OTS Statement No. 1
Witness: Kevan Deardorff
Date: May 3, 2000

5/10/00
Phl, PA
MS

**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 CORPORTION | : | DOCKET NO. A-110550F0147 |

DOCUMENT FOLDER

DOCKETED MAY 17 2000

**Direct Testimony**

**Of**

**Kevan Deardorff**

**Office of Trial Staff**

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SECRETARY'S BUREAU

**Concerning:**

**Merger Savings**

**Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

A. My name is Kevan L. Deardorff. My business address is Pennsylvania Public Utility Commission, P.O. Box 3265, Harrisburg, Pa. 17105-3265.

**Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

A. I am currently employed by the Pennsylvania Public Utility Commission as a Fixed Utility Financial Analyst. I am assigned to the Office of Trial Staff as an expert witness.

**Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND?**

A. I have prepared this information and presented it in Appendix A which is attached to my direct testimony.

**Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

A. The purpose of my testimony is to respond to concerns regarding cost savings raised by PPL Electric Utilities Corporation ("PPL") in its Objections to the Joint Petition for Settlement ("PPL Objections").

**Q. DOES YOUR TESTIMONY INCLUDE AN EXHIBIT?**

A. Yes. OTS Exhibit No. 1 presents the information I have gathered to determine savings to PECO's distribution customers that will result from the merger.

**Q. WHAT IS PPL'S SPECIFIC OBJECTION TO THE SETTLEMENT WITH RESPECT TO THE RATE REDUCTION AND COST SAVINGS?**

A. On pages 20-22 of PPL's Objections, PPL addressed the lack of evidence in this proceeding regarding cost savings and hypothesizes that service quality may diminish if cost savings are insufficient to support the $200 million rate reduction.

**Q. DID PECO FURTHER ATTEMPT TO IDENTIFY COST SAVINGS OTHER THAN THAT WHICH IT PRESENTED IN DIRECT TESTIMONY?**

A. Yes. In response to OTS-11 (see Schedule 1, of OTS Exhibit No. 1), PECO estimated total merger savings for the five-year period to be $573.2 million[1]. PECO's share of the estimated five-year regulated merger savings is $113.1 million[2]. PECO's share of the estimated five-

[1] OTS Schedule No. 1, response to OTS-11 and OTS Schedule No. 2, response to OTS-12.
[2] OTS Schedule No. 1. Regulated gas savings totaled $19.3 million and regulated electric savings totaled $93.8 million.

year unregulated merger savings is $70.9 million[3]. As a result, PECO's share of the total merger savings is $184.0 million.

**Q. DO YOU BELIEVE THESE ESTIMATES MAY BE CONSERVATIVE?**

A. Yes.

**Q. WHY?**

A. It was in the best interest of PECO's shareholders to provide conservative cost saving synergy estimates.

**Q. DO YOU BELIEVE THAT THE MERGER SAVINGS WILL BE SUFFICIENT TO SUPPORT THE RATE REDUCTIONS, THUS RESULTING IN NO MATERIAL IMPACT ON SERVICE QUALITY?**

A. Yes. PECO is well aware of its overall financial position and is willing to commit to those rate reductions. Consequently, it follows that PECO is convinced that it can achieve cost savings in excess of $200 million in

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[3] OTS Schedule No. 1, response to OTS-12. The Company estimated total unregulated merger saving for the 5 year period to be $242.3 million. PECO's share of the savings was determined by dividing PECO's 1998 generating capacity of 9.3 million kwh by the total PECO/Unicom capacity of 31.8 million kwh and multiplying that result by the total savings of $242.3 million. (Unicom and PECO 1998 Annual Report to Stockholders).

order to create shareholder value, otherwise it would not have agreed to those terms.

**Q. DO YOU HAVE ANY EVIDENCE THAT THE IDENTIFIED SAVING MAY BE UNDERESTIMATED?**

A. Yes. Schedule No. 3 presents a Value Line sheet for Unicom that estimates the merger savings in the third year to be $180 million. PECO estimates the third year merger savings to be $156.3 million.

**Q. HAVE YOU OBSERVED AN INSTANCE WHERE ACTUAL UTILITY MERGER COST SAVINGS EXCEEDED THE ESTIMATES?**

A. Yes. In the Bell Atlantic/NYNEX merger the actual cost savings greatly exceeded initial estimates. On page 4 of Bell Atlantic's 1997 Annual Report the following statement was made by the Chairman and Vice Chairman of the Board of Directors regarding the Bell Atlantic/NYNEX merger:

> "We have identified about $1.8 billion in annual expense synergies, capital savings and incremental revenue opportunities to be achieved by 2000-nearly twice what we believed possible before closing the merger in August 1997."

**Q. DOES THIS COMPLETE YOUR TESTIMONY?**

A. Yes.

APPENDIX A

**Kevan L. Deardorff**

Educational and Professional Background

I am a graduate of the Pennsylvania State University, where I received a Bachelor of Science Degree in Business Economics and Finance and a Master of Arts Degree in Economics. Before coming to the Pennsylvania PUC in 1983, I worked as a consultant for the United States Environmental Protection Agency between 1980 and 1981, and as a Research Economist for the Pennsylvania Department of Commerce during 1982.

I am currently employed as a Fixed Utility Financial Analyst III. I have completed rate of return analyses in a large number of rate cases and assisted in the analyses of many electric, gas, water and telephone rate cases. I have prepared rate of return and price cap testimony in the following rate cases:

| | |
|---|---|
| Keystone Water Company | R-822211-12<br>R-822215-19<br>R-822221 |
| Western Pennsylvania Water Company | R-832381 |
| Philadelphia Suburban Water Company | R-842592 |
| Duquesne Light Company | R-842583 |
| Western Pennsylvania Water Company | R-842621-25 |
| Riverton Consolidated Water Company | R-842675 |
| Keystone Water Company | R-842755-56<br>R-842759 |
| Equitable Gas Company | R-842769 |
| Western Pennsylvania Water Company | R-850096-97 |
| West Penn Power Company | R-850220 |
| Dauphin Consolidated Water Supply Co. | R-860350 |

| | |
|---|---|
| Western Pennsylvania Water Company | R-860397 |
| Philadelphia Electric Company (Gas Division) | R-870629 |
| National Fuel Gas Distribution Corp. | R-870719 |
| Western Pennsylvania Water Company | R-870825 |
| Philadelphia Suburban Water Company | R-870840 |
| Equitable Gas Company | R-880971 |
| Chartiers Natural Gas Company | R-891283 |
| Columbia Gas of Pennsylvania, Inc. | R-891468 |
| Arrowhead Public Service Corp. | R-891557 |
| Pennsylvania-American Water Co. | R-901652 |
| Citizens Utilities Water Company of Pennsylvania | R-901663 |
| Citizens Utilities Home Water Company | R-901664 |
| National Fuel Gas Distribution | R-901670 |
| York Water Company | R-901813 |
| Columbia Gas of Pennsylvania, Inc. | R-901873 |
| National Fuel Gas Distribution Corp. | R-911912 |
| The Peoples Natural Gas Company | R-00922180 |
| York Water Company | R-00922168 |

| | |
|---|---|
| Pennsylvania & Southern Gas Company | R-00922312 |
| North Penn Gas Company | R-00922276 |
| North East Heat and Light Company | R-00922309 |
| Shenango Valley Water Company | R-00922420 |
| Mechanicsburg Water Company | R-00922502 |
| National Fuel Gas Distribution Corp. | R-00932548 |
| Roaring Creek Water Company | R-00932665 |
| Shenango Valley Water Company | R-00932798 |
| The Peoples Natural Gas Company | R-00932866 |
| Blue Mountain Consolidated Water Co. | R-00932873 |
| Allied Gas Company, et. al. | R-00932952 |
| National Fuel Gas Distribution Corp. | R-00942991 |
| Borough of Media Water Works | R-00943098 |
| Newtown Artesian Water Company | R-00943157 |
| Roaring Creek Water Company | R-00943177 |
| Borough of Schuylkill Haven | R-00943156 |
| Pennsylvania Power & Light Company | R-00943271 |
| National Fuel Gas Distribution Corp. | R-00953299 |
| Frontier Companies | P-00951005 |

| | |
|---|---|
| PFG Gas, Inc. and North Penn Gas Company | R-00953524 |
| Commonwealth Telephone Company | P-00961024 |
| PECO Energy Company | R-00973877 |
| PECO Energy Company | R-00973953 |
| Ironton Telephone Company | P-00971182 |
| Metropolitan Edison Company | R-00974008 |
| Pennsylvania Electric Company | R-00974009 |
| Pennsylvania Power Company | R-00974149 |
| PG Energy Company | R-00984280 |
| ALLTEL Pennsylvania, Inc. | P-00981423 |
| Pennsylvania Telephone Association Small Group | P-00981425, et al |
| United Telephone Company of Pennsylvania | P-00981410 |
| City of Lancaster Water Fund | R-00984567 |
| York Water Company | R-00994605 |
| Pittsburgh Thermal, L.P. | R-00994641 |

OTS Exhibit No. 1
Witness: Kevan Deardorff
Date: May 3, 2000

5/10/00
Phila, PA
RJS

**BEFORE THE**

**PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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| 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 CORPORTION | : | DOCKET NO. A-110550F0147 |



**Exhibit to Accompany The**

**Of**

**Kevan Deardorff**

**Office of Trial Staff**

**Concerning:**

**Merger Savings**

OTS-11 Question:

Re: Response to Interrogatory OTS-4. Please estimate the merger savings allocated to the Pennsylvania jurisdiction. Please provide all assumptions necessary to make these estimates.

OTS-11 Answer:

Attachment OTS-11 provides the requested estimate. This estimate is based on customer and labor allocation factors applied to the various cost savings categories. Other allocation criteria could have been employed for certain cost items but it is believed that the use of such factors would not materially affect the results of the estimate. While the Company believes the allocation method used in the estimate is a reasonable one, the allocation of the benefits will not be known until the merger is complete, actual savings are achieved, and actual costs directly assigned or allocated to the entity(ies) incurring the costs.

Responsible Witness: Thomas J. Flaherty/Thomas P. Hill, Jr.

**Allocator**

| | Peco Elec | Peco Gas | Peco Total | Unicom Elec | Unicom Gas | Unicom Total | Newco Elec | Newco Gas |
|---|---|---|---|---|---|---|---|---|
| Avg. Cust.Emp | 26.8% | 100.0% | 30.8% | 73.4% | 0.0% | 69.2% | 94.2% | 5.8% |

| | | Peco Elec | Peco Gas | Peco Total | Unicom Elec | Unicom Gas | Unicom Total | Combined Elec | Combined Gas | Combined Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Customers | | 1,487,688 | 415,429 | 1,903,117 | 3,454,544 | - | 3,454,544 | 4,942,232 | 415,429 | 5,357,661 |
| | Co | 78.2% | 21.8% | | 100.0% | 0.0% | | | | |
| | Combined | 30.1% | 100.0% | 35.5% | 69.9% | 0.0% | 64.5% | 92.2% | 7.8% | |
| Field Employees | | 1308 | 230 | 1538 | 4361 | 0 | 4361 | 5669 | 230 | |
| | Co | 85.0% | 15.0% | | 100.0% | 0.0% | | | | |
| | Combined | 23.1% | 100.0% | 26.1% | 76.9% | 0.0% | 73.9% | 96.1% | 3.9% | |
| Employees | | | | | | | | | | |
| | Total | | | 4,512 | | | 9,393 | | | 13,905 |
| | Corporate | | | 2974 | | | 5032 | | | 8006 |
| | Field | | | 1538 | | | 4361 | | | 5899 |
| Company % of Combined | | | | | | | | | | |
| | Total | | | 32.4% | | | 67.6% | | | |
| | Corporate | | | 37.1% | | | 62.9% | | | 57.6% |
| | Field | | | 26.1% | | | 73.9% | | | 42.4% |
| Company % of Total | | | | | | | | | | |
| | Corporate | | | 65.9% | | | 53.6% | | | 57.6% |
| | Field | | | 34.1% | | | 46.4% | | | 42.4% |

**Allocation by Jurisdiction**

| | | Customers | State Allocation |
|---|---|---|---|
| **Electric** | | | |
| Peco Energy Co. | PA | 1,487,688 | 30.1% |
| Commonwealth Edison | IL | 3,454,544 | 69.9% |
| Total | | 4,942,232 | 100.0% |
| **Gas** | | | |
| Peco Energy Co. | PA | 415,429 | 100.0% |
| Total | | 415,429 | 100.0% |

OTS Exhibit No. 1
Schedule 1
Page 3 of 7

Total Potential Savings Detail

**Regulated**

| Potential Areas ($ in 000s) | | Segment Allocation Elec | Gas | Rationale | Company Allocation Peco Elec | Unicom Elec | Peco Gas | Unicom Gas | Rationale |
|---|---|---|---|---|---|---|---|---|---|
| Labor | | | | | | | | | |
| | Corporate | 94.2% | 5.8% | Avg. Cust,Emp,Newco | 26.6% | 73.4% | 100.0% | 0.0% | Avg. Cust,Emp,(CompanyName)(Elec or Gas) |
| | Field | 94.2% | 5.8% | Avg. Cust,Emp,Newco | 26.6% | 73.4% | 100.0% | 0.0% | Avg. Cust,Emp,(CompanyName)(Elec or Gas) |
| | Total | | | | | | | | |
| Corporate & Administrative Programs: | | | | | | | | | |
| | Administrative & General Overhead | 94.2% | 5.8% | Avg. Cust,Emp,Newco | 26.6% | 73.4% | 100.0% | 0.0% | Avg. Cust,Emp,(CompanyName)(Elec or Gas) |
| | Advertising | 94.2% | 5.8% | Avg. Cust,Emp,Newco | 26.6% | 73.4% | 100.0% | 0.0% | Avg. Cust,Emp,(CompanyName)(Elec or Gas) |
| | Benefits | 94.2% | 5.8% | Avg. Cust,Emp,Newco | 26.6% | 73.4% | 100.0% | 0.0% | Avg. Cust,Emp,(CompanyName)(Elec or Gas) |
| | Insurance | 94.2% | 5.8% | Avg. Cust,Emp,Newco | 26.6% | 73.4% | 100.0% | 0.0% | Avg. Cust,Emp,(CompanyName)(Elec or Gas) |
| | Information Services (O&M) | 94.2% | 5.8% | Avg. Cust,Emp,Newco | 26.6% | 73.4% | 100.0% | 0.0% | Avg. Cust,Emp,(CompanyName)(Elec or Gas) |
| | Information Services (Capital) | 94.2% | 5.8% | Avg. Cust,Emp,Newco | 26.6% | 73.4% | 100.0% | 0.0% | Avg. Cust,Emp,(CompanyName)(Elec or Gas) |
| | Professional Services | 94.2% | 5.8% | Avg. Cust,Emp,Newco | 26.6% | 73.4% | 100.0% | 0.0% | Avg. Cust,Emp,(CompanyName)(Elec or Gas) |
| | Facilities | 94.2% | 5.8% | Avg. Cust,Emp,Newco | 26.6% | 73.4% | 100.0% | 0.0% | Avg. Cust,Emp,(CompanyName)(Elec or Gas) |
| | Shareholder Services | 94.2% | 5.8% | Avg. Cust,Emp,Newco | 26.6% | 73.4% | 100.0% | 0.0% | Avg. Cust,Emp,(CompanyName)(Elec or Gas) |
| | Vehicles | 94.2% | 5.8% | Avg. Cust,Emp,Newco | 26.6% | 73.4% | 100.0% | 0.0% | Avg. Cust,Emp,(CompanyName)(Elec or Gas) |
| | Directors' Fees | 94.2% | 5.8% | Avg. Cust,Emp,Newco | 26.6% | 73.4% | 100.0% | 0.0% | Avg. Cust,Emp,(CompanyName)(Elec or Gas) |
| | Association Dues | 94.2% | 5.8% | Avg. Cust,Emp,Newco | 26.6% | 73.4% | 100.0% | 0.0% | Avg. Cust,Emp,(CompanyName)(Elec or Gas) |
| | Research & Development | 94.2% | 5.8% | Avg. Cust,Emp,Newco | 26.6% | 73.4% | 100.0% | 0.0% | Avg. Cust,Emp,(CompanyName)(Elec or Gas) |
| | Total | | | | | | | | |
| Purchasing Economies: | | | | | | | | | |
| | Procurement | 94.2% | 5.8% | Avg. Cust,Emp,Newco | 26.6% | 73.4% | 100.0% | 0.0% | Avg. Cust,Emp,(CompanyName)(Elec or Gas) |
| | Contract Services | 94.2% | 5.8% | Avg. Cust,Emp,Newco | 26.6% | 73.4% | 100.0% | 0.0% | Avg. Cust,Emp,(CompanyName)(Elec or Gas) |
| | Total | | | | | | | | |
| | Total Savings | NA | NA | | NA | NA | NA | NA | |
| | Costs to Achieve | 94.2% | 5.8% | Avg. Cust,Emp,Newco | 26.6% | 73.4% | 100.0% | 0.0% | Avg. Cust,Emp,(CompanyName)(Elec or Gas) |
| | Pre-Merger Initiatives | 94.2% | 5.8% | Avg. Cust,Emp,Newco | 26.6% | 73.4% | 100.0% | 0.0% | Avg. Cust,Emp,(CompanyName)(Elec or Gas) |
| | Net Regulated Savings | NA | NA | | NA | NA | NA | NA | |

OTS Exhibit No. 1
Schedule 1
Page 4 of 7

# Total Regulated Savings

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

OTS Exhibit No. 1
Schedule 1
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# Total Regulated Electric

($ in 000s)

| | | 2001 | 2002 | 2003 | 2004 | 2005 | Total |
|---|---|---|---|---|---|---|---|
| Labor | | | | | | | |
| | Corporate | | | | | | |
| | Field | $28,288 | $46,875 | $49,360 | $51,962 | $54,687 | $231,172 |
| | Total | $6,258 | $6,913 | $7,600 | $8,318 | $9,071 | $38,160 |
| | | 34,546 | 53,788 | 56,960 | 60,281 | 63,758 | 269,332 |
| Corporate & Administrative Programs: | | | | | | | |
| | Administrative & General Overhead | | | | | | |
| | Advertising | $984 | $1,659 | $1,719 | $1,780 | $1,844 | $7,985 |
| | Benefits | $829 | $865 | $902 | $941 | $981 | $4,517 |
| | Insurance | $0 | $3,895 | $4,202 | $4,600 | $5,022 | $17,718 |
| | Information Services (O&M) | $1,488 | $1,532 | $1,578 | $1,626 | $1,675 | $7,899 |
| | Information Services (Capital) | $149 | $3,913 | $7,902 | $8,139 | $8,383 | $28,485 |
| | Professional Services | $148 | $2,841 | $8,223 | $13,766 | $19,476 | $44,455 |
| | Facilities | $9,121 | $9,513 | $9,922 | $10,348 | $10,793 | $49,697 |
| | Shareholder Services | $0 | $4,274 | $4,402 | $4,535 | $4,671 | $17,882 |
| | Vehicles | $762 | $785 | $809 | $833 | $858 | $4,047 |
| | Directors' Fees | $61 | $98 | $101 | $104 | $108 | $473 |
| | Association Dues | $131 | $135 | $139 | $143 | $148 | $697 |
| | Research & Development | $0 | $0 | $0 | $0 | $0 | $0 |
| | Total | 0 | 0 | 0 | 0 | 0 | |
| Purchasing Economies: | | $14,868 | $30,740 | $41,166 | $48,120 | $55,301 | $190,195 |
| | Procurement | | | | | | |
| | Contract Services | $0 | $0 | $0 | $0 | $0 | $0 |
| | Total | $0 | $0 | $0 | $0 | $0 | |
| | | $9,302 | $11,045 | $12,852 | $14,724 | $16,664 | $64,586 |
| | | $0 | $0 | $0 | $0 | $0 | |
| | Savings Subtotal | | | | | | |
| | Costs to Achieve | | | | | | |
| | | $98,007 | $33,142 | $16,429 | $13,410 | $13,467 | $174,456 |
| | Pre-Merger Initiatives | | | | | | |
| | | 5,563 | 7,790 | 7,992 | 8,201 | 8,419 | 37,964 |
| | Net Regulated Savings | | | | | | |
| | | ($44,855) | $54,641 | $86,556 | $101,514 | $113,837 | $311,693 |

2,301
= 93,620

# Total Regulated Gas

| ($ in 000s) | | 2001 | 2002 | 2003 | 2004 | 2005 | Total |
|---|---|---|---|---|---|---|---|
| **Labor** | | | | | | | |
| | Corporate | 1,750 | 2,900 | 3,054 | 3,215 | 3,383 | 14,302 |
| | Field | 387 | 428 | 470 | 515 | 561 | 2,361 |
| | Total | 2,137 | 3,328 | 3,524 | 3,730 | 3,945 | 16,663 |
| ***Corporate & Administrative Programs:*** | | | | | | | |
| | Administrative & General Overhead | $61 | $103 | $106 | $110 | $114 | $494 |
| | Advertising | $51 | $53 | $56 | $58 | $61 | $279 |
| | Benefits | $0 | $241 | $260 | $285 | $311 | $1,096 |
| | Insurance | $92 | $95 | $98 | $101 | $104 | $489 |
| | Information Services (O&M) | $9 | $242 | $489 | $504 | $519 | $1,762 |
| | Information Services (Capital) | $9 | $176 | $509 | $852 | $1,205 | $2,750 |
| | Professional Services | $564 | $589 | $614 | $640 | $668 | $3,075 |
| | Facilities | $0 | $264 | $272 | $281 | $289 | $1,106 |
| | Shareholder Services | $47 | $49 | $50 | $52 | $53 | $250 |
| | Vehicles | $4 | $6 | $6 | $6 | $7 | $29 |
| | Directors' Fees | $8 | $8 | $9 | $9 | $9 | $43 |
| | Association Dues | $14 | $15 | $15 | $16 | $16 | $77 |
| | Research & Development | $59 | $61 | $63 | $65 | $67 | $316 |
| | Total | $920 | $1,902 | $2,547 | $2,977 | $3,421 | $11,767 |
| **Purchasing Economies:** | | | | | | | |
| | Procurement | $311 | $368 | $426 | $486 | $547 | $2,137 |
| | Contract Services | $264 | $316 | $369 | $425 | $484 | $1,859 |
| | Total | $575 | $683 | $795 | $911 | $1,031 | $3,996 |
| | Savings Subtotal | $3,633 | $5,913 | $6,866 | $7,618 | $8,397 | $32,426 |
| | Costs to Achieve | $6,064 | $2,050 | $1,016 | $810 | $833 | $10,793 |
| | Pre-Merger Initiatives | 344 | 482 | 494 | 507 | 521 | 2,349 |
| | Net Regulated Savings | ($2,775) | $3,381 | $5,355 | $6,281 | $7,043 | $19,284 |

OTS Exhibit No. 1
Schedule 1
Page 7 of 7

OTS-12 Question:

Re: Response to Interrogatory OTS-3, Attachment OTS-3. Please estimate total merger savings (both regulated and unregulated) for the 10 year period. Please provide all assumptions necessary to make these assumptions.

OTS-12 Answer:

The requested data was provided in response to OCA-VI-13 (unregulated) and OTS-3 (regulated).

Responsible Witness: Thomas J. Flaherty

# Non-Regulated

**10 Year Total Potential Savings Detail (O&M/Fixed Charge)**

**Potential Areas ($ in 000s)**

sum 2 + sum 3

| | | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Non-Regulated** | Corporate labor allocation | $14,266 | $23,639 | $24,893 | $26,205 | $27,579 | $29,018 | $30,524 | $32,101 | $33,752 | $35,481 | $277,458 |
| | Nuclear labor | $14,349 | $15,852 | $18,157 | $19,882 | $21,687 | $23,578 | $25,557 | $27,629 | $29,799 | $32,070 NL2 | $228,559 |
| | Total labor | $28,615 | $39,491 | $43,050 | $46,087 | $49,266 | $52,595 | $56,081 | $59,730 | $63,551 | $67,551 | $506,017 |
| | | | | | | | | | | | sum 2 + sum 3 | |
| | Corporate program allocation | $9,883 | $20,434 | $27,365 | $31,918 | $36,761 | $41,592 | $44,892 | $46,571 | $48,316 | $50,129 | $357,930 |
| | Nuclear Purchasing | $1,040 | $1,229 | $1,423 | $1,623 | $1,830 | $2,042 | $2,261 | $2,486 | $2,718 | $2,958 NP2 | $19,611 |
| | Nuclear Fuel | $7,488 | $7,488 | $7,488 | $7,488 | $7,488 | $7,488 | $7,488 | $7,488 | $7,488 | $7,488 P1 | $74,880 |
| | Nuclear Contract Services | $4,153 | $4,907 | $5,683 | $6,482 | $7,306 | $8,154 | $9,028 | $9,928 | $10,855 | $11,809 NCS2 | $78,305 |
| | Total | $22,564 | $34,058 | $41,959 | $47,382 | $53,385 | $59,276 | $63,669 | $66,473 | $69,377 | $72,383 | $530,726 |
| **Total** | Total non-regulated synergy savings | $51,179 | $73,549 | $85,009 | $93,668 | $102,651 | $111,871 | $119,749 | $126,203 | $132,928 | $139,935 | $1,036,743 |
| | Costs to Achieve | $65,150 | $22,031 | $10,921 | $8,914 | $8,952 | $4,324 | $1,402 | $537 | $527 | $517 sum 2 | $123,276 |
| | Pro-Merger Initiatives | $8,540 | $9,446 | $9,689 | $9,942 | $10,205 | $10,478 | $10,761 | $11,055 | $11,360 | $11,673 PMI? | $103,149 |
| | Net Non-regulated Savings | ($22,511) | $42,072 | $64,398 | $74,812 | $83,494 | $97,070 | $107,587 | $114,611 | $121,040 | $127,745 | $810,318 |
| | Total Opportunity | ($8,908) | $56,437 | $81,705 | $92,792 | $102,300 | $116,708 | $128,040 | $135,873 | $142,993 | $150,360 | $998,300 |

*242,265



sum 1

03/07/00 TUE 15:06 FAX
RECEIVED TIME MAR. 7. 2:06PM
PRINT TIME MAR. 7. 2:09PM
PECO LEGAL DEPT

**10 Year Total O&M Savings**
**Allocated (1-yes, 2-no)**
**Allocation %**

| | | |
|---|---|---|
| Labor | 31% | 100% |
| Non-labor | 39% | 0% |

| Areas ($ in 000s) | Allocated | | Reductions | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Labor | | | | | | | | | | | | | | | |
| | 1 | Corporate | 526 | $10,177 | $13,600 | $22,566 | $23,656 | $26,061 | $28,136 | $29,460 | $30,830 | $32,270 | $33,790 | $269,073 | Sum 1 |
| | 2 | Nuclear | 225 | 13,520 | 14,153 | 15,310 | 16,279 | 17,002 | 17,001 | 18,638 | 19,314 | 20,410 | 21,399 | 174,200 | |
| | 2 | Field | 96 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| | | Total | 1,295 | $21,697 | $37,559 | $40,064 | $41,094 | $43,063 | $45,923 | $48,003 | $50,349 | $52,710 | $55,187 | $445,276 | |
| Corporate & Administrative Programs: | | | | | | | | | | | | | | | |
| | 1 | Administrative & General Overhead | | $950 | $1,003 | $1,030 | $1,128 | $1,195 | $1,220 | $1,200 | $1,300 | $1,349 | $1,303 | $11,900 | |
| | 1 | Advertising | | $334 | $575 | $600 | $625 | $652 | $680 | $700 | $740 | $773 | $805 | $6,700 | |
| | 1 | Benefits | | 0 | 2,490 | 2,592 | 2,747 | 2,902 | 3,007 | 3,372 | 3,440 | 3,670 | 3,897 | 28,141 | |
| | 1 | Insurance | | 909 | 1,019 | 1,040 | 1,082 | 1,115 | 1,147 | 1,183 | 1,216 | 1,253 | 1,290 | 11,310 | |
| | 1 | Information Services (O&M) | | 99 | 2,601 | 5,259 | 5,410 | 5,572 | 5,740 | 5,912 | 6,089 | 6,272 | 6,460 | 49,000 | |
| | 1 | Information Services (Capital) | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| | 1 | Professional Services | | 6,063 | 6,524 | 6,905 | 6,870 | 7,175 | 7,003 | 7,005 | 8,141 | 8,091 | 8,096 | 73,012 | |
| | 1 | Facilities | | 0 | 2,911 | 2,977 | 3,004 | 3,109 | 3,190 | 3,290 | 3,393 | 3,494 | 3,599 | 28,065 | |
| | 1 | Shareholder Services | | 507 | 522 | 535 | 554 | 570 | 587 | 605 | 623 | 642 | 663 | 5,800 | |
| | 1 | Vehicles | | 61 | 65 | 67 | 69 | 71 | 74 | 76 | 78 | 80 | 83 | 725 | |
| | 1 | Director's Fees | | 87 | 90 | 93 | 95 | 98 | 101 | 104 | 107 | 110 | 114 | 1,000 | |
| | 1 | Association Dues | | 153 | 160 | 165 | 170 | 175 | 180 | 185 | 191 | 197 | 203 | 1,780 | |
| | 1 | Research & Development | | 639 | 658 | 678 | 698 | 719 | 740 | 763 | 785 | 809 | 833 | 7,329 | |
| | | Total | | $9,700 | $18,436 | $21,679 | $22,901 | $23,554 | $24,346 | $25,173 | $26,136 | $27,139 | $28,184 | $226,422 | Sum 1 |
| Purchasing Economies | | | | | | | | | | | | | | | |
| | 2 | Procurement | | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | |
| | 2 | Inventory | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | $0 | |
| | 2 | Contract Services | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| | 1 | Nuclear Procurement | | 903 | 909 | 936 | 964 | 993 | 1,023 | 1,054 | 1,085 | 1,118 | 1,152 | 10,138 | |
| | 1 | Nuclear Contract Services | | 3,524 | 3,630 | 3,739 | 3,851 | 3,966 | 4,085 | 4,208 | 4,334 | 4,464 | 4,598 | 40,399 | |
| | | Total | | $4,427 | $4,539 | $4,675 | $4,815 | $4,960 | $5,108 | $5,262 | $5,420 | $5,582 | $5,750 | $50,537 | |
| Total Savings | | | | $31,000 | $60,534 | $66,418 | $68,810 | $71,579 | $75,379 | $78,437 | $81,905 | $85,431 | $89,122 | $720,431 | |
| Cost to Achieve | | | | 65,170 | 21,611 | 10,721 | 8,099 | 8,832 | 4,226 | 1,488 | 217 | 222 | 232 | $121,225 | Sum 1 |
| Pre-Merger Initiatives | | | | $9,540 | $9,446 | $9,059 | $9,963 | $10,324 | $10,622 | $10,931 | $11,455 | $11,590 | $11,621 | $102,169 | |
| Net Savings | | | | ($34,086) | $29,057 | $45,157 | $50,154 | $53,423 | $60,470 | $66,154 | $70,109 | $73,543 | $76,939 | $493,906 | |

OTS Exhibit NO. 1
Schedule 2
Page 4 of 6

Sum 2

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**10 Year Revenue Requirements Savings**

**Allocated (1-yes, 2-no)**

**Allocation %**

| | | |
|---|---|---|
| Labor | 32% | 100% |
| Non-labor | 39% | 0% |

| Areas ($ in 000s) | Allocated | | Reduction | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Labor | | | | | | | | | | | | | | |
| | 1 | Corporate | 804 | $49 | $233 | $399 | $558 | $718 | $894 | $1,070 | $1,271 | $1,474 | $1,685 | [illegible] Sum 1 |
| | 2 | Nuclear | 225 | 829 | 1,497 | 2,447 | 3,645 | 4,685 | 5,776 | 6,910 | 8,115 | 9,368 | 10,479 | 54,359 |
| | 2 | Field | 96 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | | Total | 1,203 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Corporate & Administrative Programs: | | | | | | | | | | | | | | |
| | 1 | Administrative & General Overhead | | $4 | $11 | $18 | $25 | $35 | $40 | $48 | $56 | $63 | $70 | $370 |
| | 1 | Advertising | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 1 | Benefits | | 0 | 99 | 202 | 311 | 425 | 548 | 670 | 816 | 962 | 1,116 | 5,150 |
| | 1 | Insurance | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 1 | Information Services (O&M) | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 1 | Information Services (Capital) | | 99 | 1,089 | 5,400 | 9,154 | 12,947 | 16,737 | 18,000 | 19,562 | 20,150 | 20,753 | 125,770 |
| | 1 | Professional Services | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 1 | Facilities | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 1 | Shareholder Services | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 1 | Vehicles | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 1 | Association Dues | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 1 | Regulatory Expenses | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 1 | Research & Development | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 1 | Lines of Credit | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | | Total | | $103 | $1,902 | [illegible] | [illegible] | $13,407 | $17,346 | $19,720 | $20,436 | $21,177 | $21,944 | [illegible] Sum 2 |
| Purchasing Economies: | | | | | | | | | | | | | | |
| | 2 | Procurement | | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 |
| | 2 | Inventory | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 2 | Contract Services | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 2 | Nuclear Procurement | | 150 | 320 | 487 | 650 | 836 | 1,019 | 1,207 | 1,404 | 1,600 | 1,806 | 9,493 |
| | 2 | Nuclear Contract Services | | 628 | 1,277 | 1,994 | 2,632 | 3,340 | 4,009 | 4,822 | 5,594 | 6,391 | 7,211 | 37,906 |
| | | Total | | $787 | $1,597 | $2,481 | $3,290 | $4,176 | $5,028 | $6,029 | $6,998 | $7,994 | $9,017 | $47,399 |
| Total Savings | | | | $1,007 | $5,327 | $11,153 | $16,970 | $22,904 | $29,104 | $33,905 | $36,817 | [illegible] | $43,326 | $201,442 |
| Cost to Achieve | | | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net Savings | | | | $1,007 | $5,327 | $11,153 | $16,970 | $22,904 | $29,104 | $33,905 | $36,817 | $40,639 | $43,326 | $201,442 |

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Schedule 2
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Sum 3

**10 Year Capital Summary**

**Allocated (1-yes, 2-no)**

**Allocation %**

| | | |
|---|---|---|
| Labor | 32% | 100% |
| Non-labor | 39% | 9% |

| Areas ($ in 000s) | Allocated | | Reductions | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Labor | | | | | | | | | | | | | | |
| | 1 | Corporate | 880 | $746 | $1,232 | $1,290 | $1,350 | $1,414 | $1,430 | $1,550 | $1,622 | $1,690 | $1,779 | $14,102 |
| | 2 | Nuclear | 225 | 6,965 | 7,292 | 7,990 | 8,365 | 8,759 | 9,170 | 9,601 | 10,053 | 10,525 | 11,020 | $89,740 |
| | 2 | Field | 96 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | $0 |
| | | Total | 1,205 | $7,711 | $8,524 | $9,280 | $9,716 | $10,172 | $10,650 | $11,151 | $11,675 | $12,224 | $12,799 | $103,902 |
| Corporate & Administrative Programs: | | | | | | | | | | | | | | |
| | 1 | Administrative & General Overhead | | $34 | $57 | $59 | $61 | $63 | $65 | $67 | $69 | $71 | $73 | $610 |
| | 1 | Advertising | | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 |
| | 1 | Benefits | | 0 | 830 | 864 | 916 | 971 | 1,029 | 1,091 | 1,156 | 1,225 | 1,299 | 9,380 |
| | 1 | Insurance | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 1 | Information Services (O&M) | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 1 | Information Services (Capital) | | 330 | 5,987 | 11,965 | 12,324 | 12,690 | 13,074 | 13,467 | 13,871 | 14,287 | 14,715 | 112,719 |
| | 1 | Professional Services | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 1 | Facilities | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 1 | Shareholder Services | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 1 | Vehicles | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 1 | Director's Fees | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 1 | Association Dues | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 1 | Regulatory Expenses | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 1 | Research & Development | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 1 | Telecommunications | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 1 | Financing and Lines of Credit | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | | Total | | $364 | $6,875 | $12,888 | $13,301 | $13,727 | $14,168 | $14,624 | $15,095 | $15,583 | $16,087 | $122,711 |
| Purchasing Economies: | | | | | | | | | | | | | | |
| | 2 | Procurement | | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 |
| | 2 | Inventory | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 2 | Contract Services | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 2 | Nuclear Procurement | | 1,324 | 1,364 | 1,404 | 1,447 | 1,490 | 1,535 | 1,581 | 1,628 | 1,677 | 1,727 | 15,177 |
| | 2 | Nuclear Contract Services | | 5,286 | 5,445 | 5,608 | 5,776 | 5,950 | 6,128 | 6,312 | 6,501 | 6,696 | 6,897 | 60,599 |
| | | Total | | $6,610 | $6,809 | $7,012 | $7,223 | $7,440 | $7,663 | $7,893 | $8,129 | $8,373 | $8,624 | $75,775 |
| Total Savings | | | | $14,685 | $22,207 | $29,180 | $30,239 | $31,339 | $32,481 | $33,668 | $34,900 | $36,180 | $37,510 | $302,388 |
| Cost to Achieve | | | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net Savings | | | | $14,685 | $22,207 | $29,180 | $30,239 | $31,339 | $32,481 | $33,668 | $34,900 | $36,180 | $37,510 | $302,388 |

127590

OTS Exhibit No. 1
Schedule 2
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Sum 4

QTS Exhibit No. 1
Schedule 3; Page 1

# UNICOM NYSE-UCM

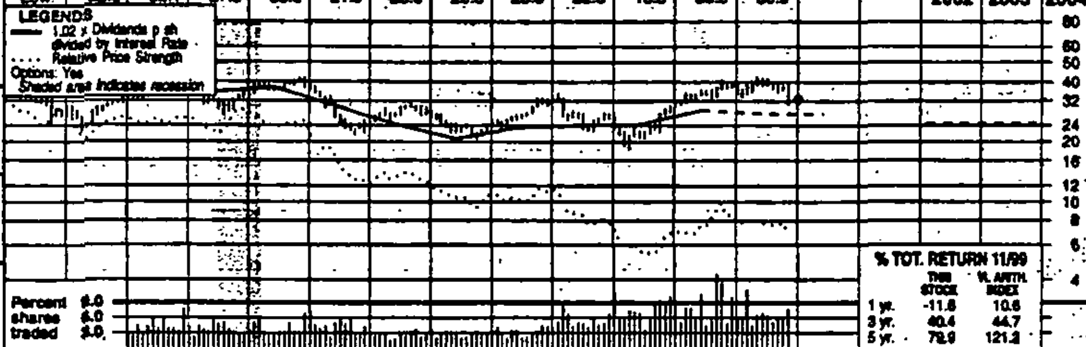
RECENT PRICE 33 | P/E RATIO 11.9 (Trailing: 12.5 Median: 13.0) | RELATIVE P/E RATIO 0.82 | DIV'D YLD 4.8% | VALUE LINE 728

TIMELINESS 4 Lowered 9/17/99
SAFETY 3 New 7/27/90
TECHNICAL 3 Raised 8/27/99
BETA .50 (1.00 = Market)

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| High: | 33.4 | 40.8 | 37.9 | 42.6 | 40.0 | 31.6 | 28.8 | 33.6 | 35.4 | 30.8 | 41.2 | 42.8 |
| Low: | 22.8 | 32.1 | 27.3 | 33.6 | 21.8 | 23.0 | 20.8 | 23.3 | 22.6 | 18.5 | 30.0 | 30.9 |

Target Price Range 2002 | 2003 | 2004

LEGENDS
— 1.02 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
Options: Yes
Shaded area indicates recession




**2002-04 PROJECTIONS**

| | Price | Gain | Ann'l Total Return |
|---|---|---|---|
| High | 40 | (+20%) | 9% |
| Low | 25 | (-25%) | -1% |

**Insider Decisions**

| | F | M | A | M | J | J | A | S | O |
|---|---|---|---|---|---|---|---|---|---|
| to Buy | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 0 |
| Options | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| to Sell | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

**Institutional Decisions**

| | 1Q1999 | 2Q1999 | 3Q1999 |
|---|---|---|---|
| to Buy | 131 | 129 | 130 |
| to Sell | 133 | 120 | 117 |
| Hld's(000) | 141662 | 141112 | 142607 |

**% TOT. RETURN 11/99**

| | THIS STOCK | VL ARITH. INDEX |
|---|---|---|
| 1 yr. | -11.8 | 10.6 |
| 3 yr. | 40.4 | 44.7 |
| 5 yr. | 79.9 | 121.2 |

| 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | © VALUE LINE PUB., INC. | 02-04 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 27.71 | 27.98 | 25.49 | 27.02 | 26.89 | 28.54 | 27.15 | 24.79 | 29.51 | 28.25 | 24.61 | 29.29 | 32.15 | 32.12 | 32.69 | 32.94 | 31.60 | 35.45 | Revenues per sh | 37.25 |
| 6.60 | 7.05 | 7.09 | 7.28 | 7.73 | 6.99 | 6.92 | 6.53 | 6.55 | 6.35 | 6.14 | 5.69 | 7.39 | 7.67 | 6.28 | 6.70 | 7.15 | 8.30 | "Cash Flow" per sh | 8.25 |
| 4.39 | 4.43 | 4.45 | 4.69 | 4.73 | 3.01 | 2.83 | 2.39 | 2.67 | 2.28 | 1.88 | 1.86 | 2.98 | 3.10 | 2.13 | 2.34 | 2.60 | 3.00 | Earnings per sh (A) | 3.15 |
| 3.00 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 | 2.30 | 1.60 | 1.60 | 1.60 | 1.60 | 1.60 | 1.60 | 1.60 | 1.60 | Div'd Decl'd per sh (B) ■ | 1.68 |
| 9.99 | 10.12 | 10.71 | 9.86 | 7.72 | 4.56 | 4.98 | 4.52 | 3.00 | 4.67 | 3.94 | 3.45 | 4.31 | 4.55 | 4.82 | 4.30 | 4.80 | 4.45 | Cap'l Spending per sh | 4.30 |
| 27.54 | 28.71 | 29.98 | 31.60 | 33.27 | 32.88 | 32.68 | 29.89 | 27.03 | 26.81 | 25.37 | 25.42 | 28.86 | 28.27 | 22.70 | 23.49 | 24.50 | 25.50 | Book Value per sh (C) | 29.85 |
| 167.24 | 176.21 | 194.74 | 202.75 | 210.99 | 211.50 | 211.84 | 212.29 | 212.68 | 213.31 | 213.75 | 214.34 | 214.96 | 215.95 | 216.86 | 217.09 | 217.20 | 197.20 | Common Shs Outst'g (E) | 197.00 |
| 8.2 | 5.6 | 6.6 | 6.9 | 7.0 | 9.6 | 12.8 | 13.9 | 14.4 | 12.9 | 15.0 | 14.6 | 9.4 | 9.0 | 11.3 | 15.1 | 14.5 | | Avg Ann'l P/E Ratio | 10.5 |
| .52 | .52 | .54 | .47 | .47 | .80 | .97 | 1.03 | .92 | .78 | .89 | .96 | .63 | .56 | .65 | .80 | .80 | | Relative P/E Ratio | .70 |
| 11.1% | 12.1% | 10.2% | 9.2% | 9.0% | 10.4% | 8.3% | 9.1% | 7.8% | 7.9% | 5.7% | 6.6% | 5.7% | 5.8% | 6.6% | 4.5% | 4.2% | | Avg Ann'l Div'd Yield | 5.1% |
| | | | | | | 5751.1 | 5262.0 | 6275.6 | 6026.3 | 5260.4 | 6277.5 | 6910.1 | 6937.0 | 7083.0 | 7151.3 | 6860 | 6960 | Revenues ($mill) | 7340 |
| | | | | | | 693.7 | 588.4 | 645.1 | 552.3 | 466.9 | 354.9 | 713.9 | 747.5 | 460.3 | 596.8 | 595 | 620 | Net Profit ($mill) | 650 |
| | | | | | | 38.3% | 24.2% | 39.4% | 36.1% | 12.4% | 47.9% | 41.1% | 39.6% | 40.8% | 37.3% | 37.0% | 37.0% | Income Tax Rate | 37.0% |
| | | | | | | 6.2% | 6.2% | 4.9% | 6.7% | 8.0% | 11.7% | 3.4% | 5.4% | 9.2% | 2.8% | 3.0% | 3.0% | AFUDC % to Net Profit | 3.0% |
| | | | | | | 47.1% | 50.3% | 52.2% | 55.2% | 56.0% | 54.4% | 49.3% | 46.3% | 49.1% | 58.3% | 57.0% | 58.0% | Long-Term Debt Ratio | 52.0% |
| | | | | | | 46.8% | 43.7% | 42.1% | 39.7% | 38.6% | 39.8% | 43.4% | 46.6% | 42.1% | 38.0% | 40.5% | 39.0% | Common Equity Ratio | 46.5% |
| | | | | | | 14783 | 14517 | 13659 | 14411 | 14045 | 13702 | 13268 | 13099 | 11687 | 13403 | 13140 | 12835 | Total Capital ($mill) | 12990 |
| | | | | | | 15783 | 15505 | 15003 | 15283 | 17892 | 17323 | 17222 | 17228 | 16778 | 13442 | 13495 | 13330 | Net Plant ($mill) | 12440 |
| | | | | | | 6.8% | 6.3% | 7.2% | 6.1% | 5.6% | 4.9% | 7.6% | 7.7% | 6.0% | 6.1% | 6.5% | 7.0% | Return on Total Cap'l | 7.0% |
| | | | | | | 6.9% | 8.2% | 9.9% | 8.5% | 7.6% | 5.7% | 10.6% | 10.6% | 7.7% | 10.7% | 10.5% | 11.5% | Return on Shr. Equity | 10.5% |
| | | | | | | 6.7% | 6.0% | 9.9% | 6.4% | 7.4% | 5.3% | 11.1% | 10.9% | 7.5% | 10.0% | 10.5% | 12.0% | Return on Com Equity (D) | 10.5% |
| | | | | | | NMF | NMF | NMF | NMF | 1.1% | NMF | 5.1% | 5.3% | .5% | 3.2% | 4.0% | 7.5% | Retained to Com Eq | 5.0% |
| | | | | | | 105% | 122% | 111% | 101% | 87% | 115% | 59% | 57% | 95% | 73% | 84% | 66% | All Div'ds to Net Prof | 55% |

**CAPITAL STRUCTURE as of 9/30/99**
Total Debt $8937.1 mill. Due in 5 Yrs $4826.2 mill.
LT Debt $7195.7 mill. LT Interest $522.5 mill.
(LT interest earned: 2.9x)

Pension Liability None

Pfd Stock $351.8 mill. Pfd Div'd $29.7 mill.

Common Stock 217,516,983 shs. as of 10/31/99
Warrants 76,607 each to convert into com. at the rate of 3 wts. for 1 com. sh.
MARKET CAP: $7.2 billion (Large Cap)

**ELECTRIC OPERATING STATISTICS**

| | 1996 | 1997 | 1998 |
|---|---|---|---|
| % Change Retail Sales (KWH) | -1.1 | +.9 | +3.8 |
| Avg. Indust. Use (MWH) | 15417 | 15373 | 13402 |
| Avg. Indust. Revs. per KWH(¢) | 6.10 | 6.10 | 5.85 |
| Capacity at Peak (Mw) | 22167 | 20198 | 20231 |
| Peak Load, Summer (Mw) | 18916 | 18497 | 19190 |
| Annual Load Factor (%) | 53.3 | 54.6 | 54.6 |
| % Change Customers (yr-end) | +.7 | +.7 | +.8 |
| Fixed Charge Cov. (%) | 250 | 182 | 220 |

| ANNUAL RATES of change (per sh) | Past 10 Yrs. | Past 5 Yrs. | Est'd '96-'98 to '02-'04 |
|---|---|---|---|
| Revenues | 2.0% | 3.5% | 2.0% |
| "Cash Flow" | -1.0% | 1.5% | 5.0% |
| Earnings | -6.0% | 2.0% | 4.0% |
| Dividends | -6.0% | -7.0% | 1.0% |
| Book Value | -2.5% | -1.0% | 3.0% |

| Cal-endar | QUARTERLY REVENUES ($ mill.) Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 1996 | 1684 | 1548 | 2068 | 1637 | 6937.0 |
| 1997 | 1670 | 1651 | 2107 | 1655 | 7063.0 |
| 1998 | 1712 | 1779 | 2096 | 1564 | 7151.3 |
| 1999 | 1538 | 1688 | 2084 | 1550 | 6860 |
| 2000 | 1560 | 1720 | 2120 | 1580 | 6980 |

| Cal-endar | EARNINGS PER SHARE (A) Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 1996 | .64 | .47 | 1.55 | .44 | 3.10 |
| 1997 | .51 | d.08 | 1.23 | .47 | 2.13 |
| 1998 | .25 | .37 | 1.22 | .50 | 2.34 |
| 1999 | .32 | .55 | 1.28 | .45 | 2.60 |
| 2000 | .45 | .60 | 1.40 | .55 | 3.00 |

| Cal-endar | QUARTERLY DIVIDENDS PAID (B) ■ Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 1996 | .40 | .40 | .40 | .40 | 1.60 |
| 1997 | .40 | .40 | .40 | .40 | 1.60 |
| 1998 | .40 | .40 | .40 | .40 | 1.60 |
| 1999 | .40 | .40 | .40 | .40 | 1.60 |
| 2000 | | | | | |

BUSINESS: Unicom Corporation, parent of Commonwealth Edison Company, supplies electricity to a population of about 8,000,000 in an 11,525 square mile area in Northern Illinois. Approx. 70% of kwh sales and revenues are derived from outside Chicago. Electric revenues: residential, 38%; commercial, 33%; industrial, 21%; other, 8%. The primary metals industry is the principal industrial customer. Generating sources, '98: nuclear, 65%; coal, 30%; natural gas, 5%. Fuel: 26% of revenues; labor costs, 15%. '98 deprec. rate: 3.0%. Est.d plant age: 13 years. Has 15,962 employees, 124,000 common shareholders. Chairman & C.E.O.: John Rowe. Incorp.: Illinois. Address: P.O. Box 767, Chicago, Illinois 60690-0767. Tel.: 1-800-960-2377. Internet: www.ucm.com.

**Unicom plans to merge with PECO Energy.** The directors of both companies have agreed to an alliance of equals. Each UCM common shareholder will have the opportunity to receive .95 common share of a new holding company (to be called Exelon) or $42.75 in cash for each share held. PECO common shareholders may select one holding company common share or $45 in cash for each share held. The maximum cash payment to each company's stockholders will be $750 million. The exchange is expected to be tax free to shareholders who select common stock. The cash portion will likely be taxed as capital gains. The holding company's anticipated yearly dividend will likely be $1.69 a share. Based on the exchange ratio, UCM shareholders would receive no increase. The combination requires approval of both companies' shareholders and that of various state and federal regulatory bodies. The closing is targeted for the fall of 2000.

**The company has finalized the sale of all of its nonnuclear plants.** The package includes 5,600 megawatts of coal-fired burners, the 1,360-megawatt Collins station which is fueled with natural gas or oil, and nine peaking units. Edison Mission Energy will buy the properties for $4.8 billion. After adjustments for above-market coal contracts, UCM will realize an aftertax profit of $1.5 billion. But the gain will be offset by the write-off of regulatory assets. Proceeds from the sale will be applied to improvement of the transmission and distribution system, the upgrading of nuclear plants, and a $750 million loan to PECO to pay its share of the cash portion of the merger transaction. UCM has a contract to buy the output of the plants for three years and an option to extend the purchase for another two years.

**We recommend that most investors hold their shares in expectation of the consolidation.** The alliance is targeted to save $100 million in year one and $180 million by the third year. Too, the cash portion of the deal offers shareholders a premium over the stock's recent price. In addition, PECO will be able to help the company improve its nuclear performance. All told, the union should help UCM attain better results than it would realize as a stand-alone company.

*Arthur H. Medalie* *January 7, 2000*

(A) EPS diluted. Next earnings report due late Jan. Excludes nonrecur. losses: '90, $2.17; '91, $2.59; '92, 18¢; '93, $7.69; '97, $8.07.
(B) Next dividend meeting about Mar. 9. Goes ex about Mar. 25. Dividend payment dates: Feb. 1, May 1, Aug. 1, Nov. 1. ■ Dividend reinvestment plan available. (C) Incl. deferred charges. In '98: $4,674.7 million, $21.54/sh.
(D) Rate base: original cost. Rate allowed on common equity in '95: 12.28%. Earned on '98 average common equity: 10.2%. Regulatory Climate: Below Average. (E) In millions.

| | |
|---|---|
| Company's Financial Strength | B+ |
| Stock's Price Stability | 90 |
| Price Growth Persistence | 15 |
| Earnings Predictability | 50 |

OTS Exhibit No. 1
Schedule 3, Page 2

# PECO ENERGY CO. NYSE-PE

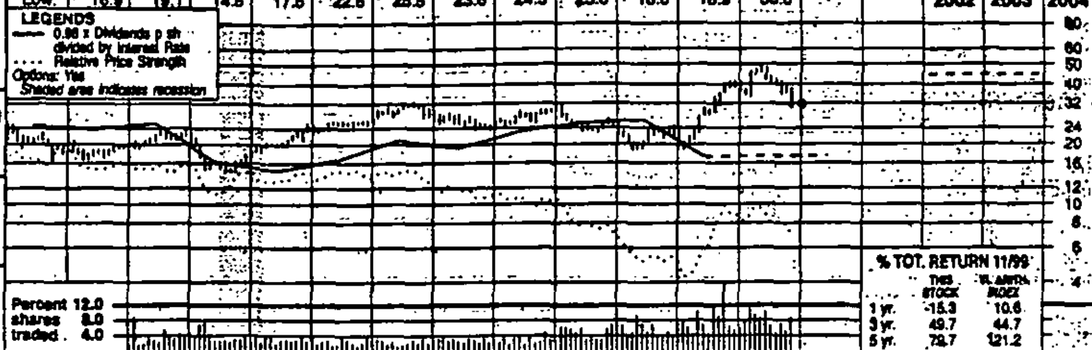
| RECENT PRICE | P/E RATIO | | RELATIVE P/E RATIO | DIV'D YLD | VALUE LINE |
|---|---|---|---|---|---|
| 32 | 9.8 | (Trailing: 13.8 Median: 12.0) | 0.66 | 3.1% | 180 |

TIMELINESS 4 Lowered 8/13/99
SAFETY 2 Raised 6/11/99
TECHNICAL 3 Lowered 6/18/99
BETA .65 (1.00 = Market)

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| High: | 21.3 | 24.5 | 23.5 | 28.0 | 26.8 | 33.5 | 30.0 | 30.3 | 32.5 | 26.4 | 42.2 | 50.5 |
| Low: | 16.9 | 19.1 | 14.6 | 17.5 | 22.6 | 25.5 | 23.6 | 24.3 | 23.0 | 18.8 | 18.9 | 30.8 |

Target Price Range 2002 2003 2004

LEGENDS
— 0.86 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
Options: Yes
Shaded area indicates recession




2002-04 PROJECTIONS

| | Price | Gain | Ann'l Total Return |
|---|---|---|---|
| High | 60 | (+90%) | 19% |
| Low | 45 | (+40%) | 11% |

Insider Decisions

| | J | F | M | A | M | J | J | A | S |
|---|---|---|---|---|---|---|---|---|---|
| to Buy | 1 | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 0 |
| Options | 1 | 0 | 5 | 4 | 2 | 2 | 0 | 0 | 0 |
| to Sell | 1 | 0 | 5 | 5 | 2 | 3 | 0 | 0 | 0 |

Institutional Decisions

| | 4Q1998 | 1Q1999 | 2Q1999 |
|---|---|---|---|
| to Buy | 153 | 146 | 108 |
| to Sell | 108 | 120 | 154 |
| Hld's(000) | 127641 | 120964 | 97669 |

% TOT. RETURN 11/99

| | THIS STOCK | VL ARITH. INDEX |
|---|---|---|
| 1 yr. | -15.3 | 10.6 |
| 3 yr. | 49.7 | 44.7 |
| 5 yr. | 79.7 | 121.2 |

| 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | © VALUE LINE PUB., INC. | 02-04 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 18.18 | 18.37 | 18.96 | 18.35 | 18.16 | 15.63 | 18.07 | 17.08 | 18.07 | 17.97 | 18.00 | 18.23 | 18.84 | 19.25 | 20.75 | 23.19 | 28.60 | 27.60 | Revenues per sh | 30.50 |
| 3.48 | 3.70 | 3.52 | 4.02 | 3.73 | 3.68 | 3.97 | 4.21 | 4.40 | 4.51 | 4.36 | 4.09 | 4.91 | 4.79 | 4.80 | 5.45 | 6.20 | 6.45 | "Cash Flow" per sh | 6.35 |
| 2.40 | 2.70 | 2.56 | 2.80 | 2.33 | 2.33 | 2.49 | 2.18 | 2.15 | 2.17 | 2.45 | 1.78 | 2.52 | 2.24 | 1.82 | 2.33 | 3.00 | 3.55 | Earnings per sh (A) | 4.15 |
| 2.12 | 2.20 | 2.20 | 2.20 | 2.20 | 2.20 | 2.20 | 1.45 | 1.23 | 1.33 | 1.43 | 1.55 | 1.65 | 1.76 | 1.80 | 1.00 | 1.00 | 1.00 | Div'd Decl'd per sh (B)■ | 1.08 |
| 7.21 | 6.49 | 4.65 | 4.08 | 4.98 | 4.54 | 4.89 | 2.49 | 2.30 | 2.70 | 2.56 | 2.58 | 2.60 | 2.47 | 2.20 | 1.85 | 2.45 | 2.45 | Cap'l Spending per sh | 2.45 |
| 17.99 | 17.81 | 17.97 | 18.48 | 17.20 | 17.39 | 17.67 | 18.71 | 17.69 | 18.24 | 19.25 | 19.41 | 20.40 | 20.88 | 12.25 | 13.61 | 10.05 | 12.60 | Book Value per sh (C) | 21.25 |
| 142.81 | 162.30 | 177.68 | 189.08 | 196.88 | 206.59 | 211.98 | 216.97 | 220.03 | 220.53 | 221.52 | 221.61 | 222.17 | 222.54 | 222.54 | 224.68 | 182.50 | 182.50 | Common Shs Outst'g (D) | 182.50 |
| 7.0 | 5.0 | 6.0 | 8.0 | 9.2 | 8.1 | 8.7 | 8.0 | 9.8 | 11.8 | 12.2 | 15.0 | 10.9 | 11.6 | 12.3 | 12.8 | Bold figures are Value Line estimates | | Avg Ann'l P/E Ratio | 13.0 |
| .59 | .47 | .49 | .54 | .62 | .67 | .66 | .59 | .63 | .72 | .72 | .98 | .73 | .73 | .71 | .67 | | | Relative P/E Ratio | .85 |
| 12.6% | 16.3% | 14.3% | 10.6% | 10.3% | 11.7% | 10.2% | 8.4% | 5.8% | 5.2% | 4.8% | 5.8% | 6.0% | 6.8% | 6.1% | 3.4% | | | Avg Ann'l Div'd Yield | 2.0% |
| | | | | | | 3405.6 | 3706.2 | 3975.8 | 3962.5 | 3988.1 | 4049.6 | 4186.2 | 4283.7 | 4617.9 | 5210.5 | 5215 | 5035 | Revenues ($mill) | 5565 |
| | | | | | | 619.4 | 550.8 | 534.7 | 538.7 | 590.7 | 435.3 | 603.7 | 543.9 | 450.1 | 563.1 | 645 | 660 | Net Profit ($mill) | 770 |
| | | | | | | 15.1% | 27.4% | 36.6% | 33.2% | 38.3% | 36.4% | 39.9% | 38.5% | 43.9% | 36.2% | 36.5% | 36.5% | Income Tax Rate | 38.0% |
| | | | | | | 56.9% | 24.6% | 4.3% | 3.8% | 4.0% | 5.1% | 4.5% | 3.7% | 4.8% | .6% | NMF | NMF | AFUDC % to Net Profit | .5% |
| | | | | | | 55.0% | 57.9% | 54.7% | 53.4% | 50.7% | 50.0% | 45.7% | 43.7% | 54.6% | 45.2% | 59.5% | 56.5% | Long-Term Debt Ratio | 46.5% |
| | | | | | | 35.7% | 34.9% | 38.1% | 40.1% | 43.1% | 43.9% | 48.0% | 49.9% | 37.4% | 46.0% | 34.5% | 40.5% | Common Equity Ratio | 50.5% |
| | | | | | | 10481 | 10389 | 10214 | 10031 | 9890.9 | 9793.6 | 9444.1 | 9308.5 | 7282.3 | 6641.8 | 6025 | 5685 | Total Capital ($mill) | 7660 |
| | | | | | | 10994 | 10833 | 10822 | 10901 | 10958 | 11003 | 10938 | 10942 | 4870.7 | 4764.0 | 4980 | 5255 | Net Plant ($mill) | 6085 |
| | | | | | | 8.6% | 8.1% | 7.9% | 7.3% | 8.2% | 6.4% | 8.4% | 7.6% | 8.4% | 10.4% | 16.5% | 13.0% | Return on Total Cap'l | 11.5% |
| | | | | | | 13.1% | 12.6% | 11.5% | 11.5% | 12.1% | 8.9% | 11.8% | 10.4% | 13.6% | 15.5% | 32.0% | 26.5% | Return on Shr. Equity | 19.0% |
| | | | | | | 14.0% | 12.7% | 12.0% | 11.9% | 12.7% | 9.1% | 12.3% | 10.7% | 14.8% | 17.0% | 33.5% | 28.0% | Return on Com Equity (E) | 19.5% |
| | | | | | | 1.7% | 4.2% | 5.2% | 4.7% | 5.3% | 1.1% | 4.2% | 2.3% | 1.2% | 10.7% | 23.5% | 20.5% | Retained to Com Eq | 14.5% |
| | | | | | | 90% | 72% | 62% | 65% | 62% | 89% | 68% | 81% | 93% | 42% | 34% | 29% | All Div'ds to Net Prof | 27% |

**CAPITAL STRUCTURE as of 9/30/99**
Total Debt $6320 mill. Due in 5 Yrs $1535 mill.
LT Debt $6052 mill. LT Interest $300 mill.
(LT interest earned: 3.5x)
Leases, Uncapitalized Annual rentals $48.8 mill.
Pfd Stock $321.2 mill. Pfd Div'd $27.0 mill.
Incl. 1,374,720 shs. $3.80-$7.48 all cum. ($100 par), callable at prices ranging from $104.00/sh.-$112.50/sh; 556,000 shs. $6.12 with mand. red. reqs.; 2.0 mill. shs. 8.0% series C ($50 mill); 78,105 shs. 7.38% series D ($78 mill.).

Common Stock 185,786,206 shs. as of 11/5/99
MARKET CAP: $5.9 billion (Large Cap)

**ELECTRIC OPERATING STATISTICS**

| | 1996 | 1997 | 1998 |
|---|---|---|---|
| % Change Retail Sales (KWH) | -3.1 | +2.8 | +3.3 |
| Avg. Indust. Use (MWH) | 4610 | 4545 | 4827 |
| Avg. Indust. Revs. per KWH (¢) | 7.22 | 7.17 | 6.81 |
| Capacity at Peak (Mw) | 9201 | 9204 | 9262 |
| Peak Load, Summer (Mw) | 6509 | 7390 | 7108 |
| Annual Load Factor (%) | 62.1 | 54.8 | 55.0 |
| % Change Customers (yr-end) | +.3 | +.8 | +.7 |
| Fixed Charge Cov. (%) | 265 | 257 | 336 |

| ANNUAL RATES of change (per sh) | Past 10 Yrs. | Past 5 Yrs. | Est'd '96-'98 to '02-'04 |
|---|---|---|---|
| Revenues | 3.0% | 3.0% | 6.5% |
| "Cash Flow" | 3.0% | 2.5% | 4.0% |
| Earnings | -1.5% | -1.0% | 12.0% |
| Dividends | -3.5% | 2.5% | -6.5% |
| Book Value | -1.5% | -3.5% | 5.5% |

| Cal-endar | QUARTERLY REVENUES ($ mill.) Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 1996 | 1170.5 | 989.4 | 1110.2 | 1013.6 | 4283.7 |
| 1997 | 1163.4 | 1032.3 | 1278.2 | 1144.0 | 4617.9 |
| 1998 | 1173.1 | 1207.5 | 1773.9 | 1056.0 | 5210.5 |
| 1999 | 1256.0 | 1194.4 | 1731.8 | 1032.8 | 5215 |
| 2000 | 1180 | 1165 | 1685 | 1005 | 5035 |

| Cal-endar | EARNINGS PER SHARE (A) Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 1996 | .65 | .43 | .65 | .51 | 2.24 |
| 1997 | .49 | .35 | .69 | .29 | 1.82 |
| 1998 | .50 | .66 | 1.20 | d.03 | 2.33 |
| 1999 | .69 | .44 | 1.22 | .65 | 3.00 |
| 2000 | .83 | .57 | 1.36 | .79 | 3.55 |

| Cal-endar | QUARTERLY DIVIDENDS PAID ■ (B) Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 1995 | .405 | .405 | .405 | .435 | 1.65 |
| 1996 | .435 | .435 | .435 | .45 | 1.76 |
| 1997 | .45 | .45 | .45 | .45 | 1.80 |
| 1998 | .25 | .25 | .25 | .25 | 1.00 |
| 1999 | .25 | .25 | .25 | | |

BUSINESS: PECO Energy Company (formerly Philadelphia Electric) supplies electricity (92% of '98 revenues) and gas (8%) to Philadelphia and surrounding areas. Service area is highly industrialized. 1998 electric revs.: residential, 40.8%; small commercial & industrial, 23.2%; large comm. & ind., 31.6%; other, 4.4%. '98 gas revs.: residential, 67.0%; commercial and industrial, 33.0%. Prime fuels in '98: nuclear, 39.4%; coal, 11.8%; oil, 1.8%; hydro, 1.7%; purchased power, 45.1%; other, .2%. '98 fuel & pur. pwr. costs: 36.4% of elec. revs. '98 deprec. rate: 8.4%. Est'd plant age: 10 yrs. Has 6,815 employees; 142,795 com. stockholders. Chrmn., Pres. and C.E.O.: Corbin A. Mc Neill, Jr. Inc.: PA. Addr.: 2301 Market St., Philadelphia, PA 19103. Tel.: 215-841-4000. Web: www.peco.com.

**PECO Energy and Unicom are submitting the necessary regulatory filings to complete their merger.** In the deal, PECO investors may receive one common share in the combined company or $45 in cash for each of their common shares. Unicom stockholders can elect to receive 0.95 of a share in the new company or $42.75 in cash for each of the Chicago company's outstanding shares—there is a total cash cap of $1.5 billion. At closing, PECO and Unicom stockholders will have equal stakes in what will be one of the largest domestic utility holding companies. We estimate annual cost synergies of $180 million by the third year of operation. The new company will pay a yearly dividend of $1.69 a share. Management has submitted filings with the Federal Energy Regulatory Commission and Pennsylvania regulators. Other petitions will be given to the Nuclear Regulatory Commission and Securities and Exchange Commission. Shareholders in both companies must vote on the deal as well. PECO and Unicom likely will merge sometime next fall.

**AmerGen Energy's nuclear acquisition spree continues.** Since our September report, the PECO/British Energy joint venture has entered an agreement to purchase GPU's Oyster Creek plant (619 Mws) for $10 million and won a bid to buy Vermont Yankee (510 Mws) for $23.5 million. The deals join the pending acquisitions of Three Mile Island Unit 1 (786 Mws), Clinton (930 Mws) and Nine Mile Point (1,286 Mws) for $443 million. Separately, PECO will pay Conectiv $17.5 million to increase its stake in the Peach Bottom plant by 7.51% (164 Mws), to 50%. Potential operating improvements suggest sizable long-term earnings gains.

**PECO and Unicom stock valuations have lost ground in recent months.** We attribute the price declines to investors' concerns about possible future interest rate hikes and their rising skepticism over projected merger benefits in general. The lower stock valuations suggest that the deal's cash cap will be met. We believe that the combined company will compete well under deregulation and produce 3- to 5-year returns above the industry averages. All said, PECO shareholders would do well to maintain their current stakes.

*David M. Reimer* *December 10, 1999*

(A) Basic earnings. Excludes nonrec. gains (losses): '89, (13¢); '90, ($1.58); '92, (27¢); '95, 12¢; '97, ($8.62); Q4 '98, (9¢); 99, (20¢). Next earnings report due late Jan. (B) Next dividend meeting about Jan. 26. Goes ex about Feb. 18. Approx. dividend payment dates: Mar. 30, June 30, Sep. 30, Dec. 20. ■ Dividend reinvestment plan available. (C) Incl. deferred chgs. In '98, $23.49/sh. (D) In millions. (E) Rate base: fair value. Rate all'd on com. equity in '94: N/A. Rate earned on average com. eq. in '98: 17.3%. Regulatory Climate: Below Avg.

| | |
|---|---|
| Company's Financial Strength | B++ |
| Stock's Price Stability | 85 |
| Price Growth Persistence | 30 |
| Earnings Predictability | 60 |

OTS Statement No. 2
Witness: Paul J. Metro
Date: May 3, 2000

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 | : | DOCKET NO. A-110550F0147 |

DOCUMENT FOLDER

DOCKETED MAR 17 2000

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00 MAY 15 PM 1:59
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SECRETARY'S BUREAU

**Direct Testimony**

**Of**

**Paul J. Metro**

**Office of Trial Staff**

**Concerning:**

**Decommissioning**
**Market Power Analysis**

**Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?**

A. My name is Paul J. Metro. My business address is P.O. Box 3265, Harrisburg, Pennsylvania 17105-3265.

**Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

A. I am employed by the Pennsylvania Public Utility Commission in the Office of Trial Staff as a Fixed Utility Valuation Engineer.

**Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND?**

A. I am a 1982 graduate of The Pennsylvania State University, University Park, Pennsylvania, where I earned a Bachelor of Science Degree in Mineral Economics. Immediately subsequent to graduation, I attended The Pennsylvania State University and met the requirements for a Bachelor of Science Degree in Industrial Engineering. I am also a graduate of The Pennsylvania State University with a Masters of Engineering Degree, majoring in Engineering Science with an emphasis on Industrial Engineering/Operations Research. I have been employed by the Pennsylvania Public Utility Commission since May of 1985. Attached to this testimony, as Appendix A is a statement, which more fully describes my educational background and employment experience.

**Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?**

A. The purpose of my testimony is to address Nuclear Decommissioning and Market Power Analysis relating to the proposed PECO Energy Company (PECO) and Unicom merger. This is in response to the Objections of PPL Electric Utilities Corporation ("PPL") to the Joint Petition for Settlement.

**Q. HOW IS YOUR TESTIMONY ORGANIZED?**

A. My testimony is organized in sections related to the following issues: (1) Nuclear Decommissioning and (2) Market Power Analysis.

## Issue I – Decommissioning

### Settlement Position

**Q. MR. METRO, DOES THE SETTLEMENT ADDRESS NUCLEAR DECOMMISSIONING?**

A. Yes. In particular, PECO agrees in the Settlement that it will not seek to recover through Pennsylvania retail electric distribution rates the costs associated with the ownership and operation of any nuclear generating plants, or any fractional interests in such nuclear generating plants that it did not hold on December 31,1999 (See Joint Petition, page 10). In addition, PECO has also agreed that if and when it seeks to increase its annual nuclear decommissioning expense allowance above the base $29.162 million annual accrual level used for the purpose of calculating its Nuclear Decommissioning Cost adjustment Charge ("NDCAC"), it will, under specifically defined circumstances as set forth in the Distribution Tariff, voluntarily forego recovery of (1) $50 million of its total decommissioning cost obligations, plus (2) 5% of any additional increase in the annual accrual level above the base $29.162 million annual accrual level (See Joint Petition, page 11).

**Q. MR. METRO, IN REGARD TO THE NUCLEAR DECOMMISSIONING PROVISIONS IN THE SETTLEMENT, PPL ARGUES THAT THE COMMISSION CANNOT APPROVE THE PROVISIONS REGARDING NUCLEAR DECOMMISSIONING COST (See PPL Objections, page 18). THE BASIS OF PPL'S ARGUMENT IS THAT THE AGREEMENT WILL LEAD TO AN UNDER-FINANCED OR INCOMPLETE DECOMMISSIONING FUND. DO YOU AGREE?**

A. No. The financial concessions made by PECO in the Settlement in no way impact this Commission's (or the appropriate federal and state agency's) ability to review the appropriate level of the decommissioning fund and/or PECO's ability to safely decommission its nuclear plants. PECO will continue to provide the appropriate level of decommissioning funding. In addition, PECO will still be responsible to file actuarial reports which assist the Commission in monitoring the condition of the decommissioning fund as it always has. And finally, the ratepayers are protected from the first 5% of potential additional decommissioning costs.

**Q. MR. METRO, WHAT IS DECOMMISSIONING?**

A. Decommissioning is the dismantlement, decontamination, removal and disposal of the components of a generating facility at the end of its useful life.

**Q. HOW IS THE EXPENSE FOR DECOMMISSIONING RECOVERED?**

A. The Commission has authorized PECO to collect funds through rates for the recovery of nuclear decommissioning based on PECO's ownership share in Limerick Units 1 and 2, Peach Bottom Units 1,2, and 3, and Salem Units 1 and 2.

**Q. DOES PECO RECOVER FUNDS ASSOCIATED WITH FOSSIL FUEL DECOMMISSIONING?**

A. No, not at this time.

**Q. HOW DOES PECO CURRENTLY HANDLE THE FUNDS IT RECEIVES FOR NUCLEAR DECOMMISSIONING EXPENSE?**

A. As required by the Nuclear Regulatory Commission's (NRC) regulations and applicable Commission orders, the funds collected for nuclear decommissioning expenses are deposited in external nuclear decommissioning trust funds, which the IRS has designated as qualified for tax purposes. In a qualified fund, the Company can claim a current tax deduction for amounts paid into the fund for both federal and state tax purposes. In addition, the earnings on the fund are not treated as taxable income to the Company. Currently, PECO's estimated nuclear decommissioning costs total approximately $29.2 million per year and are being recovered from retail customers within the PECO service territory (See PECO Statement No. 3, page 7).

**Q. WHAT IS PECO'S POSITION REGARDING WHERE THE ULTIMATE DECOMMISSIONING FUNDING RESPONSIBILITY RESIDES?**

A. PECO states that the ultimate responsibility to fund decommissioning will remain with PECO, the regulated utility, for those units that were built to serve PECO's retail customers (See PECO Statement No. 3, pg. 8).

**Q. DOES UNICOM HAVE AN EXISTING DECOMMISSIONING LIABILITY?**

A. Yes. However, the Company avers that the merger will not cause a shift in that liability (See PECO Statement No. 3, Page 9).

**Q. IF THE MERGER IS APPROVED, WILL THE DECOMMISSIONING LIABILITY OF UNICOM, IN ANY WAY AFFECT PECO AND ITS RETAIL CUSTOMERS?**

A. No. PECO states that Unicom's decommissioning liability will in no way affect PECO or its customers and that PECO's distribution customers are only responsible for funding the decommissioning cost of the nuclear plants that were built to serve them (See PECO Statement No. 3, pg.9).

## Issue 2 – Competitive Effects of the Merger and Market Power

**Company Position**

**Q. DID PECO PERFORM AN ANALYSIS OF THE COMPETITIVE IMPACT OF THE MERGER ON ELECTRICITY MARKETS?**

A. Yes. The Company performed an analysis of 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. The Company avers that the analysis was conducted in accordance with the Competitive Analysis Screen described in Appendix A to the FERC's Merger Policy Statement (See PECO Statement No. 5, pg.4).

**Q. WHAT WERE THE RESULTS OF THE ANALYSIS?**

A. The Company witness, Dr. Hieronymus, states that the analysis shows that the proposed merger will not lead to material increases in market concentration or lead to increases in PECO and Unicom's market share in any relevant market (See PECO Statement No. 5, pg.4).

**Q. MR. METRO, DO YOU AGREE WITH PECO'S ANALYSIS RELATING TO MARKET POWER AND MARKET CONCENTRATION?**

A. I agree with the HHI analysis. However, there are other factors to consider, such as public benefit, in determining whether the merger should be approved. In my opinion, the Joint Petition for Settlement addresses the public benefit issue.

**Q. MR. METRO, ARE YOU SURPRISED BY THE RESULTS SHOWN IN THE COMPANY'S COMPETITIVE ANALYSIS SCREENING MODELS?**

A. No. I would expect, given the geographic separation of Unicom's market and PECO's market and the fact that Unicom has no generation plants in

PJM, that the merger would not create a market power issue in Pennsylvania.

**Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

A. Yes.

**APPENDIX A**

## Professional and Educational Experience
## of
## Paul J. Metro

**Education**

The Pennsylvania State University, University Park, Bachelor of Science, Mineral Economics, 1982

Earned additional credits in Industrial Engineering from 1982-1984, The Pennsylvania State University, University Park

The Pennsylvania State University, Capitol Campus, Master of Engineering Science, Industrial Engineering/Operations Research Emphasis, 1992.

**Professional Experience**

April 1996 to Present: Pennsylvania Public Utility Commission, Fixed Utility Valuation Engineer in the Office of Trial Staff - Participates in the review and prosecution of gas, electric, telecommunications, water, and sewer rate filings in the areas of valuation, depreciation, rate base, rate structure, and purchased gas.

March 1994 to March 1996: Pennsylvania Public Utility Commission, Fixed Utility Valuation Engineer - Rate Structure/Engineering Section, Energy Division, Office of Trial Staff. Participates in the review and prosecution of natural gas and electric rate filings in the areas of valuation, depreciation, rate base, rate structure, and purchased gas.

December 1987 to March 1994: Pennsylvania Public Utility Commission, Fixed Utility Valuation Engineer - Engineering Section, Engineering and Rate Design Division, Office of Trial Staff. Participates in the review and prosecution of gas, electric, telecommunications, water, and sewer rate filings in the areas of valuation, depreciation, rate base, rate structure, and purchased gas.

*September 1986 to December 1987:* Pennsylvania Public Utility Commission, Fixed Utility Valuation Engineer - Engineering Section, Rate Design Division, Office of Trial Staff. Participated in the review and prosecution of gas, electric, telecommunications, and water rate filings in the areas of cost of service and tariff rules and regulations.

*May 1985 to September 1986:* Pennsylvania Public Utility Commission, Fixed Utility Valuation Engineer - Valuation Section, Gas Division, Bureau of Rates. Participated in the review and prosecution of gas rate filings in the areas of valuation, depreciation, rate structure, purchased gas, and cost of service.

**Professional Affiliations**

Engineers Society of Pennsylvania

**Testimony Presented Before The Pennsylvania Public Utility Commission**

Equitable Gas Company, Transportation Investigation, R-870666

UGI Corporation - Gas Division, Transportation Investigation, R-870665

National Fuel Gas Distribution Corporation, General Rate Case, R-870719

Equitable Gas Company, 1307(f) Proceeding, R-880932

Pennsylvania Gas & Water Company, 1307(f) Proceeding, R-880958

Equitable Gas - Energy Company, General Rate Case, R-880941

Equitable Gas Company, General Rate Case, R-880971

Equitable Gas Company, 1307(f) Proceeding, R-891238

Lake Latonka Water Company, General Rate Case, R-891257

Philadelphia Electric Company, General Rate Case, R-891364

Equitable Gas Company, 1307(f) Proceeding, R-901645

Roaring Creek Water Company, General Rate Case, R-901625

Equitable Gas Company, General Rate Case, R-901595

West Penn Power Company, General Rate Case, R-901609

Pennsylvania Gas & Water Company, 1307(f) Proceeding, R-901699

Western Utilities, Inc., General Rate Case, A-210017

T.W. Phillips Gas & Oil Co., 1307(f) Proceeding, R-911889

Columbia Gas of Pennsylvania, Inc., General Rate Case, R-901873

Columbia Gas of Pennsylvania, Inc., 1307(f) Proceeding, R-911921

Pennsylvania Gas & Water Company, 1307(f) Remand Proceeding, R-901699

Olwen Heights Water Company, General Rate Case, R-891226

Peoples Natural Gas Company, General Rate Case, R-922180

Pennsylvania Gas & Water Company, Transportation Tariff Filing, R-922169

Pennsylvania Gas & Water Company, 1307(f) Filing, R-922324

West Penn Power, General Rate Case, R-922378

Peoples Natural Gas Company, 1307(f) Filing, R-932598

Equitable Gas Company, 1307(f) Filing, R-932599

National Fuel Gas Distribution Company, General Rate Case, R-932548

Pennsylvania Gas & Water Company, Transportation Tariff Filing, R-932655

Allied Gas Company ET AL, Transportation Tariff Filing, R-932662

Peoples Natural Gas Company, General Rate Case, R-932866, R-932915

Peoples Natural Gas Company, 1307(f) Filing, R-943028

Columbia Gas of Pennsylvania, 1307(f) Filing, R-943029

Equitable Gas Company, 1307(f) Filing, R-943022

Pennsylvania Gas & Water Company, Tariff Filing, R-943078

Pennsylvania Power & Light Company, General Rate Case, R-943271

Equitable Gas Company, Transportation Filing, R-943272

UGI Utilities, Inc., General Rate Case, R-953297

Equitable Gas Company, 1307(f) Filing, R-953320

National Fuel Gas Distribution Corporation, 1307(f), R-953487

Equitable Gas Company, 1307(f) Filing, R-963576

PFG Gas, Inc. and North Penn Gas Co., General Rate Case, R-963524

PECO Energy Company, Electric Securitization Filing, R-973877

PECO Energy Company, Restructuring, R-973953

Peoples Natural Gas Company, 1307(f) Filing, R-973896

Equitable Gas Company, General Rate Case, R-963858

West Penn Power Company, Restructuring, R-973981

Duquesne Light Company, Restructuring, R-974104

DQE, Inc., Allegheny Power, System, Inc. And AYP Sub, Inc., Merger, A-110150F0015

Metropolitan Edison Company, Restructuring, R-974008

Pennsylvania Electric Company, Restructuring, R-974009

Pennsylvania Power Company, Restructuring, R-974149

The Peoples Natural Gas Company, 1307(f), R-984281/A-122250

PG Energy, General Rate Case, R-984280

Bell/GTE Merger, A-310200

Peoples Natural Gas Company, 1307(f), R-994600

Pittsburgh Thermal, LTD, Base Rate Case, R-994641

Peoples Natural Gas Company, Restructuring, R-994782

National Fuel Gas Distribution Corporation, Restructuring, R-994785

PECO Energy Company, Restructuring, R-994787