PUBLIC VERSION

Constellation
An Exelon Company

July 18, 2016

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PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

Pennsylvania Public Utility Commission
Attn: Rosemary Chiavetta, Secretary
Commonwealth Keystone Building
2nd Floor, Room-N201
400 North Street
Harrisburg, PA 17120

RE: Petition of Constellation NewEnergy, Inc. to Modify its Security Requirement Docket Number A-110036

Dear Ms. Chiavetta:

Enclosed for filing with the Pennsylvania Public Utilities Commission ("Commission") is the Petition of Constellation NewEnergy, Inc.'s ("CNE") to Modify its Security Requirement ("Petition") in Docket No. A-110036. The Petition is filed in accordance with the Commission's final order entered on July 24, 2014 in Docket No. M-2013-2393141. Enclosed is the requested filing fee associated with the Petition for $350.

We kindly request Appendix A to remain confidential as CNE considers our revenue and volume information highly proprietary. Our revenue and volume information by state is not published; thus, the disclosure of such to competitors, or potential competitors, would be detrimental to CNE. Therefore, we have filed one confidential and one redacted copy of Appendix A.

Please do not hesitate to contact Amy Klaviter with any questions regarding this information. Her telephone number is 312-681-1855 and email address is amy.klaviter@constellation.com.

Sincerely,

Catherine Stanley

Catherine Stanley
Analyst, Legal Compliance
On behalf of Constellation NewEnergy, Inc.

Enclosures

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Petition of Constellation NewEnergy, Inc.	:	
To Modify its Security Requirement	:	Docket No. A-110036
	:	

PETITION OF CONSTELLATION NEWENERGY, INC. TO MODIFY ITS SECURITY REQUIREMENT

COMES NOW, Constellation NewEnergy, Inc. ("CNE"), by and through its undersigned counsel, and files the instant Petition to Modify its Security Requirement and, in support therefore, avers as follows:

1. CNE is a licensed electric generation suppliers ("EGS") in the Commonwealth of Pennsylvania.

2. CNE has been a licensed EGS for more than one year. CNE, originally NEV East, LLC, was licensed in 1999 in Docket No. A-110036 and has maintained its license in good standing since that time.

3. CNE is compliant with its current bonding requirements.

4. By Final Order entered July 24, 2014, the Pennsylvania Public Utilities Commission ("Commission") held that an EGS, following its first year of operations, may petition to have its bonding requirement reduced from 10% to 5% of the EGS's last 12 months of revenue or $250,000, whichever is greater. *Public Utility Commission Bonding/Security Requirements for Electric Generation Suppliers: Acceptable Security Instruments,* Docket No. M-2013-2393141 (Order entered July 24, 2014) ("Bond Reduction Order").

5. Though this Petition, CNE seeks to reduce its bonding requirement to 5% of its last 12 months of revenue.

6. As required by the Bond Reduction Order, CNE's gross revenue, prepaid gross receipts taxes, AEPS compliance data, and Department of Revenue documents are provided in Appendix A (CONFIDENTIAL), which is attached hereto and incorporated by reference.

7. CNE proposes to utilize a parental guarantee from Exelon Generating Company, LLC. Appendix B includes the current long-term bond ratings from two approved rating agencies, an organization chart and location of SEC filings.

8. As directed by the Bond Reduction Order, CNE anticipates working with the Commission's Bureau of Technical Utilities Services ("TUS") to process this Petition and welcomes TUS' input and guidance for this reduction.

9. After coordination with TUS and upon approval of the reduction and other changes, if any, CNE will make a compliance filing with the new guarantee reflecting the reduced amount.

WHEREFORE, Constellation NewEnergy, Inc. respectfully requests that this Honorable Commission, in accord with the Bond Reduction Order in Docket No. M-2013-2393141, grant the instant Petition and approve a reduction to the bonding requirements of Constellation NewEnergy, Inc. and the change to the security instrument employed by Constellation NewEnergy, Inc. to meet that reduced bonding requirement.

Respectfully submitted

Melissa Lauderdale-Ward

Melissa Lauderdale-Ward
Assistant General Counsel
Exelon Business Services Counsel
100 Constellation Way, Suite 600C
Baltimore, MD 21202
410-470-3582
Melissa.Lauderdale-Ward@exeloncorp.com

Dated: July 18, 2016

VERIFICATION

I, Catherine Stanley, Legal Compliance Analyst for Constellation NewEnergy, Inc., hereby state that the facts set forth above are true and correct to the best of my knowledge, information and belief and that I expect to be able to prove the same at a hearing held in this matter. I understand that they statements herein are made subject to penalties of 18 Pa. C.S. § 4904 (relating to unsworn falsification to authorities).

Dated: July 18, 2016

Catherine Stanley

Catherine Stanley

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SECRETARY'S BUREAU

Bureau of Compliance
Corporate Clearance Collection Section
P.O. Box 280947
Harrisburg PA 17128-0947

Commonwealth of Pennsylvania
Department of Revenue

July 15, 2016

CONSTELLATION NEWENERGY, INC.
100 CONSTELLATION WAY SUITE 500C
BALTIMORE MD 21202

Re: CONSTELLATION NEWENERGY, INC.
100 CONSTELLATION WAY SUITE 500C
BALTIMORE MD 21202

Revenue ID	1000193090
Federal EIN	95-4714890
Corp Box No.	2102-949
Sales Tax No.	81844064
PTA	
PA Employer#	90453768

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SECRETARY'S BUREAU

Dear Taxpayer

I am writing to confirm that the above-referenced tax accounts of CONSTELLATION NEWENERGY, INC. are current. All returns have been filed with payment as of 06/30/2016. This confirmation is not intended to represent a "Bulk Sale Clearance" under the provisions of section 1403 of the fiscal code. This letter does confirm that the account listed above is in good standing.

Sincerely,

Stephanie L. Folkes, Supervisor
Clearance Collection Section

Hearing Impaired and/or Speaking Needs
Call TT# 800-447-3020

Appendix A

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PA PUBLIC UTILITY COMMISSION
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Constellation NewEnergy, Inc.

Gross Revenue for Most Recent 12 Months

July-15	$ [redacted]
August-15	$
September-15	$
October-15	$
November-15	$
December-15	$
January-16	$
February-16	$
March-16	$
April-16	$
May-16	$
June-16	$
	$

Prepaid Gross Receipts Taxes for Calendar Year 2016

$[redacted]

AEPS compliance data for Reporting Year 2015 (June 1, 2015 through May 31, 2016)

[redacted] MWh

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PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

Appendix B

Constellation NewEnergy, Inc.

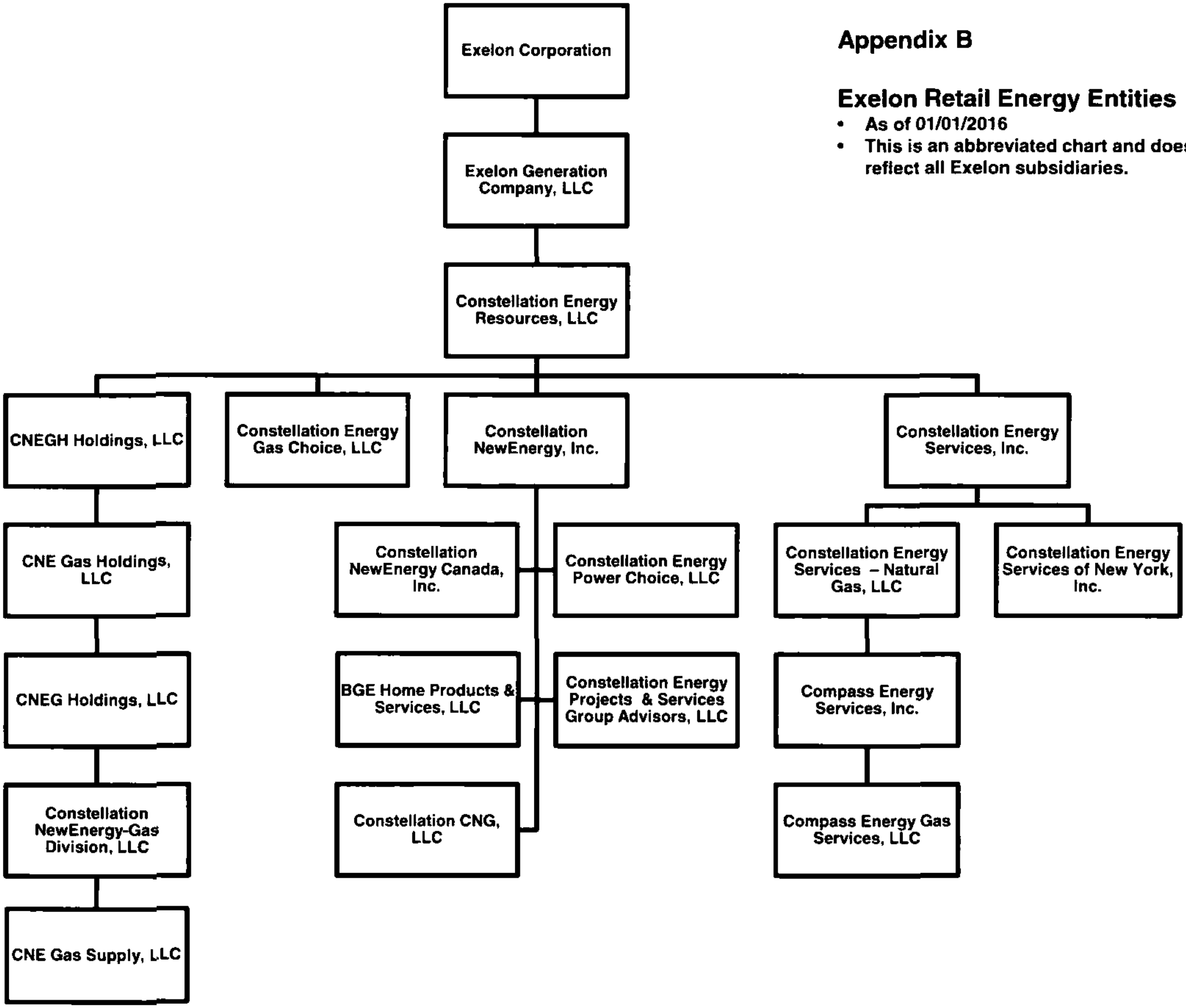
Exelon Corporation ("Exelon") is the ultimate parent company of Constellation NewEnergy, Inc. Exelon's SEC published audited financial statements can be found at the following link: http://www.exeloncorp.com/performance/investors/financialreports.aspx

The audited financial statements can also be viewed on the SEC website at the following link:
http://www.sec.gov/cgi-bin/browse-edgar?action=getcompany&CIK=0001109357&owner=exclude&count=40&hidefilings=0

Appendix B

Exelon Retail Energy Entities

- As of 01/01/2016
- This is an abbreviated chart and does not reflect all Exelon subsidiaries.



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Credit Opinion: Exelon Generation Company, LLC

Global Credit Research - 09 Feb 2015

Chicago, Illinois, United States

Ratings

Category	Moody's Rating
Outlook	Stable
Issuer Rating	Baa2
Sr Unsec Bank Credit Facility	Baa2
Senior Unsecured	Baa2
Pref. Shelf	(P)Ba1
Commercial Paper	P-2
Parent: Exelon Corporation	
Outlook	Stable
Issuer Rating	Baa2
Sr Unsec Bank Credit Facility	Baa2
Senior Unsecured	Baa2
Subordinate Shelf	(P)Baa3
Pref. Shelf	(P)Ba1
Commercial Paper	P-2

Contacts

Analyst	Phone
James Hempstead/New York City	212.553.4318
William L. Hess/New York City	212.553.3837

Key Indicators

[1]**Exelon Generation Company, LLC**

	9/30/2014(L)	12/31/2013	12/31/2012	12/31/2011	12/31/2010
(CFO Pre-W/C + Interest) / Interest	8.6x	8.4x	9.5x	15.7x	13.7x
(CFO Pre-W/C) / Net Debt	43.4%	46.9%	41.8%	95.2%	71.5%
RCF / Net Debt	32.7%	46.7%	34.4%	91.1%	50.7%
(CFO Pre-W/C) / Debt	37.4%	40.2%	38.8%	85.7%	65.6%
RCF / Debt	28.2%	40.0%	31.9%	82.0%	46.6%

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Source: Moody's Financial Metrics

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

Safe, reliable performance of 19GW nuclear fleet is most critical rating driver

Maintaining a strong balance sheet with robust financial ratios and ample sources of liquidity

Retail marketing business is high risk, and needs constant, proactive corporate governance oversight

Need to recycle capital and slowly diversify asset platform away from nuclear poses longer term risks

Corporate Profile

Exelon Generation Company, LLC (ExGen; Baa2, stable) is one of the largest unregulated utilities in our rated universe, as measured by assets. ExGen owns approximately 32 GW of generating capacity which is well positioned for potential carbon dioxide regulations, including 19 GW of nuclear capacity, 8 GW of natural gas capacity, 2 GW of hydro capacity and 1GW of other, mostly wind and solar renewable capacity. That said, ExGen also has 2 GW of oil-fired capacity, and a small exploration & production business. In addition to unregulated electric power generation, ExGen owns one of the largest national retail energy supply business, serving over 1 million customers with about 150 terawatt-hours (TWH's) of electric load. ExGen is regulated by the Federal Energy Regulatory Commission (FERC) and by the Nuclear Regulatory Commission (NRC). At September 30, 2014, ExGen had total assets of $45.4 billion. ExGen is a wholly-owned subsidiary of Exelon Corporation (Exelon; Baa2, stable).

SUMMARY RATING RATIONALE

ExGen's Baa2 senior unsecured rating reflects its conservative balance sheet, ample sources of liquidity and strong financial profile. Combined, ExGen's financial profile helps mitigate the risks associated with its unregulated power generation business and its volatile, low-margin retail marketing business. ExGen's financial strengths are evident with it roughly 2.0x ratio of debt to EBITDA and 30% ratio of retained cash flow to debt. While these ratios could be indicative of a higher rating, we see a slow and steady deterioration to the financial profile, due to a sustained period of low power prices. We also see a heightened amount of political and regulatory intervention circling ExGen's key markets, although the intervention appears to contain positive credit implications at this time. ExGen's Baa2 rating can withstand a modest decline to its financial profile given its strong asset base, especially its nuclear generation fleet, which remains among the most reliable sources of supply in most wholesale markets. That said, the nuclear fleet is exposed to certain event risks, including regulatory pronouncements from the NRC.

DETAILED RATING CONSIDERATIONS

Safe, reliable performance of 19GW nuclear fleet is most critical rating driver

As the largest owner and operator of nuclear generation in the US, Exelon has a strong competitive position and continues to demonstrate an outstanding record as a nuclear operator. ExGen's large generation fleet brings unique characteristics with respect to reliability, carbon-friendliness, and economic contributions to regional communities. Unlike other sources of electric generation, nuclear reactors generate electricity at capacity factors in the low to mid-90% range for about 18-24 months before they need to be refueled. Compared to wind and solar renewable generation, nuclear reactors tend to concentrate higher MW-capacities on a smaller footprint. For these reasons, we think ExGen's reactors have long term staying power, even when current market conditions makes them appear less economically viable.

That said, the unregulated power sector remains challenged, impacted by a sustained period of low natural gas and power prices; tepid economic growth which affects the demand for electricity; and increasing operating costs, including pension obligations. ExGen's nuclear fleet suffers from high fixed costs, and we see several key markets, such as in Illinois and New York, looking at various forms of market intervention (in the form of changing, revising or amending the existing market structure) which will help some of ExGen's reactors over the near-term.

We think ExGen's nuclear fleet can generate about 151 TWH's of electricity every year, over the next few years, and that the fleet's overall cash operating costs reside somewhere in the low to mid-$30 per MWh range. We see a steady investment in nuclear fuel, around $1.0 billion per year, and increasing regulatory focus on long-term decommissioning liabilities. As a result of these factors, we think ExGen will look to maintain operations for all of its reactors over the long-term horizon, because there is a material concentration and exposure to the reactor fleet.

Maintaining a strong balance sheet with robust financial ratios and ample sources of liquidity

We think ExGen's exposure and concentration to its reactor fleet is directly tied to its conservative financial policies, which produce strong financial profiles. For the latest twelve months ended September 2014, ExGen generated approximately $3.0 billion in cash flow (down from $3.2 billion for the twelve months ended September 2013), invested approximately $2.7 billion (down from $2.9 billion) and made dividend payments of roughly $0.9

billion (up from $0.8 billion).

Prospectively, we think ExGen will produce at least $3.0 billion of cash flow per year, over the next few years. We see ExGen's upstream dividend requirements falling, as Exelon's regulated utilities grow their earnings and in 2015, Baltimore Gas & Electric Company (BGE: A3 stable) can start making upstream dividend payments again. We also think ExGen's capital expenditures should decline, from roughly $3.3 billion in 2015 to almost $3.0 billion in 2016 to slightly over $2.0 billion in 2017. This means ExGen will be rapidly moving into a robust positive free cash flow position, a material credit positive.

These cash flows support approximately $10 billion in debt as of September 30, 2014, which includes about $800 million in under-funded pensions and roughly $400 million of operating lease adjustments. We think debt is rising for ExGen, partly due to the fall in discount rates, which should increase its underfunding pension balance. Accounting changes, with respect to purchased power agreements or other contractual arrangements, could also increase debt balances, and negatively impact ExGen's financial ratios. For now, we continue to incorporate a view that ExGen's financial policies are aimed at maintaining a strong balance sheet, where debt to book capitalization stays near the low to mid-30% range and the ratios of debt to revenue remains well below 1.0x and debt to EBITDA remains near 2.0x.

Retail marketing business is high risk, and needs constant, proactive corporate governance oversight

As an unregulated wholesale energy company whose gross margin can be materially impacted by changes in commodity prices, ExGen's commercial strategies remain an important rating factor. To that end, ExGen continues to manage its ratable hedging program over a 36 month cycle with targets of 90% or more of expected generation hedged in the first year, 70-90% in the second year, and less than 50% in the third year.

ExGen continues to view its retail marketing operations as a core business associated with its unregulated generation assets. Along these lines, in November 2014, ExGen acquired Integrys Energy Group, Inc's (A3 stable) retail marketing business, Integrys Energy Services, Inc. (unrated) for $60 million plus adjusted net working capital at the time of closing of $265 million. Integrys' retail energy business served approximately 1.2 million commercial, industrial, public sector and residential customers in 22 US states and Washington, DC. Prior to the acquisition, Exelon's retail energy business provides energy products and services to approximately 100,000 businesses and public sector customers and about 1 million residential customers in the US.

Because many other companies in the market are unhappy with the margins available in retail marketing, and do not see retail marketing as a core business, the sector will continue to see consolidation. These dynamics are a credit positive for Exelon, because we think its retail business has the scale, scope and capital backing to operate through a prolonged market trough. Still, we see retail as a high risk business.

Need to recycle capital and slowly diversify asset platform away from nuclear poses longer term risks

ExGen continues to look for ways to recycle its capital and slowly diversify its asset platform away from its nuclear fleet. Although ExGen's capital expenditures are projected to fall towards the $2.2 billion range in 2017, from $3.3 billion in 2015, these investments exclude potential growth opportunities, which are likely to arise given the challenges facing the unregulated power sector. We see ExGen as well positioned to take advantage of those opportunities, should they arise, because it has a strong balance sheet and a strategic asset platform. ExGen divested several non-core assets in 2014, in part to help its parent generate proceeds to finance the acquisition of a regulated utility holding company, PHI. In addition, ExGen has raised over $3.0 billion in asset or project financings, which helps it recycle capital at attractive rates. We think these activities will continue in 2015 and 2016.

Liquidity

Overall, we believe ExGen's liquidity profile is adequate. As of September 30, 2014, ExGen's principal liquidity arrangements included $1.3 billion in cash and $5.3 in syndicated revolvers. In May 2014, these facilities along with the credit facilities of two of Exelon's regulated subsidiaries were extended to May 2019. As of September 30, 2014 ExGen had no commercial paper outstanding, but had $557 million of letters of credit outstanding, leaving about $4.7 billion available at the syndicated revolving facility.

The core syndicated credit facilities are primarily used to provide liquidity support and for the issuance of letters of credit. While the credit agreements do not contain any rating triggers that would affect borrowing access to the commitments and do not require material adverse change (MAC) representation for borrowings or the issuance of LOCs, there is a financial covenant for each entity, all of which were compliant.

We see cash flow from operations remaining above $3.0 billion and a decline in capital expenditures beginning in 2016 as mentioned above. Exgen's financial metrics will remain stable with slight improvements particularly in the retained cash flow to debt metric as Baltimore Gas and Electric begins to make upstream contributions to Exelon Corp. ExGen's next scheduled debt maturity is a $700 million 6.2% senior unsecured note due in October 2017.

Structural Considerations

Over the past few years, when evaluating ExGen's credit profile, we included the holding company debt of its parent, Exelon, into our analysis. Prospectively, this practice will become less important because Exelon expects to retire its approximately $800 million of its holding company debt and refinancing $550 million directly at ExGen. Along these lines, on 8 January, ExGen raised $750 million in 2.95% senior unsecured notes that refinanced $550 million of 4.55% senior unsecured notes at its parent, Exelon. That said, Exelon will be materially increasing its tolerance for holding company debt with its acquisition of Pepco Holdings, Inc. (PHI: Baa3 stable), which we think will close in the 3Q of 2015. Although Exelon will raise a material amount of new holding company debt associated with the PHI acquisition, we are less likely to apply that debt directly to ExGen.

Rating Outlook

ExGen's stable rating outlook reflects the strong financial profile of the company, where the ratio of cash flow to debt will remain above 30% over the next few years. The stable outlook also reflects the challenges that ExGen's large, unregulated generation fleet faces with a sustained period of low natural gas prices that translate into low power prices. We still see structural uplift in ExGen's markets and with respect to its generation fleet, especially its nuclear fleet. The stable outlook incorporates a view that ExGen will be successful in attaining some form of market intervention which helps its nuclear reactors remain on-line for an extended period of time. The stable outlook also reflects the continued application of a conservative set of sophisticated hedging strategies, which are fundamentally designed to insulate the company's financial profile from severe swings in natural gas and power-related commodity prices.

What Could Change the Rating - Up

ExGen's ratings could be upgraded to the Baa1 level if the company reduced its overall risk profile. This could include revising its business mix and reducing its exposure to higher risk businesses, where revenue transparency is low and cash flow volatility is high. Ratings could also be upgraded by improving the financial profile, where the ratio of cash flow to debt rose to above the 40% range for a sustained period of time or begins to produce a steady stream of positive free cash flow.

What Could Change the Rating - Down

Today, ExGen's rating is strongly-positioned in the mid-Baa rating category because its hedging strategy enhances the reliability of its near-term cash flows, which are strong at the 30% range. However, ratings could be downgraded if weaker than expected financials surfaced, where the ratio of cash flow to debt fell into mid to high 20% range for a sustained period of time, or if there was a material change to corporate finance policies, especially with respect to the dividend and capital expenditures, which indicated a steady rise in leverage or decline in the ratio of retained cash flow to debt into the mid-teen's range.

Other Considerations

Moody's evaluates ExGen's financial performance relative to the Unregulated Utility and Power Company methodology and, as depicted below, ExGen's indicated rating under the grid based on historical results and based on projected (next 12-18 months) is A3.

Rating Factors

Exelon Generation Company, LLC

Unregulated Utilities and Unregulated Power Companies Industry Grid [1][2]	**Current LTM 9/30/2014**		[3]**Moody's 12-18 Month Forward ViewAs of 2/2/2015**	
Factor 1 : Scale (10%)	**Measure**	**Score**	**Measure**	**Score**
a) Scale (USD Billion)	A	A	A	A
Factor 2 : Business Profile (40%)				

a) Market Diversification	Baa	Baa	Baa	Baa
b) Hedging and Integration Impact on Cash Flow Predictability	Baa	Baa	Baa	Baa
c) Market Framework & Positioning	Baa	Baa	Baa	Baa
d) Capital Requirements and Operational Performance	Baa	Baa	Baa	Baa
e) Business Mix Impact on Cash Flow Predictability		NA	Baa	Baa
Factor 3 : Financial Policy (10%)				
a) Financial Policy	A	A	A	A
Factor 4 : Leverage and Coverage (40%)				
a) (CFO Pre-W/C + Interest) / Interest (3 Year Avg)	9.3x	A	8.3x	A
b) (CFO Pre-W/C) / Net Debt (3 Year Avg)		NA	43.9%	A
c) RCF / Net Debt (3 Year Avg)		NA	32.7%	A
b) (CFO Pre-W/C) / Debt (3 Year Avg)	38.4%	A	41.7%	A
c) RCF / Debt (3 Year Avg)	32.9%	A	31.1%	A
Rating:				
a) Indicated Rating from Grid		A3		A3
b) Actual Rating Assigned		Baa2		Baa2

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of 9/30/2014(L); Source: Moody's Financial Metrics [3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on http://www.moodys.com for the most updated credit rating action information and rating history.

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RatingsDirect®

Summary:
Exelon Generation Co. LLC

Primary Credit Analyst:
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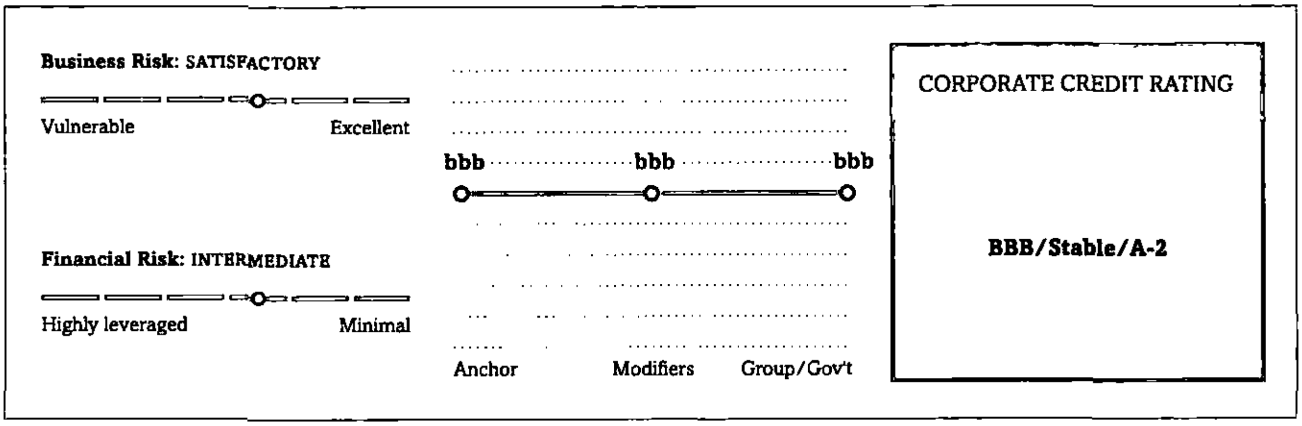
Aneesh Prabhu, CFA, FRM, New York (1) 212-438-1285; aneesh.prabhu@standardandpoors.com

Table Of Contents

Summary:

Exelon Generation Co. LLC

*(**Editor's Note:** This summary analysis, originally published Sept. 22, 2014, is being republished to correct an error in our published assumptions.)*



Rationale

Business Risk: Satisfactory

- U.S. power producer Exelon Generation Co. LLC's low-cost base-load generation has a strong operating track record, though it remains subject to considerable energy margin variability, driven by commodity prices, demand, and weather patterns.
- Large natural gas production volumes have collapsed gas and power prices, carrying significant downside potential for a generation portfolio that is largely nuclear (more than 80% of total generation).
- A mild summer, declining market heat rates, and gas regional pricing differentials have weakened the economics of the company's generation plants in the next 18 months despite a stronger fundamental outlook long-term.
- Capacity prices could continue to languish because of lackluster electric demand, growing energy efficiency, and increased penetration of demand response initiatives. However, this could reverse in coming auctions as capacity performance schemes proliferate.
- Exelon still operates a large nuclear fleet; this puts the company in a good position as carbon regulation and capacity performance incentives loom.

Financial Risk: Intermediate

- The backward-dated EBITDA profile persists, although the curve is not as steep as it is for certain competitors owing to a proactive hedging strategy and participation in robust capacity markets.
- Cash flow is significantly hedged through 2015 and 2016, increasing as hedges are regularly added; 2017 is hedged to nearly 46%.
- The company's liquidity position remains strong, especially since it can defer capital spending needs.
- Dividend policy is relatively aggressive, but this is supported by a steady stream of dividends from utility subsidiaries.
- While capital spending needs have been substantial in the past, we expect that they'll be more in line with industry norms, as this company is already well-suited for upcoming carbon regulations.

Outlook: Stable

The outlook on the ratings is stable. However, Standard & Poor's believes that higher-than-expected natural gas production from shale production regions and a delay in environmental rules related to plant retirements could weaken the company's financial performance during the next few years. Should the commodity pricing environment weaken even more, the company might have to address a decline in its earnings profile with commensurate reductions in capital spending and debt. Without the Pepco Holdings Inc. (PHI) acquisition, we expect Exelon and Exelon Generation Co. LLC to maintain funds from operations (FFO) to debt of at least 22% and 27%, respectively, which are the minimum levels to maintain current ratings. If the PHI transaction closes, we expect the consolidated pro forma company to maintain adjusted FFO to debt within a band of about 22% to 24% and debt to EBITDA to increase to about an adjusted 3.2x to 3.4x.

Downside scenario

We could lower ExGen's ratings in the absence of the PHI acquisition if Exelon's adjusted consolidated FFO to debt declined below 22%. This could happen if ExGen faces increasing competition in its retail markets, which would threaten customer retention in its retail business. Gross margins could also come under pressure if power prices continue to decline because of weak natural gas prices or lower market heat rates.

Negative ratings momentum post-acquisition could occur due to a decline in commodity prices that would affect ExGen's and, as a result, Exelon's cash flows. We could lower the company's ratings post-acquisition if the adjusted consolidated FFO to debt ratios were to decline below 18% consistently.

We could lower the stand-alone credit profile of ExGen if the company's adjusted FFO to debt were consistently below 23%. A change in ExGen's stand-alone credit profile (SACP) might not result in an immediate change in its issuer ratings if Exelon's growing utility segment were able to sustain the group's credit profile. However, given that ExGen will still account for over 40% of the consolidated cash flow even after the PHI acquisition, a lower SACP would weigh negatively on the entire group profile.

Upside scenario

An upgrade absent the acquisition--which we consider unlikely presently--could occur if natural gas prices stabilized and power prices responded favorably to coal plant retirements, resulting in consolidated FFO to debt levels of more than 28% on a sustained basis. This would reflect a stand-alone FFO to debt level at ExGen of more than 35% consistently. Such a scenario could stem from an improved economy and higher electricity prices, as well as from a robust increase in the rate base of Exelon's regulated utility subsidiaries. A stronger PJM Capacity Market, stemming from a capacity performance scheme, could contribute also. We could consider an upgrade if the company, post-acquisition, reported adjusted consolidated FFO to debt levels stronger than about 25% and debt to EBITDA below about 3.4x. We think this is unlikely before 2016, and, at any rate, an improved SACP for ExGen would not result in a higher rating without the group credit profile improving due to higher credit quality at the regulated utilities.

Standard & Poor's Base-Case Scenario

Assumptions

- Henry Hub gas prices are between $2.75 per million Btu in 2015 and $3.25 in 2016; PJM West hub power prices are between $30 and $35 per megawatt hour (MWh) in 2016; Northern Illinois hub hover around $30 per MWh through 2016.
- Nuclear capacity factors are consistently at about 94% through 2017.
- Growth rates at the utilities are consistent with management's assumptions.
- Dividend policy remains in line with industry standards.
- Only current hedges are assumed.
- Spark spreads remain depressed in Texas, with an average of about $6 per MWh during 2015, but rebound somewhat afterward.
- Total ExGen generation of about 190 gigawatts per hour in 2015, ticking up only modestly in subsequent years.

Key Metrics

	2015E	2016E
FFO/debt (%)	34-38	32-35
Debt/EBITDA (x)	2.0-2.4	2.3-2.6
EBITDA interest coverage (x)	5.5-6.5	5.5-6.5

E--Estimate. FFO--Funds from operations.

Note: These metrics represent stand-alone credit metrics for Exelon Generation.

Business Risk: Satisfactory

Standard & Poor's rating on ExGen reflects our view of the consolidated creditworthiness of the company's diversified energy parent Exelon, whose business risk profile we view as "strong" due to the presence of several large utility subsidiaries.

A significant contribution to this consolidated assessment is the business risk profile of ExGen, which we view as "satisfactory" on a stand-alone basis. As of March 31, 2015, ExGen had about $10.2 billion of total adjusted debt after considering the effects of power purchase agreements, post-retirement benefit obligations, cash netting, and deconsolidation.

We expect ExGen's unregulated operations to constitute more than 50% of the consolidated enterprise in terms of cash flow and capital spending during 2015, excluding the PHI acquisition. ExGen generates a significant portion of earnings from its retail operations. Through retail and wholesale channels, ExGen now provides about 150 to 165 terawatt-hours, or nearly 5% of total U.S. power demand, and enjoys significant regional diversity. In most locations, ExGen has adequate intermediate and peaking capacity for managing load-shaping (matching resources with energy needs) risks. However, we believe the company will still need to buy and sell generation in the market to manage its portfolio needs, which exposes it to considerable commodity risk. Moreover, ExGen has a significant open position in the Midwest to merchant markets, and a somewhat tight position in Texas and New England, where it has some risk of finding itself short when loads and power prices are high.

ExGen's cash flow remains rather sensitive to commodity prices because more than 80% of the business' generation is nuclear; unlike gas-fired assets, which have a lower cost structure if gas prices drag power prices down, nuclear plants face winnowing margins based on lower market heat rates. Given that base-load generation is price-taking by nature, we expect ExGen's adjusted FFO to debt to remain volatile relative to peers. With all else being equal, we estimate gross margins in 2017 will be lower by about about $150 million for every $5 per MWh (round-the-clock) decline in power prices, and about $400 million for every $1 per million Btu decline in 2017 natural gas prices off of our base case. Near-term figures are not quite as volatile due to more thorough hedging and better visibility into pricing.

Current hedges demonstrate the significant value of Exelon's hedging program. Even though these hedges insulate ExGen, they also show the sensitivity of ExGen's margins to the prospect of continued shale gas production. The merchant generation margins at ExGen could decrease as higher-priced hedges expire, which is evident in the drop in wholesale hedged gross margins. Still, forward prices do show a modest contango (future prices are above expected future spot prices). In addition, retail competition has increased, and ExGen has lowered its growth estimates. We believe retail contributions can mitigate the wholesale decline, given the potential for cost savings, volumes gained from the Constellation Energy Group Inc. merger, and acquisitions.

Financial Risk: Intermediate

Because of the decline in commodity prices, we expect ExGen's standalone FFO to debt ratio to hover near 34% in 2015. Although ExGen's cash flows are relatively more volatile compared with peers because of the larger base-load generation and exposure to energy pricing, the low variable cost (and highly depreciated nature) of its nuclear plants means that natural gas prices must stay below the current level of $2.75 per million Btubefore its FFO to debt falls below 23% on a persistent basis.

Capital spending requirements remain significant between 2015 and 2016 at almost $3.4 billion for ExGen. Although utility capital spending tends to be funded through rate-base additions, unregulated generation must recover the funding of its own capital requirements through capacity market prices (and energy margins, in Texas). Consolidated cash flow from operations will largely cover capital spending and dividends, resulting in only modest external financing needs. Still, incrementally lower gas prices would hurt ExGen's debt protection measures more than increases in debt financing or in operating and maintenance costs, through 2015.

At ExGen, we expect free operating cash flow to debt to remain positive even in 2015, when we expect financial measures to trough. We expect to see discretionary cash flow improve meaningfully thereafter. Despite the current pressure on energy prices, we expect ExGen to remain in the "intermediate" financial risk profile range during the next few years, even with a relatively aggressive dividend scheme, one which is heavily supplemented by contributions from the utility companies.

Liquidity: Strong

The short-term rating on Exelon and affiliates is 'A-2'. Standard & Poor's views liquidity across the Exelon group of companies as "strong" in light of the debt maturity schedule and available credit facilities. Exelon has sufficient alternative liquidity sources to cover current liquidity needs, including ongoing capital requirements, moderate capital spending, and upcoming debt maturities.

As of June 30, 2015, Exelon, ExGen, Commonwealth Edison Co. (ComEd), PECO Energy Co., and Baltimore Gas & Electric Co. had revolving credit facilities of $500 million, $5.8 billion, $1 billion, $600 million, and $600 million, respectively. These facilities expire 2018 and 2019. The facilities were largely available at that time, except for $503 million of commercial paper outstanding at ComEd, as well as certain letters of credit outstanding.

On a stand-alone basis, ExGen also has "strong" liquidity; its sources of cash, including cash on hand, cash flow, and revolving credit facility capacity exceed uses--including amortization and capital spending--by more than 1.5x during the next 24 months.

Principal Liquidity Sources	Principal Liquidity Uses
• FFO of nearly $6 billion in 2015. • Credit facility availability of about $6 billion. • Cash on hand of about $6 billion, much of which is to fund the PHI acquisition. • Nonseasonal working capital inflows of about $400 million.	• Dividend payments of almost $1.1 billion annually. • Capital spending and maintenance and environmental costs of more than $6 billion during the next 12 months. • Debt maturities of $2.2 billion. • PHI acquisition costs.

Ratings Score Snapshot

Corporate Credit Rating

BBB/Stable/A-2

Business risk: Satisfactory

- **Country risk:** Very low
- **Industry risk:** Moderately high
- **Competitive position:** Satisfactory

Financial risk: Intermediate

- **Cash flow/Leverage:** Intermediate

Anchor: bbb

Modifiers

- **Diversification/Portfolio effect:** Neutral (no impact)

- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Strong (no impact)
- **Management and governance:** Strong (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : bbb

- **Group credit profile:** bbb
- **Entity status within group:** Core (no impact)

Related Criteria And Research

Related Criteria

- Criteria – Corporates: Key Credit Factors For The Unregulated Power and Gas Industry, March 28, 2014
- Methodology and Assumptions: Liquidity Descriptors For Global Corporate Issuers, Jan 2, 2014
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Group Rating Methodology, Nov. 19, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	**Intermediate**	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	**bbb/bbb-**	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

CERTIFICATE OF SERVICE

On this the 18th day of July 2016, I certify that a true and correct copy of the request to modify its security requirement within the Commonwealth of Pennsylvania as an Electric Generation Supplier and all **NON-CONFIDENTIAL** attachments have been served, as either a hardcopy or a searchable PDF version on a cd-rom, upon the following:

Office of Consumer Advocate
5th Floor, Forum Place
555 Walnut Street
Harrisburg, PA 17120

Office of the Attorney General
Bureau of Consumer Protection
Strawberry Square, 14th Floor
Harrisburg, PA 17120

Office of the Small Business Advocate
Commerce Building, Suite 1102
300 North Second Street
Harrisburg, PA 17101

Commonwealth of Pennsylvania
Department of Revenue
Bureau of Compliance
Harrisburg, PA 17128-0946

Bureau of Investigation & Enforcement
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2 West
Harrisburg, PA 17120

West Penn Power d/b/a Allegheny Power
Legal Department
800 Cabin Hill Drive
Greensburg, PA 15601-1689

Duquesne Light Company
Regulatory Affairs
411 Seventh Avenue, MD 16-4
Pittsburg, PA 15601-1689

First Energy
Legal Department
2800 Pottsville Pike
Reading, PA 19612

PPL
Legal Department
Attn: Paul Russell
Two North Ninth Street
Allentown, PA 18108-1179

PECO Energy Company
Manager Energy Acquisition
2301 Market Street
Philadelphia, PA 19101-8699

Catherine Stanley

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SECRETARY'S BUREAU

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