of benefits, grant of awards or exercise of options (each, a "Stock Plan"), (i) the Company and the Parent shall take such action as may be necessary so that, after the Merger Effective Time, such Stock Plan shall provide for issuance or purchase in the open market only of Newco Common Stock rather than Company Common Stock or Parent Common Stock, as the case may be, and otherwise to amend such Stock Plans to reflect this Agreement and the Merger, and (ii) Newco shall take all corporate action necessary or appropriate to obtain shareholder approval with respect to such Stock Plan to the extent such approval is required for purposes of the Code or other Applicable Law. Newco shall take all corporate action necessary to reserve for issuance a sufficient number of shares of Newco Common Stock for delivery upon exercise of the Company Employee Stock Options and Parent Employee Stock Options assumed in accordance with this Section 6.04 or the payment of benefits, grant of awards or exercise of options under such Stock Plans. As soon as reasonably practicable after the Merger Effective Time, Newco shall file one or more registration statements on Form S-8 (or any successor or other appropriate form) with respect to the shares of Newco Common Stock subject to such Company Employee Stock Options and Parent Employee Stock Options or to such Stock Plans and shall use its reasonable best efforts to maintain the effectiveness of such registration statement or registration statements (and maintain the current status of

the prospectus or prospectuses contained therein or related thereto) for so long as such Company Employee Stock Options and Parent Employee Stock Options or such benefits or grants of awards remain payable or such options remain outstanding. With respect to those individuals who subsequent to the Merger will be subject to the reporting requirements under Section 16(a) of the Exchange Act, where applicable, Newco shall administer the Company Stock Plans and Parent Stock Plans assumed pursuant to this Section 6.04 and the Stock Plans in a manner that complies with Rule 16b-3 of the SEC to the extent the applicable plan complied with such rule prior to the Merger. Prior to the Merger Effective Time, Parent and Newco shall take all actions as may be reasonably required to cause the acquisition of equity securities of Newco, as contemplated by this Section 6.04, by any person who is or will become a director or officer of Newco to be eligible for exemption under Rule 16b-3(d) of the SEC.

(f) In this Agreement:

"Company Employee Stock Option" means any option to purchase Company Common Stock granted under any Company Stock Plan.

"Company Stock Plans" means the Long-Term Incentive Plan of the Company as amended from time to time.

"Parent Employee Stock Option" means any option to purchase Parent Common Stock granted under any Parent Stock Plan.

"Parent Stock Plans" means the PECO Energy Company 1989 Long-Term Incentive Plan and the PECO Energy Company 1998 Stock Option Plan.

"Parent SAR" means any stock appreciation right linked to the price of Parent Common Stock and granted under any Parent Stock Plan.

SECTION 6.05. Benefit Plans; Workforce MattersSECTION 6.05. Benefit Plans; Workforce Matters. (a) From and after the Merger Effective Time, Newco and its subsidiaries shall honor and perform in accordance with their respective terms (as in effect on the date of this

Agreement or as amended in accordance with or as permitted by this Agreement), all the collective bargaining agreements of the Company, Parent or any of their respective subsidiaries disclosed in the Company Disclosure Letter or the Parent Disclosure Letter, respectively; provided, however, that this Section 6.05(a) is not intended to prevent Newco from enforcing such agreements in accordance with their respective terms, including enforcement of any reserved right to amend, modify, suspend, revoke or terminate any such agreement.

(b) Subject to Applicable Law and obligations under applicable collective bargaining agreements, it is the current intention of Parent and the Company that any reductions in workforce following the Merger Effective Time in respect of employees of Newco and its subsidiaries shall be made on a fair and equitable basis, in light of the circumstances and the objectives to be achieved, as determined by Newco, without regard to whether employment was with the Company or the Company Subsidiaries or Parent or the Parent Subsidiaries and with due consideration to the applicable employee's previous work history, prior experience and skills and Newco's business needs, and any employee whose employment is terminated or job is eliminated shall be entitled to participate on a fair and equitable basis as determined by Newco in the job opportunity and employment placement programs offered by Newco or any of its subsidiaries.

(c) Subject to Applicable Law and obligations under applicable collective bargaining agreements, each Company Benefit Plan, Parent Benefit Plan, Company Employment Arrangement and Parent Employment Arrangement in effect on the date of this Agreement (or as amended or established in accordance with or as permitted by this Agreement) shall be maintained in effect by Newco and its subsidiaries, except as provided in Section 6.04, with respect to their current and former employees, officers or directors of the Company and Company Subsidiaries and Parent and Parent Subsidiaries, respectively, who are covered by such plans or arrangements immediately prior to the Merger Effective Time until Newco determines otherwise on or after the Merger Effective Time. Newco and its subsidiaries shall honor, perform and, with respect to each Company Benefit Plan and Parent Benefit Plan and Company Employment

Arrangement and Parent Employment Arrangement that is not a multiemployer benefit plan within the meaning of Section 4001(a)(3) of ERISA, sponsor and administer, each such Company Benefit Plan and Parent Benefit Plan and Company Employment Arrangement and Parent Employment Arrangement in accordance with their respective terms (as in effect on the date of this Agreement or as amended in accordance with or as permitted by this Agreement), and Newco shall (i) assume as of the Merger Effective Time each Company Benefit Plan and Company Employment Arrangement maintained by the Company immediately prior to the Merger Effective Time and as of the Exchange Effective Time each Parent Benefit Plan and Parent Employment Arrangement maintained by Parent immediately prior to the Exchange Effective Time and (ii) perform the obligations under, sponsor and administer such plan or arrangement in the same manner and to the same extent that the Company or Parent, as the case may be, would be required to perform, sponsor and administer thereunder; provided, however, that nothing contained herein shall limit any reserved right contained in any such Company Benefit Plan, Company Employment Arrangement, Parent Benefit Plan or Parent Employment Arrangement to amend, modify, suspend, revoke or terminate any such plan or arrangement. Without limiting the foregoing, (i) each participant in any Company Benefit Plan or Parent Benefit Plan shall receive credit for purposes of eligibility to participate, vesting and eligibility to receive benefits (but specifically excluding for benefit accrual purposes or where such crediting would result in a duplication of benefits) under any benefit plan of Newco or any of its subsidiaries or affiliates for service credited for the corresponding purpose under any such benefit plan; provided, however, that such crediting of service shall not operate to cause any such plan or arrangement to fail to comply with the applicable provisions of the Code or ERISA, (ii) each benefit plan of Newco or its subsidiaries which is a medical, dental or health benefit plan shall take into account for purposes of determining a participant's deductibles and out-of-pocket limits thereunder expenses previously incurred by the participant during the same year while participating in any other such Company Benefit Plan or Parent Benefit Plan and shall waive any restrictions and limitations for pre-existing conditions provided therein for any participant to the extent not applicable to the participant in any other such Company Benefit Plan or Parent

Benefit Plan in which the participant participated immediately prior to participating in that benefit plan, and (iii) each benefit plan of Newco or its subsidiaries which is a cafeteria plan under Section 125 of the Code shall cause credits and debits in respect of any participant in any flexible spending account thereunder for a plan year to be transferred to and maintained in any such corresponding Company Benefit Plan or Parent Benefit Plan in which such participant may subsequently participate during the same year. The Company and the Parent will cooperate on and after the date hereof to develop appropriate employee benefit plans, programs and arrangements, including but not limited to, executive and incentive compensation, stock option and supplemental executive retirement plans for employees and directors of Newco and its subsidiaries from and after the Merger Effective Time. However, no provision contained in this Section 6.05(c) shall be deemed to constitute an employment contract between Newco and any individual, or a waiver of Newco's right to discharge any employee at any time, with or without cause.

SECTION 6.06. IndemnificationSECTION 6.06. Indemnification. (a) Newco shall, to the fullest extent permitted by Applicable Law, honor all the Company's and Parent's respective obligations to indemnify (including any obligations to advance funds for expenses) the current and former directors and officers of the Company or Parent, as the case may be, for acts or omissions by such directors and officers occurring prior to the Merger Effective Time to the extent that such obligations to indemnify exist on the date of this Agreement, whether pursuant to the Company Charter or the Parent Charter, as the case may be, the Company By-laws or the Parent By-laws, as the case may be, individual indemnity agreements or otherwise, and such obligations shall survive the Merger and shall continue in full force and effect in accordance with the terms of the Company Charter or the Parent Charter, as the case may be, the Company By-laws or the Parent By-laws, as the case may be, and such individual indemnity agreements from the Merger Effective Time.

(b) For a period of six years after the Merger Effective Time, Newco shall cause to be maintained in effect the current policies of directors' and officers' liability insurance maintained by the Company or Parent or such

substantially comparable policies as in effect on the Closing Date, as the case may be, (provided that Newco may substitute therefor policies with reputable and financially sound carriers of at least the same coverage and amounts containing terms and conditions which are no less advantageous) with respect to claims arising from or related to facts or events which occurred at or before the Merger Effective Time. If such insurance coverage cannot be obtained at all, Newco shall maintain the most advantageous policies of directors' and officers' insurance reasonably obtainable.

(c) From and after the Merger Effective Time, to the fullest extent permitted by Applicable Law, Newco shall indemnify, defend and hold harmless the present and former officers and directors of the Company and Parent, as the case may be, and their respective subsidiaries and any of their respective employees who act as a fiduciary under any Company Benefit Plan (each an "Indemnified Party") against all losses, claims, damages, liabilities, fees and expenses (including attorneys' fees and disbursements), judgments, fines and amounts paid in settlement (in the case of settlements, with the approval of the indemnifying party (which approval shall not be unreasonably withheld)) (collectively, "Losses"), as incurred (payable monthly upon written request which request shall include reasonable evidence of the Losses set forth therein) to the extent arising from, relating to, or otherwise in respect of, any actual or threatened action, suit, proceeding or investigation, in respect of actions or omissions occurring at or prior to the Merger Effective Time in connection with such Indemnified Party's duties as an officer, director or employee as aforesaid, in each case, of the Company or Parent or any of their respective subsidiaries, including in respect of this Agreement, the Merger and the other Transactions.

SECTION 6.07. Fees and ExpensesSECTION 6.07. Fees and Expenses. (a) Except as provided below, all fees and expenses incurred in connection with the Merger and the other Transactions shall be paid by the party incurring such fees or expenses, whether or not the Merger is consummated, except that expenses incurred in connection with filing, printing and mailing the Proxy Statement and the Form S-4 shall be shared equally by Parent and the Company.

(b) The Company shall pay to Parent a fee of $250,000,000 if: (i) the Company terminates this Agreement pursuant to Section 8.01(f); (ii) Parent terminates this Agreement pursuant to Section 8.01(d); or (iii) any Company Competing Transaction was proposed to the Company or publicly disclosed and thereafter the Company terminates this Agreement pursuant to Section 8.01(b)(i) or either the Company or Parent terminates this Agreement pursuant to Section 8.01(b)(iv) or Parent terminates this Agreement pursuant to Section 8.01(c) (but in the case of termination pursuant to Section 8.01(c), only in the event of termination for a wilful breach of this Agreement or failure to perform this Agreement by the Company) and, in each case, within 18 months of such termination the Company enters into a definitive agreement to consummate or consummates any Company Competing Transaction. Any fee due under this Section 6.07(b) shall be paid by wire transfer of same-day funds on the date of termination of this Agreement (except that in the case of termination pursuant to clause (iii) above such payment shall be made on the date of execution of such definitive agreement or, if earlier, consummation of such transaction or another transaction with the same party or its affiliates).

(c) Parent shall pay to the Company a fee of $250,000,000 if: (i) Parent terminates this Agreement pursuant to Section 8.01(h); (ii) the Company terminates this Agreement pursuant to Section 8.01(g); (iii) any Parent Competing Transaction was proposed to Parent or publicly disclosed and thereafter the Parent terminates this Agreement pursuant to Section 8.01(b)(i) or either Parent or the Company terminates this Agreement pursuant to Section 8.01(b)(v) or the Company terminates this Agreement pursuant to Section 8.01(e) (but in the case of termination pursuant to Section 8.01(e), only in the event of termination for a wilful breach of this Agreement or failure to perform this Agreement by Parent) and, in each case, within 18 months of such termination Parent enters into a definitive agreement to consummate or consummates any Parent Competing Transaction. Any fee due under this Section 6.07(c) shall be paid by wire transfer of same-day funds on the date of termination of this Agreement (except that in the case of termination pursuant to clause (iii) above such payment shall be made on the date of execution of

such definitive agreement or, if earlier, consummation of such transaction or another transaction with the same party or its affiliates).

(d) The Company shall reimburse Parent and Newco for all its out-of-pocket expenses actually incurred in connection with this Agreement, the Merger and the other Transactions, up to a limit of $15,000,000, if a fee becomes payable pursuant to Section 6.07(b) or if this Agreement is otherwise terminated pursuant to Section 8.01(b)(iv) or 8.01(c). Such reimbursement shall be paid upon demand following such termination.

(e) Parent shall reimburse the Company for all its out-of-pocket expenses actually incurred in connection with this Agreement, the Merger and the other Transactions, up to a limit of $15,000,000, if a fee becomes payable pursuant to Section 6.07(c) or if this Agreement is otherwise terminated pursuant to Section 8.01(b)(v) or 8.01(e). Such reimbursement shall be paid upon demand following such termination.

SECTION 6.08. Public AnnouncementsSECTION 6.08. Public Announcements. Parent and Newco, on the one hand, and the Company, on the other hand, shall consult with each other before issuing, and provide each other the opportunity to review and comment upon, any press release or other public statements with respect to this Agreement, the Merger and the other Transactions and shall not issue any such press release or make any such public statement prior to such consultation, except as may be required by Applicable Law, court process or by obligations pursuant to any listing agreement with any national securities exchange.

SECTION 6.09. Transfer TaxesSECTION 6.09. Transfer Taxes. All stock transfer, real estate transfer, documentary, stamp, recording and other similar Taxes (including interest, penalties and additions to any such Taxes) ("Transfer Taxes") incurred in connection with the Transactions shall be paid by the party incurring the Transfer Tax, and the parties hereto shall cooperate with each other in preparing, executing and filing any Tax Returns with respect to such Transfer Taxes.

SECTION 6.10. AffiliatesSECTION

6.10. Affiliates. (a) Promptly following the date of execution of this Agreement, the Company shall deliver to Parent and Newco a letter identifying all persons who are expected by the Company to be on the Closing Date, or were as of the date of this Agreement, "affiliates" of the Company for purposes of Rule 145 under the Securities Act. The Company shall use its reasonable best efforts to cause each such person to deliver to Parent on or prior to the date of mailing of Proxy Statement a written agreement substantially in the form attached as Exhibit C.

(b) Promptly following the date of execution of this Agreement, Parent shall deliver to the Company a letter indemnifying all persons who are expected by Parent to be, on the Closing Date, or were as of the date of this Agreement, "affiliates" of Parent for purposes of Rule 145 under the Securities Act. Parent shall use its reasonable best efforts to cause each such person to deliver to the Company on or prior to the date of mailing of the Proxy Statement a written agreement substantially in the form of Exhibit D.

SECTION 6.11. Stock Exchange ListingSECTION 6.11. Stock Exchange Listing. Parent and the Company shall use all reasonable efforts to cause the shares of Newco Common Stock to be issued in the Merger and under the Company Stock Plans and Parent Stock Plans to be approved for listing on the NYSE, subject to official notice of issuance, prior to the Closing Date.

SECTION 6.12. Rights Agreements; Consequences if Rights TriggeredSECTION 6.12. Rights Agreements; Consequences if Rights Triggered. The Company Board shall take all action requested in writing by Parent in order to render the Company Rights inapplicable to the Merger and the other Transactions. Except as approved in writing by Parent or as set forth in the Company Disclosure Letter, the Company Board shall not (i) amend the Company Rights Agreement, (ii) redeem the Company Rights or (iii) take any action with respect to, or make any determination under, the Company Rights Agreement. If any Distribution Date, Stock Acquisition Date or Triggering Event occurs under the Company Rights Agreement at any time during the period from the date of this Agreement to the Merger Effective Time, the Company and Parent shall make such adjustment to the Company

Exchange Ratio and the Parent Exchange Ratio as the Company and Parent shall mutually agree so as to preserve the economic benefits that the Company and Parent each reasonably expected on the date of this Agreement to receive as a result of the consummation of the Merger and the other Transactions.

SECTION 6.13. Tax TreatmentSECTION 6.13. Tax Treatment. The parties intend (a) the Merger to constitute transactions described in Section 351 of the Code and (b) the Second Step Merger to constitute a transaction described in Section 368(a) of the Code. Each party and its affiliates shall use reasonable efforts to cause the Merger to so qualify and to obtain (i) the opinion of Cravath, Swaine & Moore to the effect that (A) the Merger will constitute transactions described in Section 351 of the Code and (B) the Second Step Merger will constitute a transaction described in Section 368(a) of the Code and (ii) the opinion of Jones, Day, Reavis & Pogue to the effect that the Second Step Merger will constitute a transaction described in Section 368(a) of the Code. For purposes of the tax opinions described in Sections 7.02(d) and 7.03(d) of this Agreement, each of Parent, Newco and the Company shall provide customary representation letters substantially in the form of Exhibits E, F and G, respectively, each dated on or about the date that is two business days prior to the date the Proxy Statement is mailed to the shareholders of Parent and the Company and reissued as of the Closing Date. Each of Parent, Newco and the Company and each of their respective affiliates shall not take any action and shall not fail to take any action or suffer to exist any condition which action or failure to act or condition would prevent, or would be reasonably likely to prevent, (i) the Merger from constituting transactions described in Section 351 of the Code or (ii) the Second Step Merger from constituting a transaction described in Section 368(a) of the Code.

SECTION 6.14. Reorganization and AmendmentSECTION 6.14. Reorganization and Amendment. The parties to this Agreement acknowledge and agree that in the event Parent implements the Parent Reorganization prior to the Exchange Effective Time, certain changes to the structure of the Merger and the other Transactions will be necessary in order for the Merger and the other Transactions to be consummated as contemplated hereby and for Newco and its subsidiaries to

have, following the Merger Effective Time, the corporate structure as contemplated hereby, and the parties to this Agreement agree to negotiate in good faith and enter into an amendment to this Agreement to implement such necessary changes.

SECTION 6.15. Company Common Stock RepurchaseSECTION 6.15. Company Common Stock Repurchase. Prior to the Merger Effective Time, the Company shall purchase, at prevailing market prices to the extent possible, the minimum number of shares of Company Common Stock necessary in order that the Merger and the other Transactions are treated as a purchase of the Company by Parent under GAAP (in any such determination taking into account the number of shares of Parent Common Stock in respect of which a notice of intention to dissent was filed with Parent in accordance with the PBCL).

SECTION 6.16. Parity of CompensationSECTION 6.16. Parity of Compensation. At any time during the period from the Merger Effective Time until December 31, 2003 (the "Transition Period") when the Chairman of the Board of Directors, Chief Executive Officer and President of Parent as of the date of this Agreement (the "Parent Chairman") and the Chairman of the Board of Directors, Chief Executive Officer and President of the Company (the "Company Chairman") as of the date of this Agreement are Co-Chief Executive Officers of Newco, each such Co-Chief Executive Officer shall receive the same salary, bonus and other compensation (including option grants and other incentive awards and all other forms of compensation) and enjoy the same other benefits and the same employment security arrangements as the other Co-Chief Executive Officer.

SECTION 6.17. Board SeatsSECTION 6.17. Board Seats. The Parent Chairman will retire as an executive of Newco at the end of the Transition Period and shall no longer serve as chairman of the executive committee of the Newco Board, but shall continue as a member of the Newco Board. The Company Chairman shall become the sole Chief Executive Officer of Newco immediately prior to the end of the Transition Period, and at such time shall be the Chairman of the Board of Directors of Newco, if immediately prior to such time he holds the position of Co-Chief Executive Officer. The Newco Board or the nominating

committee thereof, as applicable, shall nominate for election the Parent Chairman and the Company Chairman as part of management's slate of candidates at each meeting of the shareholders (if at the time of such meeting the Parent Chairman or the Company Chairman, as applicable, is a member of the Newco Board) at which members of the Newco Board shall be elected as shall be necessary in order that the Parent Chairman or the Company Chairman, as applicable, serve as a director of Newco from the end of the Transition Period until the election of directors first following December 31, 2005.

ARTICLE VII

Conditions PrecedentVII Conditions Precedent

SECTION 7.01. Conditions to Each Party's Obligation To Effect The MergerSECTION 7.01. Conditions to Each Party's Obligation To Effect The Merger. The respective obligation of each party to effect the Merger is subject to the satisfaction or waiver on or prior to the Closing Date of the following conditions:

(a) Shareholder Approval. The Company shall have obtained the Company Shareholder Approval, and Parent shall have obtained the Parent Shareholder Approval.

(b) Listing. The shares of Newco Company Stock issuable to the Company's and Parent's respective shareholders pursuant to this Agreement and under the Company Stock Plans and Parent Stock Plans shall have been approved for listing on the NYSE, subject to official notice of issuance.

(c) Statutory Approvals. The Parent Required Statutory Approvals and the Company Required Statutory Approvals shall have been obtained (including, in each case, the expiration or termination of the waiting periods (and any extensions thereof) under the HSR Act applicable to the Merger and the Transactions at or prior to the Merger Effective Time, such approvals shall have become Final Orders (as defined below) and such Final Orders shall not impose terms or conditions which, individually or in the aggregate, could reasonably be expected to have a Material

Adverse Effect on Newco and its prospective subsidiaries taken as a whole or which would be materially inconsistent with the agreements of the parties contained herein. A "Final Order" means action by the relevant Governmental Entity which has not been reversed, stayed, enjoined, set aside, annulled or suspended, with respect to which any waiting period prescribed by law before the transactions contemplated hereby may be consummated has expired, and as to which all conditions to the consummation of such transactions prescribed by law, regulation or order have been satisfied.

(d) No Injunctions or Restraints. No temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or other legal restraint or prohibition preventing the consummation of the Merger shall be in effect; provided, however, that prior to asserting this condition, subject to Section 6.03, each of the parties shall have used all reasonable efforts to prevent the entry of any such injunction or other order and to appeal as promptly as possible any such injunction or other order that may be entered.

(e) Form S-4. The Form S-4 shall have become effective under the Securities Act and shall not be the subject of any stop order or proceedings seeking a stop order, and Newco shall have received all state securities or "blue sky" authorizations necessary to issue Newco Common Stock pursuant to the Merger.

(f) Other Consents and Approvals. The consent or approval (other than Parent Required Statutory Approvals and Company Required Statutory Approvals) of each person whose consent or approval is required in order to consummate the Merger and the other Transactions shall have been obtained, except for those consents and approvals which, if not obtained, could not reasonably be expected to have a Material Adverse Effect on Newco and its prospective subsidiaries taken as a whole or on the ability of Parent or the Company to consummate the Merger and the other Transactions.

SECTION 7.02. Conditions to Obligations of Parent and NewcoSECTION 7.02. Conditions to Obligations of Parent

and Newco. The obligations of Parent and Newco to effect the Merger are further subject to the following conditions:

(a) Representations and Warranties. The representations and warranties of the Company in this Agreement shall be true and correct as of the date of this Agreement and as of the Closing Date as though made on the Closing Date, except to the extent such representations and warranties expressly relate to an earlier date (in which case such representations and warranties shall be true and correct on and as of such earlier date), other than for such failures to be true and correct that, individually and in the aggregate, have not had and could not reasonably be expected to have a Company Material Adverse Effect. Parent shall have received a certificate signed on behalf of the Company by the chief executive officer or the chief financial officer of the Company to such effect. For purposes of determining the satisfaction of this condition, the representations and warranties of the Company shall be deemed not qualified by any references therein to materiality generally or to whether or not any breach results or may result in a Company Material Adverse Effect.

(b) Performance of Obligations of the Company. The Company shall have performed in all material respects all obligations required to be performed by it under this Agreement at or prior to the Closing Date, and Parent shall have received a certificate signed on behalf of the Company by the chief executive officer and the chief financial officer of the Company to such effect.

(c) Letters from Company Affiliates. Parent shall have received from each person named in the letter referred to in Section 6.10(a) an executed copy of an agreement substantially in the form of Exhibit C.

(d) Tax Opinion. Parent shall have received a written opinion, dated as of the Closing Date, from Cravath, Swaine & Moore, counsel to Parent, to the effect that (i) the Merger will constitute transactions described in Section 351 of the Code and (ii) the Second Step Merger will constitute a transaction described in Section 368(a) of the Code; it being understood that in rendering such opinion, such tax counsel shall be entitled to rely upon customary representations provided by the parties hereto substantially

in the form of Exhibits E, F and G.

SECTION 7.03. Conditions to Obligations of the CompanySECTION 7.03. Conditions to Obligations of the Company. The obligation of the Company to effect the Merger is further subject to the following conditions:

(a) Representations and Warranties. The representations and warranties of Parent and Newco in this Agreement shall be true and correct as of the date of this Agreement and on the Closing Date as though made on the Closing Date, except to the extent such representations and warranties expressly relate to an earlier date (in which case such representations and warranties shall be true and correct on and as of such earlier date), other than for such failures to be true and correct that, individually and in the aggregate, have not had and could not reasonably be expected to have a Parent Material Adverse Effect. The Company shall have received a certificate signed on behalf of Parent by the chief executive officer or the chief financial officer of Parent to such effect. For purposes of determining the satisfaction of this condition, the representations and warranties of Parent and Newco shall be deemed not qualified by any references therein to materiality generally or to whether or not any breach results or may result in a Parent Material Adverse Effect.

(b) Performance of Obligations of Parent and Newco. Parent and Newco shall have performed in all material respects all obligations required to be performed by them under this Agreement at or prior to the Closing Date, and the Company shall have received a certificate signed on behalf of Parent by the chief executive officer and the chief financial officer of Parent to such effect.

(c) Letters from Parent Affiliates. The Company shall have received from each person named in the letter referred to in Section 6.10(b) an executed copy of an agreement substantially in the form of Exhibit D.

(d) Tax Opinion. The Company shall have received a written opinion, dated as of the Closing Date, from Jones, Day, Reavis & Pogue, counsel to the Company, to the effect that the Second Step Merger will constitute a transaction described in Section 368(a) of the Code; it being understood that in rendering such opinion, such tax counsel shall be

entitled to rely upon customary representations provided by the parties hereto substantially in the form of Exhibits E, F and G.

(e) First Step Exchange. The First Step Exchange shall have been consummated.

ARTICLE VIII

Termination, Amendment and WaiverVIII
Termination, Amendment and Waiver

SECTION 8.01. TerminationSECTION 8.01. Termination. This Agreement may be terminated at any time prior to the Exchange Effective Time, whether before or after receipt of the Company Shareholder Approval or the Parent Shareholder Approval:

(a) by mutual written consent of Parent, Newco and the Company;

(b) by either Parent or the Company:

(i) if the Second Step Merger is not consummated on or before March 31, 2001 (the "Outside Date"), unless the failure to consummate the Merger is the result of a breach of this Agreement by the party seeking to terminate this Agreement; provided, however, that the passage of such period shall be tolled for any part thereof during which any party shall be subject to a nonfinal order, decree, ruling or action restraining, enjoining or otherwise prohibiting the consummation of the Merger;

(ii) if any Governmental Entity issues an order, decree or ruling or takes any other action permanently enjoining, restraining or otherwise prohibiting the Merger and such order, decree, ruling or other action shall have become final and nonappealable;

(iii) if any condition to the obligation of such party to consummate the Merger set forth in Section 7.02 (in the case of Parent) or 7.03 (in the case of the Company) becomes incapable of satisfaction prior to the Outside Date; provided, however, that the failure of such condition to be met is not the result of a material breach of this Agreement by the party seeking to terminate this

Agreement;

(iv) if, upon a vote at a duly held meeting to obtain the Company Shareholder Approval, the Company Shareholder Approval is not obtained; or

(v) if, upon a vote at a duly held meeting of Parent to obtain the Parent Shareholder Approval, the Parent Shareholder Approval is not obtained;

(c) by Parent, if the Company breaches or fails to perform in any material respect any of its representations, warranties or covenants contained in this Agreement, which breach or failure to perform (i) would give rise to the failure of a condition set forth in Section 7.02(a) or 7.02(b), and (ii) cannot be or has not been cured within 30 days after the giving of written notice to the Company of such breach (provided that Parent is not then in breach of any representation, warranty or covenant contained in this Agreement);

(d) by Parent, if (i) the Company Board or any committee thereof withdraws or modifies, or publicly proposes to withdraw or modify, in a manner adverse to Parent or Newco, its approval or recommendation of this Agreement or the Transactions or approves or recommends, or publicly proposes to approve or recommend, any Company Competing Transaction or (ii) the Company otherwise breaches, or is deemed to be in breach of, any of its covenants in Section 5.02 in any material respect;

(e) by the Company, if Parent breaches or fails to perform in any material respect of any of its representations, warranties or covenants contained in this Agreement, which breach or failure to perform (i) would give rise to the failure of a condition set forth in Section 7.03(a) or 7.03(b), and (ii) cannot be or has not been cured within 30 days after the giving of written notice to Parent of such breach (provided that the Company is not then in breach of any representation, warranty or covenant in this Agreement);

(f) by the Company, if prior to receipt of the

Company Shareholder Approval, (i) the Company has received a proposal for a Company Competing Transaction that constitutes a Qualifying Company Proposal that was not solicited or encouraged by the Company or its Representatives and that did not otherwise result from the breach or a deemed breach of Section 5.02, (ii) the Board of Directors of the Company has determined in good faith, based upon the advice of its outside counsel that failure to take such action could reasonably be expected to constitute a breach of the fiduciary obligations of such Board of Directors under Applicable Law, that it is necessary to (A) withdraw or modify its approval or recommendation of this Agreement and the Transactions, (B) terminate this Agreement pursuant hereto and (C) enter into a Company Acquisition Agreement in connection with such Company Competing Transaction in order to comply with its fiduciary obligations under Applicable Law, (iii) the Company has notified Parent in writing of the determination described in clause (ii) above, (iv) at least ten business days following receipt by Parent of the notice referred to in clause (iii) above, and taking into account any proposal made by Parent since receipt of such notice to amend or modify the terms of the Transactions, such Qualifying Company Proposal remains a Qualifying Company Proposal and the Board of Directors of the Company has again made the determination referred to in clause (ii) above, (v) the Company is in compliance with Section 5.02, (vi) the Company has paid in advance the fee due under Section 6.07(b) to Parent, and (vii) the Board of Directors of the Company concurrently approves, and the Company concurrently enters into, a Company Acquisition Agreement providing for the implementation of such Qualifying Company Proposal;

(g) by the Company, if (i) the Parent Board or any committee thereof withdraws or modifies, or publicly proposes to withdraw or modify, in a manner adverse to the Company, its approval of this Agreement or the Transactions or approves or recommends, or publicly proposes to approve or recommend, any Parent Competing Transaction or (ii) Parent otherwise breaches, or is deemed to be in breach of, any of its covenants in Section 5.03 in any material respect; or

(h) by Parent, if prior to receipt of the Parent Shareholder Approval, (i) Parent has received a proposal for a Parent Competing Transaction that constitutes a Qualifying Parent Proposal that was not solicited or encouraged by Parent or its Representatives and that did not otherwise result from the breach or a deemed breach of the Section 5.03, (ii) the Board of Directors of Parent has determined in good faith, based upon the advice of its outside counsel that failure to take such action could reasonably be expected to constitute a breach of the fiduciary obligations of such Board of Directors under Applicable Law, that it is necessary to (A) withdraw or modify its approval or recommendation of this Agreement and the Transactions, (B) terminate this Agreement pursuant hereto and (C) enter into a Parent Acquisition Agreement in connection with such Parent Competing Transaction in order to comply with its fiduciary obligations under Applicable Law, (iii) Parent has notified the Company in writing of the determination described in clause (ii) above, (iv) at least ten business days following receipt by the Company of the notice referred to in clause (iii) above, and taking into account any proposal made by the Company since receipt of such notice to amend or modify the terms of the Transactions, such Qualifying Parent Proposal remains a Qualifying Parent Proposal and the Board of Directors of Parent has again made the determination referred to in clause (ii) above, (v) Parent is in compliance with Section 5.03, (vi) Parent has paid in advance the fee due under Section 6.07(c) to the Company, and (vii) the Board of Directors of Parent concurrently approves, and Parent concurrently enters into, a Parent Acquisition Agreement providing for the implementation of such Qualifying Parent Proposal.

SECTION 8.02. Effect of TerminationSECTION 8.02. Effect of Termination. In the event of termination of this Agreement by either the Company or Parent as provided in Section 8.01, this Agreement shall forthwith become void and have no effect, without any liability or obligation on the part of Parent, Newco or the Company, other than Section 3.14, Section 4.14, the last two sentences of Section 6.02, Section 6.07, this Section 8.02 and

Article IX, which provisions shall survive such termination, and except to the extent that such termination results from the wilful breach by a party of any representation, warranty or covenant set forth in this Agreement, in which case such termination shall not relieve any party of any liability or damages resulting from its wilful breach of this Agreement (including any such case in which a fee is payable by such party pursuant to Section 6.07(b) or (c), or any expenses of the other party are reimbursed by such party pursuant to Section 6.07(d) or (e), to the extent any such liability or damage suffered by such other party exceeds such amounts payable pursuant to Section 6.07(b), (c), (d) or (e)). The Confidentiality Agreement shall, in accordance with its terms, survive termination of this Agreement.

SECTION 8.03. AmendmentSECTION 8.03. Amendment. This Agreement may be amended by the parties at any time before or after receipt of the Company Shareholder Approval or the Parent Shareholder Approval; provided, however, that after receipt of the Company Shareholder Approval or the Parent Shareholder Approval, there shall be made no amendment that by Applicable Law requires further approval by the shareholders of the Company or Parent without the further approval of such shareholders. This Agreement may not be amended except by an instrument in writing signed on behalf of each of the parties.

SECTION 8.04. Extension; WaiverSECTION 8.04. Extension; Waiver. At any time prior to the Merger Effective Time, the parties may (a) extend the time for the performance of any of the obligations or other acts of the other parties, (b) waive any inaccuracies in the representations and warranties contained in this Agreement or in any document delivered pursuant to this Agreement or (c) subject to the proviso of Section 8.03, waive compliance with any of the agreements or conditions contained in this Agreement. Any agreement on the part of a party to any such extension or waiver shall be valid only if set forth in an instrument in writing signed on behalf of such party. The failure of any party to this Agreement to assert any of its rights under this Agreement or otherwise shall not constitute a waiver of such rights.

SECTION 8.05. Procedure for Termination, Amendment, Extension or WaiverSECTION 8.05. Procedure for Termination, Amendment, Extension or Waiver. A termination of this Agreement pursuant to Section 8.01, an amendment of this Agreement pursuant to Section 8.03 or an extension or

waiver pursuant to Section 8.04 shall, in order to be effective, require in the case of Parent, Newco or the Company, action by its Board of Directors or the duly authorized designee of its Board of Directors.

ARTICLE IX

General ProvisionsIX General Provisions

SECTION 9.01. Nonsurvival of Representations and WarrantiesSECTION 9.01. Nonsurvival of Representations and Warranties. None of the representations and warranties in this Agreement or in any instrument delivered pursuant to this Agreement shall survive the Merger Effective Time. This Section 9.01 shall not limit any covenant or agreement of the parties which by its terms contemplates performance after the Merger Effective Time.

SECTION 9.02. NoticesSECTION 9.02. Notices. All notices, requests, claims, demands and other communications under this Agreement shall be in writing and shall be deemed given upon receipt by the parties at the following addresses (or at such other address for a party as shall be specified by like notice):

(a) if to Parent or Newco, to

PECO Energy Company
2301 Market Street
P.O. Box 8699
Philadelphia, PA 19101-8699

Telecopy No: (215) 841-4282

Attention: General Counsel

with a copy to:

Cravath, Swaine & Moore
825 Eighth Avenue
New York, New York 10019

Telecopy No: (212) 474-3700
Attention: Philip A. Gelston

(b) if to the Company, to

Unicom Corporation
10 S. Dearborn, 37th Floor
Chicago, IL 60603

Telecopy No: (312) 394-4488

Attention: General Counsel

with a copy to:

Jones, Day, Reavis & Pogue
77 West Walker Drive
Chicago, Illinois 60001

Telecopy No: (312) 782-8585
Attention: Paul T. Ruxin
Robert A. Yolles

SECTION 9.03. DefinitionsSECTION 9.03. Definitions. For purposes of this Agreement:

An "affiliate" of any person means another person that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, such first person.

A "Material Adverse Effect" means, in respect of any person, a material adverse effect on (a) the business, assets, condition (financial or otherwise), prospects or results of operations of such person and its subsidiaries, taken as a whole or (b) the ability of such person to perform its obligations under this Agreement or on the ability of such person to consummate the Merger and the other Transactions.

"Newholdco Corporation" means PECO Energy Corporation, a Pennsylvania corporation, which shall change its name as soon as reasonably possible to "Newholdco Corporation".

A "person" means any individual, firm, corporation, partnership, company, limited liability company, trust, joint venture, association, Governmental

Entity or other entity.

A "subsidiary" of any person means another person, an amount of the voting securities, other voting ownership or voting partnership interests of which is sufficient to elect a majority of its Board of Directors or other governing body (or, if there are no such voting interests, more than 50% of the equity interests of which) is owned directly or indirectly by such first person.

SECTION 9.04. Interpretation; Disclosure LettersSECTION 9.04. Interpretation; Disclosure Letters. When a reference is made in this Agreement to a Section, such reference shall be to a Section of this Agreement unless otherwise indicated. The table of contents and headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. Whenever the words "include", "includes" or "including" are used in this Agreement, they shall be deemed to be followed by the words "without limitation". Any matter disclosed in any section of either the Company Disclosure Letter or the Parent Disclosure Letter shall be deemed disclosed for all purposes and all sections of the Company Disclosure Letter or Parent Disclosure Letter, as applicable to the extent that it is reasonably apparent from a reading of such disclosure item that it would qualify or apply to such other sections, and otherwise shall be deemed disclosed only for the purposes of the specific Sections of this Agreement to which such section relates.

SECTION 9.05. SeverabilitySECTION 9.05. Severability. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule or Applicable Law, or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner to the end that transactions contemplated hereby are

fulfilled to the extent possible.

SECTION 9.06. CounterpartsSECTION 9.06. Counterparts. This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same agreement and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other parties.

SECTION 9.07. Entire Agreement; No Third-Party BeneficiariesSECTION 9.07. Entire Agreement; No Third-Party Beneficiaries. This Agreement, taken together with the Company Disclosure Letter, the Parent Disclosure Letter and the Confidentiality Agreement, (a) constitute the entire agreement, and supersede all prior agreements and understandings, both written and oral, among the parties with respect to the Transactions and (b) except for the provisions of Article II and Sections 6.06, 6.16 and 6.17 are not intended to confer upon any person other than the parties any rights or remedies.

SECTION 9.08. Governing LawSECTION 9.08. Governing Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of New York, regardless of the laws that might otherwise govern under applicable principles of conflicts of laws thereof, except to the extent the laws of Pennsylvania or Illinois are mandatorily applicable to the Merger.

SECTION 9.09. AssignmentSECTION 9.09. Assignment. Neither this Agreement nor any of the rights, interests or obligations under this Agreement shall be assigned, in whole or in part, by operation of law or otherwise by any of the parties without the prior written consent of the other parties, except that Newco may assign, in its sole discretion, any of or all its rights, interests and obligations under this Agreement to Parent or to any direct or indirect wholly owned subsidiary of Parent, but no such assignment shall relieve Newco of any of its obligations under this Agreement. Any purported assignment without such consent shall be void. Subject to the preceding sentences, this Agreement will be binding upon, inure to the benefit of, and be enforceable by, the parties and their respective successors and assigns.

SECTION 9.10. EnforcementSECTION 9.10.

Enforcement. The parties agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that the parties shall be entitled to an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions of this Agreement in any New York state court or any Federal court located in the State of New York, this being in addition to any other remedy to which they are entitled at law or in equity. In addition, each of the parties hereto (a) consents to submit itself to the personal jurisdiction of any New York state court or any Federal court located in the State of New York in the event any dispute arises out of this Agreement or any Transaction, (b) agrees that it will not attempt to deny or defeat such personal jurisdiction by motion or other request for leave from any such court, (c) agrees that it will not bring any action relating to this Agreement or any Transaction in any court other than any New York state court or any Federal court sitting in the State of New York and (d) waives any right to trial by jury with respect to any action related to or arising out of this Agreement or any Transaction.

SECTION 9.11. Newco ObligationsSECTION 9.11. Newco Obligations. Parent and the Company hereby agree to take such actions as shall be necessary in order that Newco shall assume any obligation under this Agreement that by its terms is to be performed by Newco after the Closing.

IN WITNESS WHEREOF, Parent, Newco and the Company have duly executed this Agreement, all as of the date first written above.

PECO ENERGY COMPANY,

by
/s/ Corbin A. McNeill, Jr.
Name: Corbin A. McNeill, Jr.
Title: Chairman of the Board, President, and Chief Executive Officer

PECO ENERGY CORPORATION,

by
/s/ Corbin A. McNeill, Jr.
Name: Corbin A. McNeill, Jr.
Title: Chairman of the Board, President, and Chief Executive Officer

UNICOM CORPORATION,

by
/s/ John W. Rowe
Name: John W. Rowe
Title: Chairman of the Board, President, and Chief Executive Officer

INDEX OF DEFINED TERMS

"Company Rights Agreement"	Section 3.03(a)
"Company SEC Documents"	Section 3.06
"Company Shareholder Approval"	Section 3.04(c)
"Company Shareholders Meeting"	Section 6.01(d)
"Company Stock Election"	Section 2.01(b)(iv)
"Company Stock Election Shares"	Section 2.01(b)(v)
"Company Stock Number"	Section 2.01(b)(iii)
"Company Stock Plans"	Section 6.04(f)
"Company Subsidiaries"	Section 3.01
"Confidentiality Agreement"	Section 6.02
"Consent"	Section 3.05(b)
"Contract"	Section 3.05(a)
"ERISA"	Section 3.11(b)
"Election Deadline"	Section 2.02(b)
"Environmental Claims"	Section 3.17(f)(i)
"Environmental Laws"	Section 3.17(f)(ii)
"Environmental Permits"	Section 3.17(f)(iii)
"Exchange Act"	Section 3.05(b)
"Exchange Agent"	Section 2.02(a)
"Exchange Consideration"	Section 2.01(a)(ii)
"Exchange Effective Time"	Section 1.03(a)
"Exchange Fund"	Section 2.02(a)
"FERC"	Section 3.05(b)
"Filed Company SEC Documents"	Section 4.08
"Filed Parent SEC Documents"	Section 4.08
"Final Order"	Section 7.01(c)
"First Step Exchange"	Recitals
"Form S-4"	Section 3.07
"Form of Election"	Section 2.02(b)
"GAAP"	Section 3.06
"Governmental Entity"	Section 3.05(b)
"Hazardous Materials"	Section 3.17(f)(iv)
"HSR Act"	Section 3.05(b)
"IBCA"	Section 1.01(b)
"ICC"	Section 3.05(b)
"Illinois Articles of Merger"	Section 1.03(b)
"Indemnified Party"	Section 6.06(c)
"Intellectual Property Rights"	Section 3.24
"Judgment"	Section 3.05(a)
"Liens"	Section 3.02(a)
"Losses"	Section 6.06(c)
"Material Adverse Effect"	Section 9.03
"Merger"	Recitals
"Merger Consideration"	Section 2.01(b)(ii)
"Merger Effective Time"	Section 1.03(b)
"NRC"	Section 3.05(b)
"NYSE"	Section 2.02(e)(ii)
"Newco"	Recitals
"Newco Articles"	Section 1.05(a)
"Newco Board"	Section 1.06(b)

"Parent Stock Election"	Section 2.01(a)(iv)
"Parent Stock Election Shares"	Section 2.01(a)(v)
"Parent Stock Number"	Section 2.01(a)(iii)
"Parent Stock Plans"	Section 6.04(f)
"Parent Subsidiaries"	Section 4.01
"Power Purchase Agreement"	Section 5.01(a)(xii)
"Pennsylvania Articles of Merger"	Section 1.03(b)
"Person"	Section 9.03
"Power Act"	Section 3.02(a)
"Proxy Statement"	Section 3.05(b)
"Qualified Plans"	Section 3.11(a)
"Qualifying Company Proposal"	Section 5.02(d)
"Qualifying Parent Proposal"	Section 5.03(d)
"Reallocation"	Section 2.03
"Release"	Section 3.17(f)(v)
"Representatives"	Section 5.02(a)
"SEC"	Section 3.05(b)
"Second Step Merger"	Recitals
"Sections 11.65 and 11.70"	Section 2.01(b)(xi)
"Securities Act"	Section 3.06
"Share Issuance"	Section 1.01(c)
"Stock Plan"	Section 6.04(e)
"Subchapter D"	Section 2.01(a)(xi)
"Subsidiary"	Section 9.03
"Surviving Corporation"	Section 1.01(b)
"Taxes"	Section 3.09(g)
"Tax Return"	Section 3.09(g)
"Trading Day"	Section 2.01(a)(viii)
"Transition Period"	Section 6.16
"Transfer Taxes"	Section 6.09
"Voting Company Debt"	Section 3.03(d)
"Voting Parent Debt"	Section 4.03(a)

ARTICLE X

Governance of the Corporation
During the Transition Period

Section 10.01. Definitions. For purposes of this Article:

(1) "PECO CEO" means Corbin A. McNeill, Jr.

(2) "PECO Directors" means (i) those directors of the corporation designated by PECO Energy pursuant to Section 1.06(b) of the Merger Agreement and (ii) any Replacement PECO Director (as defined in Section 10.03(b) of these by-laws).

(3) "PECO Energy" means PECO Energy Company, a Pennsylvania corporation and a subsidiary of the corporation.

(4) "Independent Director" means a disinterested, independent person (determined in accordance with customary standards for independent directors applicable to U.S. public companies).

(5) "Merger Agreement" means the Agreement and Plan of Exchange and Merger dated as of September 22, 1999, among PECO Energy, the corporation and Unicom.

(6) "Merger Effective Time" shall have the meaning assigned to such term in the Merger Agreement.

(7) "Transition Period" means the period from the Merger Effective Time until December 31, 2003.

(8) "Unicom" means Unicom Corporation, an Illinois corporation.

(9) "Unicom CEO" means John W. Rowe.

(10) "Unicom Directors" means (i) those directors of the corporation designated by Unicom pursuant to Section 1.06(b) of the Merger Agreement and (ii) any Replacement Unicom Director (as defined in Section 10.03(b) of these by-laws).

(11) "ComEd" means Commonwealth Edison Company, an Illinois corporation and a subsidiary of the corporation.

SECTION 10.02. Corporate Offices. At least for the duration of the Transition Period, the corporation shall maintain (a) in Chicago, Illinois offices serving as its corporate headquarters, (b) in southeastern Pennsylvania offices serving as the headquarters of the generation and power marketing businesses of the corporation and its subsidiaries, and (c) offices in Chicago, Illinois and southeastern Pennsylvania as the headquarters of ComEd and PECO Energy, respectively.

SECTION 10.03. Board of Directors.

(a) Effective immediately at the Merger Effective Time and during the Transition Period, the board of directors shall consist of sixteen (16) directors. At the Merger Effective Time, 8 directors shall be PECO Directors and 8 directors shall be Unicom Directors. The term of a class of the board of directors comprised of 6 directors shall expire at the first annual meeting of shareholders following the Merger Effective Time, a second class comprised of 5 directors shall expire at the second annual meeting of shareholders following the Merger Effective Time and a third class comprised of 5 directors shall expire at the third annual meeting of shareholders following the Merger Effective Time, and representation of PECO Directors and Unicom Directors in each class shall be as nearly equal in numbers as possible.

(b)(i) During the Transition Period the board of directors of the corporation shall consist of equal numbers of PECO Directors and Unicom Directors.

(ii) During the Transition Period, the board of directors (subject to the fiduciary duties of the directors in the case of approval of any individual) shall take all action necessary to ensure that any vacancy of a position on the board of directors to be filled by the Board (A) that was held by an PECO Director is filled promptly by a person designated to fill such seat by a majority of the PECO Directors remaining on the board of directors (a "Replacement PECO Director") and (B) that was held by a Unicom Director is filled promptly by a person designated to fill such seat by a majority of the Unicom Directors remaining on the board of directors (a "Replacement Unicom Director").

(iii) With respect to each election of directors by

shareholders during the Transition Period, the board of directors or the applicable committee thereof shall nominate for election (subject to the fiduciary duties of the directors in the case of approval of any individual), a PECO Director to fill any position held prior to such election by a PECO Director and a Unicom Director to fill any position held prior to such election by a Unicom Director.

(c) During the Transition Period, the executive committee of the board of directors shall have 6 members, 2 of which will be the Co-Chief Executive Officers of the corporation (or if either Co-Chief Executive Officer ceases to serve as such, another officer of the corporation selected by the PECO Directors in the case of a replacement for the PECO CEO or by the Unicom Directors in the case of a replacement for the Unicom CEO), 2 of which shall be Independent Directors who are PECO Directors and 2 of which shall be Independent Directors who are Unicom Directors. For the duration of the first half of the Transition Period so long as he is a Co-Chief Executive Officer, the Unicom CEO shall be the chairman of the executive committee of the board of directors, and as of the first day of the second half of the Transition Period, the PECO CEO, if he is a Co-Chief Executive Officer at such time, shall succeed to such position and hold it for the duration of the Transition Period. If at any time during the Transition Period either the Unicom CEO or the PECO CEO, whichever is at such time the chairman of the executive committee, is unwilling or unable to hold such office, the other shall succeed to such office for the duration of the Transition Period if he continues at such time to hold the office of Co-Chief Executive Officer or Chief Executive Officer of the corporation.

(d) During the Transition Period, each other committee of the Board shall consist of equal numbers of PECO Directors and Unicom Directors and the chairmen of the committees of the board of directors (other than the executive committee) shall be PECO Directors and Unicom Directors in as nearly equal numbers as possible.

(e) During the Transition Period, the board of directors shall hold between 6 and 8 regular meetings each fiscal year, with no less than 2 of such meetings each year to be held in the Philadelphia, Pennsylvania area and no less than 2 of such meetings each year to be held in the Chicago,

Illinois area.

SECTION 10.04. Chairman of the Board of Directors.

(a) As of the Merger Effective Time and for the duration of the first half of the Transition Period so long as he is a Co-Chief Executive Officer or Chief Executive Officer at such time, the PECO CEO shall hold the position of Chairman of the board of directors, and so long as he is a Co-Chief Executive Officer or the Chief Executive Officer at such time, the Unicom CEO shall succeed to the position of Chairman of the board of directors and hold it for the duration of the Transition Period. If at any time during the Transition Period either the PECO CEO or the Unicom CEO, whichever is at such time the Chairman of the board of directors, is unwilling or unable to hold such office, the board of directors shall elect the other to such office if he continues to hold the office of Co-Chief Executive Officer of the Corporation at such time.

(b) The Chairman shall chair all meetings of the board of directors and stockholders at which he is present.

SECTION 10.05. Co-Chief Executive Officers; President.

(a) (i) As of the Merger Effective Time and for the duration of the Transition Period, each of the PECO CEO and the Unicom CEO shall hold the position of Co-Chief Executive Officers of the corporation and (ii) as of the Merger Effective Date and for the duration of the first half of the Transition Period, the Unicom CEO shall hold the position of President of the corporation. If at any time during the Transition Period either of the Co-Chief Executive Officers is unable or unwilling to hold such office, the other Co-Chief Executive Officer, if he is either the PECO CEO or the Unicom CEO, shall become the sole Chief Executive Officer of the corporation. The Unicom CEO shall become the sole Chief Executive Officer immediately prior to the end of the Transition Period if immediately prior to such time he holds the position of Co-Chief Executive Officer.

(b) The corporation's generation and wholesale marketing and trading businesses shall report to the PECO CEO

in his capacity as a Co-Chief Executive Officer, and the corporation's transmission and distribution and unregulated ventures businesses shall report to the Unicom CEO in his capacity as a Co-Chief Executive Officer. The corporation's financial, legal, human resources and other staff functions shall report to the office of the Co-Chief Executive Officers.

(c) The Co-Chief Executive Officers shall each maintain offices in both southeastern Pennsylvania and Chicago, Illinois.

SECTION 10.06. Management Changes.

(a) Until the expiration of the Transition Period, so long as either the PECO CEO or the Unicom CEO is a Co-Chief Executive Officer or the Chief Executive Officer of the corporation, (i) the election of any other person to the position of Chairman of the board of directors, chairman of the executive committee of the board of directors, Co-Chief Executive Officer or Chief Executive Officer or, as to the first half of the Transition Period, President or (ii) the removal, replacement or demotion of the PECO CEO or the Unicom CEO from one or more of such positions, in each case, shall require the affirmative vote of at least two-thirds of the members of the board of directors(except as expressly provided in this Article X).

(b) Until the expiration of the Transition Period, none of the senior officers of the corporation specified in Exhibit D of the Merger Agreement shall be removed, replaced or demoted without either (i) the consent of both Co-Chief Executive Officers or (ii) the affirmative vote of two-thirds of the members of the Newco Board.

SECTION 10.07. Amendment. Until the end of the Transition Period (a) the provisions of this Article X may not be amended, altered, repealed or waived in any respect, and the board of directors or the corporation shall not otherwise take any action or fail to take any action which would have the effect of eliminating, limiting, restricting, avoiding or otherwise modifying the effect of, or waiving compliance with the provisions of this Article X (e.g., by creating a holding company structure if the certificate of incorporation, by-laws or similar document of such holding

company does not contain equivalent provisions), without the affirmative vote of at least two-thirds of the directors or (b) in the case of any amendment proposed by shareholders without such vote of directors, the affirmative vote of holders of shares representing at least two-thirds of the votes eligible to be cast in a general election of directors.

SECTION 10.08. Successors. For the duration of the Transition Period, the provisions of this Article shall be applicable to (i) any successor to the corporation as the result of a merger, consolidation or other business combination, whether or not the corporation is the surviving company in such transaction, or otherwise and (ii) any corporation or other entity with respect to which the corporation or its successor is or becomes a direct or indirect subsidiary, and, in each case, the board of directors shall not permit the corporation to be a party to any transaction which would not comply with the foregoing without the affirmative vote of at least two-thirds of the directors.

SECTION 10.09. Effectiveness of this Article X. The provisions of this Article X shall become null and void and be of no further effect after the Transition Period.

EXHIBIT B

Senior Officers of Newco

Co-Chief Executive Officer:	Corbin A. McNeill, Jr.
Co-Chief Executive Officer:	John W. Rowe
Chief Financial Officer:	Michael J. Egan
Chief Transition/ Integration Officer:	Michael J. Egan
Senior Vice President, Finance:	Ruth Ann M. Gillis
General Counsel:	Pamela B. Strobel
Chief Nuclear Officer:	Oliver D. Kingsley, Jr.
Nuclear Operations President:	Gerald R. Rainey
PECO Distribution President:	K. Lawrence
Commonwealth Edison Distribution President:	Carl J. Croskey
Unregulated Retail/ New Business President:	Paul A. Elbert
Senior Vice President, Human Resources:	S. Gary Snodgrass

EXHIBIT C

PECO Energy Company
P.O. Box 8699
2301 Market Street
Philadelphia, PA 19101

Form of Company Affiliate Letter

Dear Sirs:

The undersigned refers to the Agreement and Plan of Exchange and Merger (the "Merger Agreement") dated as of September 22, 1999, among PECO Energy Company, a Pennsylvania corporation, PECO Energy Corporation, a Pennsylvania corporation, and Unicom Corporation, an Illinois corporation. Capitalized terms used but not defined in this letter have the meanings give such terms in the Merger Agreement.

The undersigned, a holder of shares of Company Common Stock, is entitled to receive in connection with the Merger shares of Newco Common Stock. The undersigned acknowledges that the undersigned may be deemed an "affiliate" of the Company within the meaning of Rule 145 ("Rule 145") promulgated under the Securities Act, although nothing contained herein should be construed as an admission of such fact.

If in fact the undersigned were an affiliate under the Act, the undersigned's ability to sell, assign or transfer the Newco Common Stock received by the undersigned in exchange for any shares of Company Common Stock pursuant to the Merger may be restricted unless much transaction is registered under the Act or an exemption from such registration is available. The undersigned (i) understands that such exemptions are limited and that Newco is not under any obligation to effect any such registration and (ii) has obtained advice of counsel as to the nature and conditions of such exemptions, including information with respect to the applicability to the sale of such securities of Rules 144 and 145(d) promulgated under the Securities Act.

The undersigned hereby represents to and covenants with Parent and Newco that the undersigned will not sell, assign or transfer any of the Newco Common Stock received by the undersigned in exchange for shares of Company Common Stock pursuant to the Merger except (i) pursuant to an effective registration statement under the Securities Act or (ii) in a transaction that, in the opinion of counsel reasonably satisfactory to Newco or as described in a "no-action" or interpretive letter from the Staff of the SEC, is not required to be registered under the Securities Act.

In the event of a sale or other disposition by the undersigned pursuant to Rule 145, of Newco Common Stock received by the undersigned in the Merger, the undersigned will supply Newco with evidence of compliance with such Rule, in the form of a letter in the form of Annex I hereto and the opinion of counsel or no-action letter referred to above. The undersigned understands that Newco may instruct its transfer agent to withhold the transfer of any Parent securities disposed of by the undersigned, but that upon receipt of such evidence of compliance the transfer agent shall effectuate the transfer of the Newco Common Stock sold as indicated in the letter.

The undersigned acknowledges and agrees that (i) the Newco Common Stock issued to the undersigned will all be in certificated form and (ii) appropriate legends will be placed on certificates representing Newco Common Stock received by the undersigned in the Merger or held by a transferee thereof, which legends will be removed by delivery of substitute certificates upon receipt of an opinion in form and substance reasonably satisfactory to Newco from counsel reasonably satisfactory to Newco to the effect that such legends are no longer required for purposes of the Securities Act.

The undersigned acknowledges that (i) the undersigned has carefully read this letter and understands the requirements hereof and the limitations imposed upon the distribution, sale, transfer or other disposition of Newco Common Stock and (ii) the receipt by Parent and Newco of this letter is an inducement and a condition to Parent's and Newco's respective obligations to consummate the Merger.

Very truly yours,

Dated:

ANNEX I
TO EXHIBIT C

[NAME AND ADDRESS OF NEWCO]

On , the undersigned sold the securities of NEW HOLDCO ("Newco") described below in the space provided for that purpose (the "Securities"). The Securities were received by the undersigned in connection with the merger of WEST CO. with and into Newco.

Based upon the most recent report or statement filed by Parent with the Securities and Exchange Commission, the Securities sold by the undersigned were within the prescribed limitations set forth in Rule 144(e) promulgated under the Securities Act of 1933, as amended (the "Securities Act").

The undersigned hereby represents that the Securities were sold in "brokers' transactions" within the meaning of Section 4(4) of the Securities Act or in transactions directly with a "market maker" as that term is defined in Section 3(a)(38) of the Securities Exchange Act of 1934, as amended. The undersigned further represents that the undersigned has not solicited or arranged for the solicitation of orders to buy the Securities, and that the undersigned has not made any payment in connection with the offer or sale of the Securities to any person other than to the broker who executed the order in respect of such sale.

Very truly yours,

Dated:

[Space to be provided for description of securities.]

EXHIBIT D

Unicom Corporation
37th Floor
10 South Dearborn Street
Post Office Box A-3005
Chicago, IL 60690-3005

Form of Parent Affiliate Letter

Dear Sirs:

The undersigned refers to the Agreement and Plan of Exchange and Merger (the "Merger Agreement") dated as of September 22, 1999, among PECO Energy Company, a Pennsylvania corporation, PECO Energy Corporation, a Pennsylvania corporation, and Unicom Corporation, an Illinois corporation. Capitalized terms used but not defined in this letter have the meanings give such terms in the Merger Agreement.

The undersigned, a holder of shares of Parent Common Stock, is entitled to receive in connection with the Merger shares of Newco Common Stock. The undersigned acknowledges that the undersigned may be deemed an "affiliate" of Parent within the meaning of Rule 145 ("Rule 145") promulgated under the Securities Act, although nothing contained herein should be construed as an admission of such fact.

If in fact the undersigned were an affiliate under the Act, the undersigned's ability to sell, assign or transfer the Newco Common Stock received by the undersigned in exchange for any shares of Parent Common Stock pursuant to the Merger may be restricted unless much transaction is registered under the Act or an exemption from such registration is available. The undersigned (i) understands that such exemptions are limited and that Newco is not under any obligation to effect any such registration and (ii) has obtained advice of counsel as to the nature and conditions of such exemptions, including information with respect to the applicability to the sale of such securities of Rules 144 and 145(d) promulgated under the Securities Act.

The undersigned hereby represents to and covenants

with the Company and Newco that the undersigned will not sell, assign or transfer any of the Newco Common Stock received by the undersigned in exchange for shares of Parent Common Stock pursuant to the Merger except (i) pursuant to an effective registration statement under the Securities Act or (ii) in a transaction that, in the opinion of counsel reasonably satisfactory to Newco or as described in a "no-action" or interpretive letter from the Staff of the SEC, is not required to be registered under the Securities Act.

In the event of a sale or other disposition by the undersigned pursuant to Rule 145, of Newco Common Stock received by the undersigned in the Merger, the undersigned will supply Newco with evidence of compliance with such Rule, in the form of a letter in the form of Annex I hereto and the opinion of counsel or no-action letter referred to above. The undersigned understands that Newco may instruct its transfer agent to withhold the transfer of any Parent securities disposed of by the undersigned, but that upon receipt of such evidence of compliance the transfer agent shall effectuate the transfer of the Newco Common Stock sold as indicated in the letter.

The undersigned acknowledges and agrees that (i) the Newco Common Stock issued to the undersigned will all be in certificated form and (ii) appropriate legends will be placed on certificates representing Newco Common Stock received by the undersigned in the Merger or held by a transferee thereof, which legends will be removed by delivery of substitute certificates upon receipt of an opinion in form and substance reasonably satisfactory to Newco from counsel reasonably satisfactory to Newco to the effect that such legends are no longer required for purposes of the Securities Act.

The undersigned acknowledges that (i) the undersigned has carefully read this letter and understands the requirements hereof and the limitations imposed upon the distribution, sale, transfer or other disposition of Parent Common Stock and (ii) the receipt by the Company and Newco of this letter is an inducement and a condition to Company's obligations to consummate the Merger.

Very truly yours,

Dated:

ANNEX I
TO EXHIBIT D

[NAME AND ADDRESS OF NEWCO]

On , the undersigned sold the securities of NEW HOLDCO ("Newco") described below in the space provided for that purpose (the "Securities"). The Securities were received by the undersigned in connection with the mandatory share exchange between EAST CO. and Newco.

Based upon the most recent report or statement filed by Parent with the Securities and Exchange Commission, the Securities sold by the undersigned were within the prescribed limitations set forth in Rule 144(e) promulgated under the Securities Act of 1933, as amended (the "Securities Act").

The undersigned hereby represents that the Securities were sold in "brokers' transactions" within the meaning of Section 4(4) of the Securities Act or in transactions directly with a "market maker" as that term is defined in Section 3(a)(38) of the Securities Exchange Act of 1934, as amended. The undersigned further represents that the undersigned has not solicited or arranged for the solicitation of orders to buy the Securities, and that the undersigned has not made any payment in connection with the offer or sale of the Securities to any person other than to the broker who executed the order in respect of such sale.

Very truly yours,

Dated:

[Space to be provided for description of securities.]

EXHIBIT E

[Letterhead of Parent]

[Date]

Cravath, Swaine & Moore
825 Eighth Avenue
New York, New York 10019

Jones, Day, Reavis & Pogue
77 West Walker Drive
Chicago, Illinois 60001

Ladies and Gentlemen:

In connection with the opinions to be delivered pursuant to Sections 7.02(d) and 7.03(d) of the Agreement and Plan of Exchange and Merger (the "Exchange and Merger Agreement") dated as of September 22, 1999, among PECO ENERGY COMPANY, a Pennsylvania corporation ("Parent"), PECO ENERGY CORPORATION, a Pennsylvania corporation and a wholly owned subsidiary of Parent ("Newco") and UNICOM CORPORATION, an Illinois corporation (the "Company"), and in connection with the filing with the Securities and Exchange Commission (the "SEC") of the registration statement on Form S-4 (the "Registration Statement"), which includes the proxy statement/prospectus of Parent and the Company, each as amended and supplemented through the date hereof, the undersigned certifies and represents on behalf of Parent and as to Parent, after due inquiry and investigation, as follows (any capitalized term used but not defined herein having the meaning given to such term in the Exchange and Merger Agreement):

2. The Merger will be consummated in accordance with the Exchange and Merger Agreement and as described in the Registration Statement. The facts relating to the Merger as described in the Registration Statement and the documents

referenced in the Registration Statement are, insofar as such facts relate to Parent, true, correct and complete in all material respects.

3. The formula set forth in the Exchange and Merger Agreement pursuant to which each issued and outstanding share of common stock, no par value, of Parent (the "Parent Common Stock") will be converted into common shares, no par value, of Newco (the "Newco Common Stock") or cash is the result of arm's length bargaining. The aggregate fair market value of the Newco Common Stock and/or cash to be received by each holder of Parent Common Stock in the First Step Exchange will be approximately equal to the fair market value of the Parent Common Stock surrendered in exchange therefor.

4. Parent has not made and does not have any present plan or intention to make any distributions to holders of Parent Common Stock (other than dividends in the ordinary course of business) prior to, in contemplation of, or otherwise in connection with, the Merger.

5. Newco has not acquired, nor, except as a result of the First Step Exchange will it acquire, nor has it owned in the past five years, any Parent Common Stock.

6. Parent, Newco and the holders of Parent Common Stock will each pay their respective expenses, if any, incurred in connection with the First Step Exchange. Parent has not agreed to assume, nor will it directly or indirectly assume, any expense or other liability, whether fixed or contingent, of any holder of Parent Common Stock. Parent has not entered into any arrangement pursuant to which Newco has agreed to assume, directly or indirectly, any expense or other liability, whether fixed or contingent, incurred or to be incurred by Parent or any holder of Parent Common Stock in connection with or as part of the First Step Exchange or any related transactions, nor will any of the Parent Common Stock that is acquired by Newco in connection with the First Step Exchange be subject to any liabilities.

7. Parent is not an investment company as defined in Section 368(a)(2)(F)(iii) and (iv) of the Internal Revenue Code of 1986, as amended (the "Code"), Section 351(e)(1) of the Code or Treasury Regulation Section 1.351-1(c)(1)(ii).

8. Parent will not take, and, to the best knowledge of the management of Parent there is no present plan or intention of any holders of Parent Common Stock to take, any position on any Federal, state or local income or

franchise tax return, or take any other tax reporting position, that is inconsistent (i) with the treatment of the Merger as transactions described in Section 351 of the Code or (ii) with the treatment of the Second Step Merger as a reorganization within the meaning of Section 368(a) of the Code, in each case unless otherwise required by a "determination" (as defined in Section 1313(a)(1) of the Code) or by applicable state or local tax law (and then only to the extent required by such applicable state or local tax law).

9. None of the compensation received by any stockholder-employee of Parent in respect of periods ending on or prior to the Exchange Effective Time represents separate consideration for any of his or her Parent Common Stock. None of the Newco Common Stock that will be received by any stockholder-employee of Parent in the Merger represents separately bargained for consideration which is allocable to any employment agreement or arrangement. The compensation paid to any stockholder-employees will be for services actually rendered and will be determined by bargaining at arm's-length.

10. There is no intercorporate indebtedness existing between Newco and Parent.

11. Parent is not under the jurisdiction of a court in a Title 11 or similar case within the meaning of Section 368(a)(3)(A) of the Code.

12. On the date of the First Step Exchange, the fair market value of the assets of Parent will exceed the sum of its liabilities, plus the amount of liabilities, if any, to which such assets are subject.

13. To the best knowledge of the management of Parent, there is no present plan or intention on the part of the holders of Parent Common Stock to sell, exchange or otherwise dispose of, or to enter into any contract or other arrangement with respect to, any interest in the shares of Newco Common Stock received in the First Step Exchange in exchange for such Parent Common Stock such that the former holders of Company Common Stock and the former holders of Parent Common Stock, in the aggregate, would not own (i)

Newco Common Stock having at least 80% of the total combined voting power of all classes of Newco stock entitled to vote and (ii) at least 80% of the total number of shares of each other class of Newco Stock.

14. None of the holders of Parent Common Stock will retain any rights in the Parent Common Stock transferred to Newco pursuant to the First Step Exchange.

15. Newco will not receive any accounts receivable in the First Step Exchange.

16. To the best knowledge of the management of Parent and taking into account any issuance of additional shares of Newco Common Stock, any issuance of Newco Common Stock for services, the exercise of any Newco stock rights, options, warrants or subscriptions, any public offerings of Newco stock, and the sale, exchange, transfer by gift or other disposition of any Newco Common Stock received by holders of Parent Common Stock in the Merger, the holders of Parent Common Stock and Company Common Stock will collectively be in "control" of Newco immediately after the Merger. For purposes of this representation letter, "control" shall mean the ownership of (i) stock possessing at least 80% of the total combined voting power of all classes of Newco stock entitled to vote and (ii) at least 80% of the total number of shares of each other class of Newco stock.

17. The Exchange and Merger Agreement, the Registration Statement and the other documents described in the Registration Statement represent the entire understanding of Parent with respect to the Merger and there are no other written or oral agreements regarding the Merger.

18. The Merger is being undertaken for purposes of enhancing the business of Parent and for other good and valid business purposes of Parent as described in the proxy statement/prospectus of Parent and the Company included in the Registration Statement.

19. The undersigned is authorized to make all the representations set forth herein on behalf of Parent.

The undersigned acknowledges that (i) the opinions

to be delivered pursuant to Sections 7.02(d) and 7.03(d) of the Exchange and Merger Agreement will be based on the accuracy of the representations set forth herein and on the accuracy of the representations and warranties and the satisfaction of the covenants and obligations contained in the Exchange and Merger Agreement and the various other documents related thereto, and (ii) such opinions will be subject to certain limitations and qualifications including that they may not be relied upon if any such representations or warranties are not accurate or if any such covenants or obligations are not satisfied in all material respects.

The undersigned acknowledges that such opinions will not address any tax consequences of the Merger or any action taken in connection therewith except as expressly set forth in such opinions.

Very truly yours,

PECO ENERGY COMPANY,

by

_____

Name: Corbin A. McNeill, Jr.
Title: Chairman of the Board, President, and Chief Executive Officer

EXHIBIT F

[Letterhead of NEWCO]

[Date]

Cravath, Swaine & Moore
825 Eighth Avenue
New York, New York 10019

Jones, Day, Reavis & Pogue
77 West Walker Drive
Chicago, Illinois 60001

Ladies and Gentlemen:

In connection with the opinions to be delivered pursuant to Sections 7.02(d) and 7.03(d) of the Agreement and Plan of Exchange and Merger (the "Exchange and Merger Agreement") dated as of September 22, 1999, among PECO ENERGY COMPANY, a Pennsylvania corporation ("Parent"), PECO ENERGY CORPORATION, a Pennsylvania corporation and a wholly owned subsidiary of Parent ("Newco") and UNICOM CORPORATION, an Illinois corporation (the "Company"), and in connection with the filing with the Securities and Exchange Commission (the "SEC") of the registration statement on Form S-4 (the "Registration Statement"), which includes the proxy statement/prospectus of Parent and the Company, each as amended and supplemented through the date hereof, the undersigned certifies and represents on behalf of Newco and as to Newco, after due inquiry and investigation, as follows (any capitalized term used but not defined herein having the meaning given to such term in the Exchange and Merger Agreement):

1. The Merger will be consummated in accordance with the Exchange and Merger Agreement and as described in the Registration Statement. The facts relating to the Merger

as described in the Registration Statement and the documents referenced in the Registration Statement are, insofar as such facts relate to Newco, true, correct and complete in all material respects.

2. The formulae set forth in the Exchange and Merger Agreement pursuant to which each issued and outstanding share of common stock, no par value, of Parent (the "Parent Common Stock") will be converted into common shares, no par value, of Newco (the "Newco Common Stock") or cash and each issued and outstanding share of common stock, no par value, of the Company (the "Company Common Stock") will be converted into Newco Common Stock or cash are the result of arm's length bargaining. The aggregate fair market value of the Newco Common Stock and/or cash to be received by holders of Parent Common Stock and Company Common Stock in the Merger will be approximately equal to the fair market value of the Parent Common Stock or the Company Common Stock, as the case may be, surrendered in exchange therefor.

3. Cash payments to be made to holders of Company Common Stock in lieu of fractional shares of Newco Common Stock that would otherwise be issued to such holders in the Second Step Merger will be made for the purpose of saving Newco the expense and inconvenience of issuing and transferring fractional shares of Newco Common Stock, and do not represent separately bargained for consideration. The total cash consideration that will be paid in the Second Step Merger to holders of Company Common Stock in lieu of fractional shares of Newco Common Stock is not expected to exceed one percent of the total consideration that will be issued in the Second Step Merger to such holders in exchange for their shares of Company Common Stock.

4. (i) Newco has no present plan or intention, following the Merger, to reacquire, or to cause any corporation that is related to Newco to acquire, directly or indirectly, any Newco Common Stock issued in the Merger, except for repurchases of Newco Common Stock by Newco in connection with [describe specific parameters of any repurchase program to be adopted by Newco]. No corporation that is related to Newco has a plan or intention to purchase any of the Newco Common Stock issued in the Merger.

(ii) For purposes of this representation letter, a corporation shall be treated as related to Newco if such corporation is related to Newco within the meaning of Treasury Regulation Section 1.368-1(e)(3).

5. Newco has not acquired, nor, except as a result of the First Step Exchange will it acquire, nor has it owned

in the past five years, any Parent Common Stock. Newco has not acquired, nor, except as a result of the Second Step Merger will it acquire, nor has it owned in the past five years, any Company Common Stock.

6. Newco has no present plan or intention to make any distributions after the Merger to holders of Newco Common Stock (other than dividends made in the ordinary course of business).

7. At the Merger Effective Time, the value of the Newco Common Stock to be issued to holders of Company Common Stock in the Second Step Merger will represent at least 50% of the value of the total consideration to be issued to such holders in the Second Step Merger in exchange for their shares of Company Common Stock. Further, no liabilities of Parent or any of the holders of Parent Common Stock and no liabilities of any of the holders of Company Common Stock will be assumed by Newco, nor will any of the Parent Common Stock or Company Common Stock acquired by Newco in connection with the Merger be subject to any liabilities.

8. Parent, Newco, the Company and holders of Parent Common Stock and Company Common Stock will each pay their respective expenses, if any, incurred in connection with the Merger. Newco has not paid, directly or indirectly, nor has it agreed to assume any expense or other liability, whether fixed or contingent, incurred or to be incurred by Parent, any holder of Parent Common Stock or any holder of Company Common Stock in connection with or as part of the Merger or any related transactions.

9. Following the Second Step Merger, Newco or Newco's "qualified group" of corporations (as defined in Treasury Regulation Section 1.368-1(d)(4)(ii)) will continue the "historic business" of the Company or use a significant portion of the Company's "historic business assets" in a business (as such terms are defined in Treasury Regulation Section 1.368-1(d)). Following the First Step Exchange, Newco will cause Parent to continue its historic business or to use a significant portion of its historic business assets in a trade or business.

10. Newco is not an investment company as defined in Section 368(a)(2)(F)(iii) and (iv) of the Code, Section

351(e)(1) of the Code or Treasury Regulation Section 1.351-1(c)(1)(ii).

11. Newco will not take any position on any Federal, state or local income or franchise tax return, or take any other tax reporting position, that is inconsistent (i) with the treatment of the Merger as transactions described in Section 351 of the Code or (ii) with the treatment of the Second Step Merger as a reorganization within the meaning of Section 368(a) of the Code, in each case unless otherwise required by a "determination" (as defined in Section 1313(a)(1) of the Code) or by applicable state or local tax law (and then only to the extent required by such applicable state or local tax law).

12. None of the compensation received by any stockholder-employee of Parent in respect of periods ending on or prior to the Exchange Effective Time represents separate consideration for any of his or her Parent Common Stock. None of the compensation received by any stockholder-employee of the Company in respect of periods ending on or prior to the Merger Effective Time represents separate consideration for any of his or her Company Common Stock. None of the Newco Common Stock that will be received by any stockholder-employee of Parent or the Company in the Merger represents separately bargained for consideration which is allocable to any employment agreement or arrangement. The compensation paid to any stockholder-employees will be for services actually rendered and will be determined by bargaining at arm's-length.

13. There is no intercorporate indebtedness existing between (i) Newco and Parent or (ii) Newco (or any of its subsidiaries) and the Company (or any of its subsidiaries).

14. Newco is not under the jurisdiction of a court in a Title 11 or similar case within the meaning of Section 368(a)(3)(A) of the Code.

15. To the best knowledge of the management of Newco and taking into account any issuance of additional shares of Newco Common Stock, any issuance of Newco Common Stock for services, the exercise of any Newco stock rights,

options, warrants or subscriptions, any public offerings of Newco stock, and the sale, exchange, transfer by gift or other disposition of any Newco Common Stock received in the Merger, the holders of Parent Common Stock and Company Common Stock will collectively be in "control" of Newco immediately after the Merger. For purposes of this representation letter, "control" shall mean the ownership of (i) stock possessing at least 80% of the total combined voting power of all classes of Newco stock entitled to vote and (ii) at least 80% of the total number of shares of each other class of Newco stock.

16. Newco has no present plan or intention to, or to cause any of its affiliates to, (i) liquidate Newco or Parent, (ii) merge (other than in connection with the Second Step Merger), liquidate or consolidate Newco or Parent with or into any other entity (including, without limitation, any affiliate), (iii) sell, transfer, distribute or otherwise dispose of the Parent Common Stock or interests in any of its material affiliates or (iv) sell, transfer, distribute or otherwise dispose of any of the material assets of Parent, the Company or their affiliates acquired in the Merger (other than in the ordinary course of business or transfers described in Section 368(a)(2)(C) of the Code or Treasury Regulation Section 1.368-2(k) that also qualify as transactions described in Section 351 of the Code).

17. The Newco Common Stock issued in the Merger will constitute all of Newco's outstanding stock immediately after the Merger. Except as specifically set forth in the Exchange and Merger Agreement, Newco will not issue any Newco Common Stock in connection with the Merger in consideration for services rendered to or for the benefit of Newco or any of its affiliates, or in consideration for the transfer of any property other than Parent Common Stock or Company assets.

18. The Exchange and Merger Agreement, the Registration Statement and the other documents described in the Registration Statement represent the entire understanding of Newco with respect to the Merger and there are no other written or oral agreements regarding the Merger.

19. The Merger is being undertaken for purposes of

enhancing the business of Newco and for other good and valid business purposes of Newco as described in the proxy statement/prospectus of Parent and the Company included in the Registration Statement.

20. Newco is not a personal service corporation within the meaning of Section 269A of the Code.

21. The undersigned is authorized to make all the representations set forth herein on behalf of Newco.

The undersigned acknowledges that (i) the opinions to be delivered pursuant to Sections 7.02(d) and 7.03(d) of the Exchange and Merger Agreement will be based on the accuracy of the representations set forth herein and on the accuracy of the representations and warranties and the satisfaction of the covenants and obligations contained in the Exchange and Merger Agreement and the various other documents related thereto, and (ii) such opinions will be subject to certain limitations and qualifications including that they may not be relied upon if any such representations or warranties are not accurate or if any such covenants or obligations are not satisfied in all material respects.

The undersigned acknowledges that such opinions will not address any tax consequences of the Merger or any action taken in connection therewith except as expressly set forth in such opinions.

Very truly yours,

PECO ENERGY CORPORATION,

by

_____

Name: Corbin A. McNeill
Title: Chairman of the Board, President, and Chief Executive Officer

EXHIBIT G

[Letterhead of the Company]

[Date]

Jones, Day, Reavis & Pogue
77 West Walker Drive
Chicago, Illinois 60001

Cravath, Swaine & Moore
825 Eighth Avenue
New York, New York 10019

Ladies and Gentlemen:

In connection with the opinions to be delivered pursuant to Sections 7.02(d) and 7.03(d) of the Agreement and Plan of Exchange and Merger (the "Exchange and Merger Agreement") dated as of September 22, 1999, among PECO ENERGY COMPANY, a Pennsylvania corporation ("Parent"), PECO ENERGY CORPORATION, a Pennsylvania corporation and a wholly owned subsidiary of Parent ("Newco") and UNICOM CORPORATION, an Illinois corporation (the "Company"), and in connection with the filing with the Securities and Exchange Commission (the "SEC") of the registration statement on Form S-4 (the "Registration Statement"), which includes the proxy statement/prospectus of Parent and the Company, each as amended and supplemented through the date hereof, the undersigned certifies and represents on behalf of the Company and as to the Company, after due inquiry and investigation, as follows (any capitalized term used but not defined herein having the meaning given to such term in the Exchange and Merger Agreement):

1. The Merger will be consummated in accordance with the Exchange and Merger Agreement and as described in

the Registration Statement. The facts relating to the Merger as described in the Registration Statement and the documents referenced in the Registration Statement are, insofar as such facts relate to the Company, true, correct and complete in all material respects.

2. The formula set forth in the Exchange and Merger Agreement pursuant to which each issued and outstanding share of common stock, no par value, of the Company (the "Company Common Stock") will be converted into common shares, no par value, of Newco (the "Newco Common Stock") or cash is the result of arm's length bargaining. The aggregate fair market value of the Newco Common Stock and/or cash to be received by each holder of Company Common Stock in the Second Step Merger will be approximately equal to the fair market value of the Company Common Stock surrendered in exchange therefor.

3. Cash payments to be made to holders of Company Common Stock in lieu of fractional shares of Newco Common Stock that would otherwise be issued to such holders in the Second Step Merger will be made for the purpose of saving Newco the expense and inconvenience of issuing and transferring fractional shares of Newco Common Stock, and do not represent separately bargained for consideration. The total cash consideration that will be paid in the Second Step Merger to holders of Company Common Stock in lieu of fractional shares of Newco Common Stock is not expected to exceed one percent of the total consideration that will be issued in the Second Step Merger to such holders in exchange for their shares of Company Common Stock.

4. (i) Except to the extent specifically contemplated under the Exchange and Merger Agreement, neither the Company nor any corporation related to the Company has acquired or has any present plan or intention to acquire, directly or indirectly, any Company Common Stock in contemplation of the Merger, or otherwise as part of a plan of which the Merger is a part.

(ii) For purposes of this representation letter, a corporation shall be treated as related to the Company if such corporation is related to the Company within the meaning of Treasury Regulation Section 1.368-1(e)(3) (determined without regard to Treasury Regulation Section 1.368-1(e)(3)(i)(A)).

5. The Company has not made and does not have any present plan or intention to make any distributions (other than dividends made in the ordinary course of business) to holders of Company Common Stock prior to, in contemplation

of, or otherwise in connection with, the Merger.

6. Newco, the Company and holders of Company Common Stock will each pay their respective expenses, if any, incurred in connection with the Second Step Merger. The Company has not agreed to assume, nor will it directly or indirectly assume, any expense or other liability, whether fixed or contingent, of any holder of Company Common Stock. Further, no liabilities of any of the holders of Company Common Stock will be assumed by Newco, nor will any of the Company Common Stock acquired by Newco in connection with the Merger be subject to any liabilities.

7. Any liabilities of the Company that will be assumed by Newco pursuant to the Merger, and any liabilities to which the assets of the Company that will be transferred to Newco pursuant to the Merger are subject, were incurred in the ordinary course of business and are associated with the assets of the Company.

8. At the Merger Effective Time, the value of the Newco Common Stock issued to the holders of Company Common Stock in the Second Step Merger will represent at least 50% of the value of the total consideration issued to such holders in the Second Step Merger in exchange for their shares of Company Common Stock.

9. The Company is not an investment company as defined in Section 368(a)(2)(F)(iii) and (iv) of the Internal Revenue Code of 1986, as amended (the "Code"), Section 351(e)(1) of the Code or Treasury Regulation Section 1.351-1(c)(1)(ii).

10. The Company will not take, and to the best knowledge of the management of the Company there is no present plan or intention by holders of Company Common Stock to take, any position on any Federal, state or local income or franchise tax return, or to take any other tax reporting position, that is inconsistent (i) with the treatment of the Merger as transactions described in Section 351 of the Code or (ii) with the treatment of the Second Step Merger as a reorganization within the meaning of Section 368(a) of the Code, in each case unless otherwise required by a "determination" (as defined in Section 1313(a)(1) of the

Code) or by applicable state or local tax law (and then only to the extent required by such applicable state or local tax law).

11. None of the compensation received by any stockholder-employee of the Company in respect of periods ending on or prior to the Merger Effective Time represents separate consideration for any of his or her Company Common Stock. None of the Newco Common Stock that will be received by any stockholder-employee of the Company in the Merger represents separately bargained for consideration which is allocable to any employment agreement or arrangement. The compensation paid to any stockholder-employees will be for services actually rendered and will be determined by bargaining at arm's-length.

12. There is no intercorporate indebtedness existing between Newco (or any of its subsidiaries, including Parent) and the Company (or any of its subsidiaries).

13. The Company is not under the jurisdiction of a court in a Title 11 or similar case within the meaning of Section 368(a)(3)(A) of the Code.

14. No assets of the Company have been sold, transferred or otherwise disposed of which would prevent Newco or Newco's "qualified group" of corporations (as defined in Treasury Regulation Section 1.368-1(d)(4)(ii)) from continuing the "historic business" of the Company or from using a significant portion of the "historic business assets" of the Company in a business following the Merger (as such terms are defined in Treasury Regulation Section 1.368-1(d)).

15. At the Merger Effective Time, the fair market value of the assets of the Company transferred to Newco pursuant to the Second Step Merger will exceed the sum of its liabilities assumed by Newco pursuant to the Second Step Merger, plus the amount of liabilities, if any, to which such assets are subject.

16. To the best knowledge of the management of the Company, there is no present plan or intention on the part of the holders of Company Common Stock to sell, exchange or

otherwise dispose of, or to enter into any contract or other arrangement with respect to, any interest in the shares of Newco Common Stock received in the Second Step Merger in exchange for such Company Common Stock such that the former holders of Company Common Stock and the former holders of Parent Common Stock, in the aggregate, would not own (i) Newco Common Stock having at least 80% of the total combined voting power of all classes of Newco stock entitled to vote and (ii) at least 80% of the total number of shares of each other class of Newco Stock.

17. The Company will not retain any rights in the Company assets transferred to Newco pursuant to the Second Step Merger.

18. None of the stock of any Company Subsidiary being transferred in the Second Step Merger is Section 306 stock within the meaning of Section 306(c) of the Code.

19. Neither the Company nor any Company Subsidiary has been a "distributing corporation" or a "controlled corporation" in a distribution of stock qualifying for tax-free treatment under Section 355 of the Code (i) at any time during the two-year period prior to the date of the Exchange and Merger Agreement, (ii) at any time during the period commencing on the date of the Exchange and Merger Agreement and ending on the date hereof or (iii) which could otherwise constitute part of a "plan" or "series of related transactions" (within the meaning of Section 355(e) of the Code) in conjunction with and including the Merger.

20. To the best knowledge of the management of the Company and taking into account any issuance of additional shares of Newco Common Stock, any issuance of Newco Common Stock for services, the exercise of any Newco stock rights, options, warrants or subscriptions, any public offerings of Newco stock, and the sale, exchange, transfer by gift or other disposition of any Newco Common Stock received by holders of Company Common Stock in the Merger, the holders of Parent Common Stock and Company Common Stock will collectively be in "control" of Newco immediately after the Merger. For purposes of this representation letter, "control" shall mean the ownership of (i) stock possessing at least 80% of the total combined voting power of all classes

of Newco stock entitled to vote and (ii) at least 80% of the total number of shares of each other class of Newco stock.

21. The Merger is being undertaken for purposes of enhancing the business of the Company and for other good and valid business purposes of the Company as described in the proxy statement/prospectus of Parent and the Company included in the Registration Statement.

22. The Exchange and Merger Agreement, the Registration Statement and the other documents described in the Registration Statement represent the entire understanding of the Company with respect to the Merger and there are no other written or oral agreements regarding the Merger.

23. The undersigned is authorized to make all the representations set forth herein on behalf of the Company.

The undersigned acknowledges that (i) the opinions to be delivered pursuant to Sections 7.02(d) and 7.03(d) of the Exchange and Merger Agreement will be based on the accuracy of the representations set forth herein and on the accuracy of the representations and warranties and the satisfaction of the covenants and obligations contained in the Exchange and Merger Agreement and the various other documents related thereto, and (ii) such opinions will be subject to certain limitations and qualifications including that they may not be relied upon if any such representations or warranties are not accurate or if any of such covenants or obligations are not satisfied in all material respects.

The undersigned acknowledges that such opinions will not address any tax consequences of the Merger or any action taken in connection therewith except as expressly set forth in such opinions.

Very truly yours,

UNICOM CORPORATION

by

_____

Name: John W. Rowe

Title: Chairman of the Board,
President, and Chief
Executive Officer