

# AG Cross Exhibit 3

Illinois Commerce Commission Docket 06-0800

# Agenda



Introduction	Michael Metzner, VP and Treasurer
Exelon Overview	John Young, EVP Finance & Markets & CFO
ComEd Update & Forecast	Robert McDonald, ComEd SVP & CFO
PECO Update & Forecast	Michael Metzner
ExGen Update & Forecast	Michael Metzner
Exelon Consolidated Forecast	Joseph Glace, Risk Control, Credit & Operations
Non-Consolidation Opinion	Michael Metzner
Merger Update	John Young
Concluding Remarks & Next Steps	John Young

## OFFICIAL FILE

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ILL. C. C. DOCKET NO. 06-0880

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Witness \_\_\_\_\_

Date 4/24/07 Reporter CB

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# ComEd Update & Forecast

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A SPANISH COMPANY

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- Large and Growing Customer Base
- Operations Continuing to Improve
- Transitioning Out of Rate Freeze Environment
  - ICC Rate Case Order was a surprise; ComEd is taking appropriate next steps
  - Illinois auction continues on-track; maintaining investment grade is critical
  - In response to recent events, ComEd is pursuing an alternative optional rate increase phase-in plan
- Financials are projected to maintain investment grade credit metrics

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# DST Rate Case Update



While the Administrative Law Judges' (ALJs) Proposed Order provided for a revenue increase of \$164M compared to ComEd's original request of \$317M, the ICC Order provided for only an \$8M increase

\$ in millions	Revenue Requirement	Revenue Increase
Original request	\$1,895	\$317
Final position – ComEd brief	\$1,857	(\$38)
Capital Structure @ 42.86% equity	\$1,773	(\$84)
ROE @ 10.045%	\$1,732	(\$41)
Pension Asset	\$1,662	(\$70)
Cap A&G to prior order with inflation factor	\$1,601	(\$61)
50% of ComEd incentive compensation	\$1,591	(\$10)
Other ICC adjustments	\$1,586	(\$ 5)
Approved Increase in DST revenue		\$8M*

\* \$2 million in additional revenue will be collected to cover auction costs

## **DST Case – Petition for Rehearing**

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- Petition for rehearing before ICC was filed August 15, 2006
  - Commission has 20 days to decide whether to grant rehearing (9/5/06), and what issues warrant rehearing
  - Commission has 150 days to complete rehearing (2/5/07)
- Key issues on rehearing
  - Administrative and General Expense (\$61M improvement to Order)
  - Pension Asset (\$70M): ComEd will seek to recover pension expense as if ComEd had funded contribution through debt or, alternatively, to recover pension expense as if contribution had never been made (\$27M - \$35M improvement to Order)
  - Governmental Consolidated Billing (GCB) Rider: ComEd will seek to either eliminate the GCB Rider or ensure acceptable allocation of subsidy (\$39M – \$65M) to other customers
  - Common Equity Ratio (\$84M based on original request of 54% equity): ComEd will seek to establish a 46% common equity ratio rather than the Order's 42.86% common equity ratio (\$17M improvement to Order)

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- Appeal due 35 days from denial of petition for rehearing or order on rehearing
  - Earliest appeal date: October 2006
  - Latest appeal date: March 2007
- Appeal process is 1 to 3 years depending on court
  - Any relief is prospective only
  - Commission generally afforded deference
- Management will need to evaluate the business, financial and precedential impact of any appeal issues

**GOAL: Conduct successful auction and flow through costs in rates**

## LEGAL UPDATE

- Illinois Supreme Court and Illinois Appellate Court denied Attorney General's request to stay auction
- Illinois Appellate Court will consider all appeals
- Decision unlikely until 4<sup>th</sup> Quarter 2006 or 1<sup>st</sup> quarter 2007

## AUCTION TIMING

- Auction starts September 5<sup>th</sup> (NJ auctions have taken 2-7 days to complete)
- Auction Manager and Staff reports to ICC (2 days after auction closes)
- ICC decides whether to reject or accept results (5 days after auction closes)



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- Various aspects of ComEd's "8/7/6" Rate Stabilization Plan received objections by parties filing rebuttal testimony
- Company protections include a Financial Viability Threshold -- Staff did not object
- ComEd introduced the concept of securitization as a potential alternative
- ICC Staff offered an alternative plan designed to lessen potential deferral balances
  - Replace 8/7/6 caps with 10/10/10 caps
  - Program to be optional
  - Debt interest rate as the deferral balance carrying charge rate
- ComEd has filed rebuttal testimony supporting approval of aspects of ICC Staff's plan
  - 10/10/10 caps are acceptable
  - Program can be optional but that feature cannot be fully implemented by January 2007
  - Total cost of capital carrying charge rate is the appropriate rate
- Timing:
  - ICC hearings on rate stabilization plan September 7, 8
  - ICC decision anticipated November 2006

# Financial Forecast Assumptions



- Power procured through ICC-approved auction
- Reflects July 26, 2006 DST Order
- Annual delivery rate cases in 2008 and 2009 assume pension asset is not recovered and annual revenue requirement increases of \$360M and \$180M, respectively
- Incorporates 10/10/10 mitigation proposal: Projections assume 100% residential participation, but actual participation expected to be lower with opt-in feature

(Projections)	2007	2008	2009
Blended auction price (\$/MWh)	\$59	\$60	\$63
No deferral blended auction price (\$/MWh)	\$56	\$60	\$67
Residential sales (GWh)	29,500	30,000	30,500
Deferred revenues (\$ Millions)	\$90	0	0

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## **ComEd Observations and Highlights      Exelon®**

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- Capital spending to maintain system reliability and support load growth (approximately \$1 billion per year)
- Maturing transition bonds assumed to be refinanced in 2007 & 2008 as ComEd “corporate” debt (approximately \$300 million per year)
- Goodwill impairment test being conducted in third quarter could lead to additional write-downs but does not impact cash flow
- Metrics suggest investment grade ratings – a key goal of ComEd’s executive management and board of directors

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- On February 22, 2006, ComEd entered into a \$1 billion, three-year secured revolving credit agreement
  - At the same time, ComEd was removed from the Exelon facilities (including the money pool)
- Provides ComEd with a source of financial independence apart from Exelon
- May eventually be converted to an unsecured facility depending on regulatory outcomes and auction process

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# **Non-Consolidation Opinion**

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## Non-Consolidation Opinion (NCO)

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- As a regulated utility, ComEd has always operated as a separately registered company with its own financials and debt and has maintained “arm’s-length” relationships with affiliates
- Beginning in late 2005, a number of actions were taken to confirm ComEd’s independence from Exelon
  - Independent ComEd Board of Directors and Senior Management team appointed
  - Separate \$1 billion credit facility executed and ComEd removed from existing Exelon credit facilities
  - ComEd participation in Exelon money pool terminated
- NCO presents legal conclusion of Sidley Austin that Exelon and its other affiliates will not be consolidated with ComEd in the event of a ComEd bankruptcy
- We believe that the NCO is appropriate support for ratings separation of ComEd from the rest of the Exelon family

## **Key Elements of NCO**

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- NCO issued by Sidley Austin LLP on August 25, 2006 addresses historic operations of ComEd, the actions taken in late 2005/early 2006 and numerous other key elements which demonstrate the nature of ComEd as an independent, stand-alone entity
- ComEd must stand on its own as a separate and distinct operating company
- Exelon is prepared to have follow-up discussions with your team once you have reviewed the NCO