Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

(Dollars in millions except per share data, unless otherwise noted)

General

Exelon is a utility services holding company. It operates through subsidiaries in the following operating segments:

- *Generation*, whose business consists of its owned and contracted electric generating facilities, its wholesale energy marketing operations and competitive retail sales operations.
- *ComEd*, whose business consists of the purchase and regulated retail and wholesale sale of electricity and the provision of distribution and transmission services to retail and wholesale customers in northern Illinois, including the City of Chicago.
- *PECO*, whose businesses consists of the purchase and regulated retail sale of electricity and the provision of distribution and transmission services to retail customers in southeastern Pennsylvania, including the City of Philadelphia, as well as the purchase and regulated retail sale of natural gas and the provision of distribution services to retail customers in the Pennsylvania counties surrounding the City of Philadelphia.

See Note 15 of the Combined Notes to Consolidated Financial Statements for segment information.

Exelon's corporate operations, through its business services subsidiary, Exelon Business Services Company (BSC), provide Exelon's business segments with a variety of support services. The costs of these services are directly charged or allocated to the applicable business segments. Additionally, the results of Exelon's corporate operations include costs for corporate governance and interest costs and income from various investment and financing activities.

EXELON CORPORATION

Executive Overview

Financial Results. Exelon's net income was $691 million for the three months ended March 31, 2007 as compared to $400 million for the three months ended March 31, 2006 and diluted earnings per average common share were $1.02 for the three months ended March 31, 2007 as compared to $0.59 for the three months ended March 31, 2006. The increases were primarily due to the following:

- higher average margins on Generation's wholesale market sales primarily due to the end of the below–market power purchase agreement (PPA) with ComEd;
- increased nuclear output at Generation reflecting fewer outage days;
- decreased nuclear refueling outage costs;
- favorable PJM Interconnection, LLC (PJM) billing settlement with PPL Electric (PPL);
- favorable weather conditions in the ComEd and PECO service territories;
- increased delivery volume, excluding the effects of weather, at ComEd and PECO;
- increased pricing for delivery services and increased transmission revenues at ComEd; and
- increased earnings associated with investments in synthetic fuel–producing facilities.

The factors driving the overall increase in net income were partially offset by the following:

- unrealized mark–to–market losses on contracts not yet settled;
- lower margins (operating revenues less purchased power expense) at ComEd due to the end of the regulatory transition period and associated transition revenues;

- higher operating and maintenance expenses, including wage–related inflation; and
- increased depreciation and amortization expense, primarily related to competitive transition charge (CTC) amortization at PECO.

Financing Activities. During the three months ended March 31, 2007, Exelon met its capital resource requirements primarily with internally generated cash as well as funds from external sources, including the capital markets, and through bank borrowings. During the three months ended March 31, 2007, ComEd and PECO issued $300 million and $175 million, respectively, of First Mortgage Bonds. In addition in the first quarter of 2007, ComEd borrowed $340 million from its credit facilities and repaid all outstanding commercial paper. During the first quarter of 2007, certain rating agencies downgraded ComEd's debt ratings.

Regulatory and Environmental Developments. The following significant regulatory and environmental developments occurred during the three months ended March 31, 2007. See Notes 5 and 13 of the Combined Notes to Consolidated Financial Statements for further information.

- Rate Freeze Extension Proposal — On March 6, 2007, the Illinois House of Representatives (House) passed a rate freeze extension bill that, if enacted into law, would roll back the current electricity rates of ComEd and other Illinois utilities to rates that were in effect prior to 2007, exclusive of 2006 CTC rates. Also, the Illinois State Senate's (Senate) Environment and Energy Committee (the Senate Committee) approved a bill, that, if enacted into law as amended, would roll back rates, exclusive of 2006 CTC rates, of certain Illinois utilities, not including ComEd, for a period of at least one year. On March 22, 2007, the Senate Committee approved for consideration by the full Senate an amendment that would make the legislation applicable to all Illinois utilities, including ComEd. On April 20, 2007, the Senate passed legislation that would rollback and freeze the rates of certain Illinois utilities, not including ComEd. This bill now moves to the House. As of April 24, 2007, the Senate has not passed any legislation rolling back or freezing ComEd's rates.

  To become law in Illinois, legislation would need to be passed by the House and Senate and signed by the Governor of Illinois. ComEd and other interested parties have been actively engaged in discussions with members of the Illinois General Assembly and other leaders to explore alternative measures, in lieu of rate freeze legislation, that would provide financial assistance for Illinois electric customers with unusually high electric bills and other customers in need of financial assistance. The outcome of these discussions of alternatives to rate freeze legislation or the ultimate outcome of the legislative process and the coverage or content of any legislation that may be adopted are all uncertain. ComEd plans to move forward with the customer relief programs affecting its customers provided that no rate rollback and freeze legislation applicable to ComEd is enacted into law. Inclusive of ComEd's funding of its Customers' Affordable Reliable Energy (CARE) initiative, ComEd anticipates that these customer rate relief programs may cost approximately $44 million in 2007 and approximately $20 million in additional funds during 2008 and 2009.

- Illinois Procurement Case and Related Proceedings — In January 2007, ComEd began procuring electricity under supplier forward contracts with various suppliers, including Generation. The supplier forward contracts resulted from a "reverse–auction" competitive bidding process, which was approved by the ICC on January 24, 2006 and permits recovery by ComEd of its electricity procurement costs from retail customers with no markup. The first auction took place in September 2006. The ICC order approving the auction process is under appeal. Consistent with the process previously approved by the ICC, the ICC has opened a proceeding to consider improvements to the competitive procurement process. It is anticipated that a final order will be entered in that proceeding with sufficient time to incorporate changes into the process for the February 2008 auction.
- Residential Rate Stabilization Program — In January 2007, ComEd launched the rate stabilization program approved by the ICC that allows residential customers the choice to limit the impact of any rate increases over the next three years. The program has an "opt–in" feature that gives customers the choice to participate, beginning with the April 2007 billing period. Under the program, residential customers choosing to participate would see average annual rate increases capped at 10% in 2007, 2008 and 2009. Costs that exceed the cap would be deferred and charged to customers over the following three years, 2010 to 2012. A

carrying charge at a rate of 3.25% per year will be assessed to participants to partially cover ComEd's cost of financing the program. As of March 31, 2007, approximately 34,000 or 1% of ComEd's residential customers have enrolled in the program.

- CARE – In July 2006, ComEd implemented CARE, an initiative to help customers prepare for electricity rate increases after the expiration of the rate freeze in Illinois. In addition to the residential rate stabilization program discussed above, CARE includes a variety of energy efficiency, low–income and senior citizen programs to help mitigate the impacts of the rate increase on customers' bills.
- Illinois Rate Design Investigation — On March 2, 2007, the ICC voted to initiate investigations into ComEd's and the Ameren Corporation (Ameren) utilities' rate designs, particularly for residential and residential space–heating customers. The ICC has a schedule that contemplates a final order by September 2007, which would allow implementation of changes, if any, prior to the next winter heating season.
- Transmission Rate Case — On March 1, 2007, ComEd filed a request with the FERC, seeking approval to increase the rate ComEd receives for transmission services. ComEd also requested incentive rate treatment for certain transmission projects. If approved by the FERC, the total proposed increase of $147 million in the annual revenue requirement, including incentives, would increase an average residential customer bill about 1.5%. ComEd is requesting that the new transmission rate, if accepted by FERC, be effective as of May 2007.
- PECO AEPS Filing — On March 19, 2007, PECO filed a request with the Pennsylvania Public Utility Commission (PAPUC) for approval to acquire and bank up to 450,000 non–solar Tier I Alternative Energy Credits (equivalent to up to 240 MW of electricity generated by wind) annually for a five–year term in order to prepare for 2011, the first year of PECO's required compliance under the Alternative Energy Portfolio Standards Act of 2004 (AEPS Act) following the completion of its restructuring period.

Outlook for 2007 and Beyond. Exelon's future financial results will be affected by a number of factors, including the following:

- As a result of rate freeze legislation or other legislative or regulatory action, if the price at which ComEd is allowed to sell electricity beginning in 2007 is set below ComEd's cost to procure and deliver electricity, there will be material adverse consequences to ComEd, including possible bankruptcy, which could result in material adverse consequences to Exelon and, in the event of a ComEd bankruptcy filing, possibly material adverse consequences to Generation. The ICC's unanimous approval of the reverse–auction process, barring any adverse decision in the pending appeals or change in law, should provide ComEd with stability and greater certainty that it will be able to procure electricity and pass through the costs of that electricity to ComEd's customers beginning in 2007 through a transparent market mechanism in the reverse–auction competitive bidding process.
- PECO was subject to electric rate caps on its transmission and distribution rates through December 31, 2006 and is subject to caps on its generation rates through December 31, 2010. PECO's transmission and distribution rates will continue in effect until PECO files a rate case or there is some other specific regulatory action to adjust the rates. There are no current proceedings to do so. PECO is or will be involved in proceedings involving annual changes in its electric and gas universal service fund cost charges, its electric CTC/intangible transition charge reconciliation mechanism, and its purchased gas cost rate, all of which are designed to recover PECO's applicable costs.
- Effective for customer bills for electric generation service delivered after customers' January 2007 meter readings, in accordance with its 1998 restructuring settlement with the PAPUC, PECO implemented an electric generation rate increase that will result in approximately $190 million of additional operating revenues in 2007 as compared to 2006 and a corresponding increase in purchased power, in accordance with PECO's PPA with Generation, with no resulting impact on pre–tax operating income. The impact of this rate increase on Exelon and Generation will be an increase in operating revenues and pre–tax operating income of approximately $190 million.
- Generation is exposed to commodity price risk associated with the unhedged portion of its electricity portfolio. Generation enters into derivative contracts, including forwards, futures, swaps, and options, with

approved counterparties to hedge this anticipated exposure. Generation has hedges in place that significantly mitigate this risk for 2007 and 2008. However, Generation is exposed to relatively greater commodity price risk in the subsequent years for which a larger portion of its electricity portfolio may be unhedged. Generation has been and will continue to be proactive in using hedging strategies to mitigate this risk in subsequent years as well.

- Generation depends on coal, natural gas and the production of nuclear fuel assemblies to operate its generating facilities. Coal is procured for coal–fired plants through annual, short–term and spot–market purchases. Natural gas is procured through annual, monthly and spot–market purchases. The production of nuclear fuel assemblies requires long–term uranium concentrate inventory and supply contracts, contracted conversion services, contracted enrichment services and fuel fabrication services. The supply markets for coal, natural gas and uranium are subject to price fluctuations and availability restrictions that may negatively affect the results of operations for Generation. It is not possible to predict the ultimate cost or availability of these commodities. Generation uses long–term contracts and financial instruments such as over–the–counter and exchange–traded instruments to mitigate price risk associated with these commodity price exposures.
- The PPA between Generation and PECO expires at the end of 2010. Current market prices for electricity have increased significantly over the past few years due to the rise in natural gas and fuel prices. As a result, PECO customers' generation rates are below current wholesale energy market prices and Generation's margins on sales in excess of PECO's requirements have improved historically. Generation's ability to maintain those margins will depend on future wholesale market prices and its ability to obtain high capacity factors at its nuclear plants.
- Select northeast and mid–Atlantic states have developed a model rule, via the Regional Greenhouse Gas Initiative, to regulate carbon emissions from fossil–fired generation in participating states starting in 2009. Federal and/or state legislation to regulate carbon emissions could occur in the future. If these plans become effective, Exelon may incur costs in further limiting the emissions from certain of its fossil–fuel fired facilities or in procuring emission allowance credits issued by various governing bodies. However, Exelon may benefit from stricter emission standards due to its significant nuclear capacity, which is not anticipated to be affected by the proposed emission standards.
- Exelon anticipates that it will be subject to the ongoing pressures of rising operating expenses due to increases in costs such as medical benefits and rising payroll costs due to inflation. Also, Exelon will continue to incur significant capital costs associated with its commitment to produce and deliver energy reliably to its customers. Increasing capital costs may include the price of uranium, which fuels the nuclear facilities, and continued capital investment in Exelon's aging distribution infrastructure and generating facilities. Exelon is determined to operate its businesses responsibly and to appropriately manage its operating and capital costs while serving its customers and producing value for its shareholders.
- Exelon pursues growth opportunities that are consistent with its disciplined approach to investing to maximize earnings and cash flows. On September 29, 2006, Generation notified the Nuclear Regulatory Commission (NRC) that Generation will begin the application process for a combined construction and operating license that would allow for the possible construction of a new nuclear plant at an as–yet unnamed location in Texas. The filing of the letter with the NRC launches a process that preserves for Exelon the option to develop a new nuclear plant in Texas without immediately committing to the full project. Exelon has not decided to build a new nuclear plant. Among the various conditions that must be resolved before any formal decision to build is made are a permanent solution to spent nuclear fuel disposal, broad public acceptance of a new nuclear plant and assurances that a new plant using new technology can be financially successful. Exelon expects to submit the application to the NRC for the combined construction and operating license in 2008.
- During 2006, FERC issued its order approving PJM's settlement proposal related to its Reliability Pricing Model (RPM) to provide for a forward capacity auction using a demand curve and locational deliverability zones for capacity phased in over a several year period beginning on June 1, 2006. FERC's adoption of the settlement proposal is expected to have a favorable impact for owners of generation facilities, particularly

for such facilities located in constrained zones. The first auction took place in April 2007 and resulted in Generation auctioning capacity at prices ranging from $40.80/MW to $197.67/MW per day for the period from June 1, 2007 through May 31, 2008. Subsequent auctions will be conducted in July 2007, October 2007 and January 2008 to auction capacity for periods through May 2011.

- On April 2, 2007, the U.S. Supreme Court issued a decision in the case of Massachusetts v. U.S. Environmental Protection Agency holding that carbon dioxide and other greenhouse gas (GHG) emissions are pollutants subject to regulation under the new motor vehicle provisions of the Clean Air Act. The case was remanded to the Environmental Protection Agency for further rulemaking to determine whether GHG emissions may reasonably be anticipated to endanger public health or welfare, or in the alternative provide a reasonable explanation why GHG emissions should not be regulated. Possible outcomes from this decision include regulation of GHG emissions from manufacturing plants, including electric generation, transmission and distribution facilities, under a new Environmental Protection Agency rule, and Federal or state legislation.
- On January 25, 2007, the U.S. Court of Appeals for the Second Circuit issued its opinion in a challenge to the final Phase II rule implementing Section 316(b) of the Clean Water Act. By its action, the court invalidated compliance measures that the utility industry supported because they were cost–effective and provided existing plants with needed flexibility in selecting the compliance option appropriate to its location and operations. The court's opinion has created significant uncertainty about the specific nature, scope and timing of the final compliance requirements. In the interim, the Environmental Protection Agency has announced the suspension of the Phase II rule due to the uncertainty about the specific compliance requirements created by the court's remand of significant provisions of the rule. Until the Environmental Protection Agency finalizes the rule on remand, the state permitting agencies will continue the current practice of applying their best professional judgment to address impingement and entrainment requirements at plant cooling water intake structures.
- After a two year rulemaking process, the PAPUC is likely to issue final Default Supplier (Provider of Last Resort) regulations in the second quarter of 2007. These regulations will provide clear guidance to electric distribution companies, such as PECO, on acceptable methods of procuring electric energy supplies for default service customers when their generation rate caps expire at the end of their electric restructuring transition periods (e.g., for PECO, the post–2010 period). PECO has generally supported the regulations, but has offered comments requesting clarification in certain respects. PECO believes that the regulations, if adopted and applied in their present form, would allow it to fully recover its cost of procuring electric energy through competitive procurement methods such as an energy auction.
- In Illinois, Pennsylvania and other states, there is growing pressure for state regulatory and political processes to take steps to reduce the impact of price increases on retail customers. Associated with the end of the rate freeze period in Illinois in January 2007, various Illinois legislative attempts have been made to roll back and freeze ComEd's rates for an additional period or to control the rate at which the rate increases are phased in. As a result of such experiences in Illinois and similar experiences in other states following the end of a regulatory transition period, there is a heightened risk of political pressure following the expiration of PECO's caps on its generation rates through December 31, 2010. In Pennsylvania, Governor Edward Rendell has issued an Energy Independence Plan that has given rise to three legislative bills now pending before the General Assembly. Provisions of that legislation would materially affect the PAPUC's proposed rules governing how default suppliers such as PECO would procure electricity for their default service customers and satisfy their obligations under the AEPS legislation when their generation rate caps expire at the end of their electric restructuring transition periods. PECO cannot predict the likelihood of such legislation being enacted and the potential impact on PECO's operating results.

Critical Accounting Policies and Estimates

Management of each of the Registrants makes a number of significant estimates, assumptions and judgments in the preparation of its financial statements. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies and Estimates" in Exelon's 2006 Annual Report on

Form 10–K for a discussion of the estimates and judgments necessary in the Registrants' accounting for asset retirement obligations, asset impairments, depreciable lives of property, plant and equipment, defined benefit pension and other postretirement welfare benefits, regulatory accounting, derivative instruments, contingencies, severance and revenue recognition.

Taxation

The Registrants are required to make judgments regarding the potential tax effects of various financial transactions and results of operations in order to estimate their obligations to taxing authorities. Beginning January 1, 2007, the Registrants began accounting for uncertain income tax positions using a benefit recognition model with a two–step approach, a more–likely–than–not recognition criterion and a measurement attribute that measures the position as the largest amount of tax benefit that is greater than 50% likely of being ultimately realized upon ultimate settlement in accordance with Financial Accounting Standards Board (FASB) Interpretation No. (FIN) 48, "Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109" (FIN 48). If it is not more likely than not that the benefit will be sustained on its technical merits, no benefit will be recorded. Uncertain tax positions that relate only to timing of when an item is included on a tax return are considered to have met the recognition threshold. Prior to January 1, 2007, the Registrants estimated their uncertain income tax obligations in accordance with SFAS No. 109, "Accounting for Income Taxes" (SFAS No. 109), SFAS No. 5, "Accounting for Contingencies" (SFAS No. 5) and Statement of Financial Accounting Concepts No. 6, "Elements of Financial Statements — a replacement of FASB Concepts Statement No. 3 (incorporating an amendment of FASB Concepts Statement No. 2)" (CON 6). The Registrants also have non–income tax obligations related to real estate, sales and use and employment–related taxes and ongoing appeals related to these tax matters that are outside the scope of FIN 48 and accounted for under SFAS No. 5 and CON 6.

Accounting for tax obligations requires judgments, including estimating reserves for potential adverse outcomes regarding tax positions that have been taken. The Registrants also assess their ability to utilize tax attributes, including those in the form of carryforwards, for which the benefits have already been reflected in the financial statements. The Registrants do not record valuation allowances for deferred tax assets related to capital losses that the Registrants believe will be realized in future periods. While the Registrants believe the resulting tax reserve balances as of March 31, 2007 and December 31, 2006 are appropriately accounted for in accordance with FIN 48, SFAS No. 5, SFAS No. 109 and CON 6 as applicable, the ultimate outcome of such matters could result in favorable or unfavorable adjustments to their consolidated financial statements and such adjustments could be material.

New Accounting Pronouncements

See Note 3 of the Combined Notes to Consolidated Financial Statements for discussion of new accounting pronouncements.

Results of Operations — Exelon Corporation

Three Months Ended March 31, 2007 Compared To Three Months Ended March 31, 2006

Exelon Corporation	Three Months Ended March 31, 2007	2006	Favorable (Unfavorable) Variance
Operating revenues	$ 4,829	$ 3,861	$ 968
Operating expenses			
Purchased power and fuel expense	2,015	1,462	(553)
Operating and maintenance expense	1,058	1,024	(34)
Depreciation and amortization	369	363	(6)
Taxes other than income	196	194	(2)
Total operating expenses	3,638	3,043	(595)
Operating income	1,191	818	373
Other income and deductions			
Interest expense	(156)	(153)	(3)
Interest expense to affiliates, net	(57)	(71)	14
Equity in losses of unconsolidated affiliates and investments	(26)	(39)	13
Other, net	63	45	18
Total other income and deductions	(176)	(218)	42
Income from continuing operations before income taxes	1,015	600	415
Income taxes	334	201	(133)
Income from continuing operations	681	399	282
Income from discontinued operations, net of income taxes	10	1	9
Net income	$ 691	$ 400	$ 291
Diluted earnings per share	$ 1.02	$ 0.59	$ 0.43

Net Income. Exelon's net income for the three months ended March 31, 2007 reflects higher average margins on wholesale market sales; higher nuclear output at Generation; decreased nuclear refueling outage costs; a favorable PJM billing settlement with PPL; favorable weather conditions in the ComEd and PECO service territories; increased electric and gas deliveries, excluding the effects of weather, at ComEd and PECO; increased pricing for delivery services and increased transmission revenues at ComEd; and increased earnings associated with investments in synthetic fuel–producing facilities. These increases were partially offset by unrealized mark–to–market losses on contracts not yet settled; decreased energy margins at ComEd; higher operating and maintenance expenses, including wage–related inflation; and increased depreciation and amortization expense, primarily related to CTC amortization at PECO.

Operating Revenues. Operating revenues increased due to an increase in wholesale and retail electric sales at Generation due to higher volumes of generation sold to the market as a result of the expiration of the ComEd PPA in 2006, higher market prices, higher delivery volume, excluding the effects of weather and customer choice, reflecting electric and gas load growth at PECO and favorable weather conditions in the ComEd and PECO service territories. These increases were partially offset by decreased energy margins at ComEd due to the end of its regulatory transition period and the end of the below–market price PPA with Generation in 2006. See further analysis and discussion of operating revenues by segment below.

Purchased Power and Fuel Expense. Purchased power and fuel expense increased due to higher volumes of power purchased in the market and higher market energy prices. Purchased power represented 18% of Generation's total supply for both the three months ended March 31, 2007 and March 31, 2006. This increase was partially offset by a favorable PJM billing settlement with PPL. See further analysis and discussion of purchased power and fuel expense by segment below.

Operating and Maintenance Expense. Operating and maintenance expense increased primarily due to increased labor costs and the impacts from inflation, which were partially offset by decreased nuclear refueling outage costs. See further discussion of operating and maintenance expenses by segment below.

Depreciation and Amortization Expense. Depreciation and amortization expense increased primarily due to additional CTC amortization at PECO.

Taxes Other Than Income. Taxes other than income remained relatively constant for the three months ended March 31, 2007 compared to the same period in 2006.

Other Income and Deductions. The change in other income and deductions reflects interest income related to the favorable PJM billing settlement with PPL, a gain related to the sale of investments by Generation, earnings associated with investments in synthetic fuel–producing facilities and expenses related to the terminated merger proposal with Public Service Enterprise Group Incorporated (PSEG) recorded during the three months ended March 31, 2006.

Effective Income Tax Rate. The effective income tax rate from continuing operations was 32.9% for the three months ended March 31, 2007 compared to 33.5% for the three months ended March 31, 2006. See Note 10 of the Combined Notes to Consolidated Financial Statements for further discussion of the change in the effective income tax rate.

Discontinued Operations. On January 31, 2005, subsidiaries of Generation completed a series of transactions that resulted in Generation's sale of its investment in Sithe Energies, Inc. (Sithe). In addition, Exelon has sold or wound down substantially all components of Enterprises. Accordingly, the results of operations and any gain or loss on the sale of these entities have been presented as discontinued operations within Exelon's (for Sithe and Enterprises) and Generation's (for Sithe) Consolidated Statements of Operations and Comprehensive Income. See Notes 2 and 4 of the Combined Notes to Consolidated Financial Statements for further information regarding the presentation of Sithe and certain Enterprises businesses as discontinued operations.

During the three months ended March 31, 2007, Exelon's Consolidated Statement of Income and Comprehensive Income included $5 million (after–tax) of income from discontinued operations related to a favorable legal settlement at Enterprises and S5 million (after–tax) of income from discontinued operations related primarily to Sithe, resulting from a settlement agreement between a subsidiary of Sithe, the Pennsylvania Attorney General's Office and the Pennsylvania Department of Revenue regarding a previously disputed tax position asserted for the 2000 tax year.

Results of Operations by Business Segment

The comparisons of operating results and other statistical information for the three months ended March 31, 2007 compared to the same period in 2006 set forth below include intercompany transactions, which are eliminated in Exelon's consolidated financial statements.

Income (Loss) from Continuing Operations by Business Segment

	Three Months Ended March 31,		Favorable (Unfavorable)
	2007	2006	Variance
Generation	$ 555	$ 268	$ 287
ComEd	5	54	(49)
PECO	128	93	35
Other(a)	(7)	(16)	9
Total	$ 681	$ 399	$ 282

(a) Other includes corporate operations, shared service entities, including BSC, Enterprises, investments in synthetic fuel–producing facilities and intersegment eliminations.

Net Income (Loss) by Business Segment

	Three Months Ended March 31, 2007	2006	Favorable (Unfavorable) Variance
Generation	$ 560	$ 268	$ 292
ComEd	5	54	(49)
PECO	128	93	35
Other(a)	(2)	(15)	13
Total	$ 691	$ 400	$ 291

(a) Other includes corporate operations, shared service entities, including BSC, Enterprises, investments in synthetic fuel-producing facilities and intersegment eliminations.

Results of Operations — Generation

	Three Months Ended March 31, 2007	2006	Favorable (Unfavorable) Variance
Operating revenues	$ 2,703	$ 2,220	$ 483
Operating expenses			
Purchased power and fuel	1,065	974	(91)
Operating and maintenance	639	668	29
Depreciation and amortization	67	67	—
Taxes other than income	41	43	2
Total operating expenses	1,812	1,752	(60)
Operating income	891	468	423
Other income and deductions			
Interest expense	(35)	(43)	8
Equity in earnings (losses) of investments	2	(3)	5
Other, net	32	7	25
Total other income and deductions	(1)	(39)	38
Income from continuing operations before income taxes	890	429	461
Income taxes	335	161	(174)
Income from continuing operations	555	268	287
Income from discontinued operations, net of income taxes	5	—	5
Net income	$ 560	$ 268	$ 292

Net Income. First quarter 2007 net income was $560 million compared with $268 million in the first quarter of 2006. Generation's net income in the first quarter of 2007 increased compared with the same quarter last year primarily due to higher revenue, net of purchased power and fuel expense, and lower operating and maintenance expense resulting from lower nuclear refueling outage expenses, which was partially offset by inflationary expense pressures. Generation's revenue, net of purchased power and fuel expense, increased by $392 million in the first quarter of 2007 compared with the first quarter of 2006, which was driven by higher average margins primarily due to the end of the below-market price PPA with ComEd at the end of 2006, the contractual increase in the prices associated with Generation's PPA with PECO, and by a PJM billing settlement with PPL. In addition to these impacts, first quarter 2007 net income included (all after tax) a gain on the sale of investments of $9 million and earnings of $5 million associated with the settlement of a tax matter related to Generation's previous investment in Sithe.

Operating Revenues. For the three months ended March 31, 2007 and 2006, Generation's sales were as follows:

Revenue	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006	Variance	% Change
Electric sales to affiliates	$ 860	$ 1,172	$ (312)	(26.6)%
Wholesale and retail electric sales	1,636	746	890	119.3%
Total electric sales revenue	2,496	1,918	578	30.1%
Retail gas sales	182	249	(67)	(26.9)%
Trading portfolio	1	2	(1)	(50.0)%
Other operating revenue(a)	24	51	(27)	(52.9)%
Total operating revenue	$ 2,703	$ 2,220	$ 483	21.8%

(a) Includes sales relating to fossil fuel sales, operating service agreements and decommissioning revenue from PECO in 2007 and fossil fuel sales, operating service agreements and decommissioning revenue from ComEd and PECO in 2006.

Sales (in GWhs)	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006	Variance	% Change
Electric sales to affiliates	16,205	29,924	(13,719)	(45.8)%
Wholesale and retail electric sales	30,829	14,308	16,521	115.5%
Total electric sales	47,034	44,232	2,802	6.3%

Trading volumes of 5,101 GWhs and 6,985 GWhs for the three months ended March 31, 2007 and 2006 respectively, are not included in the table above.

Electric sales to affiliates. Revenue from sales to affiliates decreased $312 million for the three months ended March 31, 2007, as compared to the same period in 2006. The decrease was primarily due to a $503 million decrease from lower electric sales volume, partially offset by higher prices resulting in a $191 million increase in revenues.

In the ComEd territories, lower volumes resulted in a $532 million decrease in revenues. Generation's PPA with ComEd expired December 31, 2006. As a result of the expiration of the PPA and the results of the auctions, beginning in 2007, Generation is selling more power through bilateral agreements, which resulted in a decrease in volumes to ComEd. Prices were higher resulting in a $156 million increase in revenues.

In the PECO territories, higher prices resulted in increased revenues of $35 million due to a scheduled electric generation rate increase that took effect January 1, 2007. Additionally, volumes increased resulting in increased revenues of $29 million.

Wholesale and retail electric sales. The increase in Generation's wholesale and retail electric sales for the three months ended March 31, 2007 compared to the same period in 2006 consisted of the following:

	Increase (Decrease)
Volume	$ 874
Price	16
Increase in wholesale and retail electric sales	$ 890

Wholesale and retail electric sales increased $890 million for the three months ended March 31, 2007, as compared to the same period in 2006. The increase was the result of higher volumes of generation sold to the market as a result of the expiration of the ComEd PPA in 2006.

Retail gas sales. Retail gas sales decreased $67 million for the three months ended March 31, 2007 as compared to the same period in 2006, of which $46 million was due to lower realized prices and $21 million was due to lower volumes as a result of lower demand.

Other revenue. The decrease in other revenues in 2007 was due to a $16 million decrease related to the termination of decommissioning collections from ComEd in accordance with the terms and conditions of the ICC Order which only permitted such collections through December 31, 2006. Additionally, an $11 million decrease in other revenues was attributable to the sale of TEG and TEP on February 9, 2007 and the resulting absence of revenue thereafter.

Purchased Power and Fuel Expense. Generation's supply sources are summarized below:

Supply Source (in GWhs)	Three Months Ended March 31, 2007	2006	Variance	% Change
Nuclear generation(a)	35,357	33,491	1,866	5.6%
Purchases — economic hedge portfolio	8,683	7,770	913	11.8%
Fossil and hydroelectric generation	2,994	2,971	23	1.0%
Total supply	47,034	44,232	2,802	6.3%

(a) Represents Generation's proportionate share of the output of its nuclear generating plants, including Salem, which is operated by PSEG Nuclear, LLC.

The changes in Generation's purchased power and fuel expense for the three months ended March 31, 2007 compared to the same period in 2006 consisted of the following:

	Price	Volume	Increase (Decrease)
Purchased power costs	$ (22)	$ 66	$ 44
Generation cost	13	12	25
Fuel resale cost	(50)	(21)	(71)
Mark–to–market	n.m.	n.m.	93
Increase in purchased power and fuel expense			$ 91

n.m. Not meaningful

Purchased Power Cost. Purchased power cost includes all costs associated with the procurement of electricity including capacity, energy and fuel costs associated with tolling agreements. Generation experienced overall higher volumes that were attributable to increased purchases from PPAs and to serve load commitments. These increases were partially offset by lower purchased power volumes needed to supply ComEd due to the expiration of the PPA at December 31, 2006. Further, Generation realized overall lower prices for purchased power. Additionally, Generation's purchased power cost decreased $28 million due to the PJM billing dispute settlement with PPL. See Note 13 of the Combined Notes to Consolidated Financial Statements.

Generation Cost. Generation cost includes fuel cost for internally generated energy. Generation experienced overall higher generation costs for the three months ended March 31, 2007 as compared to the same period in 2006 due to increased prices related to fossil fuel generation. The increased volume of $12 million was primarily due to higher nuclear and fossil fuel generation.

Fuel Resale Cost. Fuel resale cost includes retail gas purchases and wholesale fossil fuel expenses. The changes in Generation's fuel resale costs for the three months ended March 31, 2007 as compared to quarter ended

2006 consisted of overall lower prices resulting in a decrease of $50 million. Additionally, a decrease of $21 million was the result of lower volumes caused by lower demand.

Mark–to–market. Mark–to–market losses on power hedging activities were $161 million for the three months ended March 31, 2007 compared to gains of $38 million for the same period in 2006. Mark–to–market gains on fuel hedging activities were $46 million for the three months ended March 31, 2007 compared to losses of $60 million for the same period in 2006.

Generation's average margin per MWh of electricity sold during the three months ended March 31, 2007 and 2006 were as follows:

($/MWh)	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006	% Change
Average electric revenue			
Electric sales to affiliates	$ 53.07	$ 39.17	35.5%
Wholesale and retail electric sales	53.07	52.14	1.8%
Total — excluding the trading portfolio	53.07	43.36	22.4%
Average electric supply cost(a) — excluding the trading portfolio	18.90	16.44	15.0%
Average margin — excluding the trading portfolio	34.17	26.92	26.9%

(a) Average supply cost includes purchased power and fuel costs associated with electric sales. Average electric supply cost does not include fuel costs associated with retail gas sales and other sales.

Nuclear fleet operating data for the three months ended March 31, 2007 and 2006 were as follows:

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Nuclear fleet capacity factor(a)	96.4%	91.0%
Nuclear fleet production cost per MWh(a)	$ 14.27	$ 15.51

(a) Excludes Salem, which is operated by PSEG Nuclear, LLC.

The nuclear fleet capacity factor increased primarily due to fewer scheduled refueling outage and non–refueling outage days during the three months ended March 31, 2007 compared to the same period in 2006. For the three months ended March 31, 2007 and 2006, non–refueling outage days totaled 1 and 25, respectively, and refueling outage days totaled 40 and 79, respectively. Additionally, during the three months ended March 31, 2007, both Quad Cities units operated at Extended Power Uprate (EPU) generation levels as compared to the three months ended March 31, 2006, when the generation levels of both Quad Cities units were reduced to pre–EPU generation levels to address vibration related equipment issues. The higher number of net MWh's generated resulted in a lower production cost per MWh for the three months ended March 31, 2007 as compared to the same period in 2006.

Operating and Maintenance Expense. The decrease in operating and maintenance expense for the three months ended March 31, 2007 compared to the same period in 2006 consisted of the following:

	Increase (Decrease)
Nuclear refueling outage costs	$ (29)
Decommissioning–related activities	(14)
Pension, payroll and benefit costs	22
Other	(8)
Decrease in operating and maintenance expense	$ (29)

The net $29 million decrease was primarily attributable to the following:

- A $29 million decrease in nuclear refueling outage costs was associated with the fewer planned refueling outage days during the three months ended March 31, 2007 as compared to the same period in 2006.
- A $14 million decrease in decommissioning related activities was the result of the termination of revenue collections from ComEd, which likewise no longer required an offset through operating and maintenance expense.
- A $22 million increase in pension, payroll and benefit costs reflected the impact of inflation as well as an increase in various direct and allocated fringe costs.
- An $8 million decrease in other operating and maintenance expense was primarily due to a decrease in service agreement–related expenses during the three months ended March 31, 2007 as compared to the same period in 2006.

Depreciation and Amortization. Depreciation and amortization expense for the three months ended March 31, 2007 compared to the same period in 2006 was relatively unchanged.

Interest Expense. The decrease in net interest expense for the three months ended March 31, 2007 as compared to the same period in 2006 was primarily attributable to an interest payment made in 2006 to the Internal Revenue Service (IRS) in settlement of a tax matter.

Other, Net. The change in other, net reflects a gain on sale of investments recognized in the first quarter of 2007.

Effective Income Tax Rate. There was not a significant change in the effective income tax rate for the three months ended March 31, 2007 compared to the same period in 2006. See Note 10 of the Combined Notes to Consolidated Financial Statements for further discussion of the change in the effective income tax rate.

Discontinued Operations. On January 31, 2005, subsidiaries of Generation completed a series of transactions that resulted in Generation's sale of its investment in Sithe. Accordingly, the results of operations and the gain on the sale of Sithe have been presented as discontinued operations within Generation's Consolidated Statements of Operations and Comprehensive Income.

For the three months ended March 31, 2007, Generation's Consolidated Statement of Income and Comprehensive Income included $5 million (after–tax) gain on disposal of discontinued operations related primarily to Sithe, resulting from a settlement agreement between a subsidiary of Sithe, the Pennsylvania Attorney General's Office and the Pennsylvania Department of Revenue regarding a previously disputed tax position asserted for the 2000 tax year. There was no significant activity related to the discontinued operations for Sithe during the three months ended March 31, 2006. See Notes 2 and 4 of the Combined Notes to Consolidated Financial Statements for further information regarding the presentation of Sithe as discontinued operations.

Results of Operations — ComEd

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006	Favorable (Unfavorable) Variance
Operating revenues	$ 1,490	$ 1,426	$ 64
Operating expenses			
Purchased power	968	862	(106)
Operating and maintenance	244	216	(28)
Depreciation and amortization	107	98	(9)
Taxes other than income	80	81	1
Total operating expenses	1,399	1,257	142
Operating income	91	169	(78)
Other income and deductions			
Interest expense, net	(83)	(76)	(7)
Equity in losses of unconsolidated affiliates	(2)	(3)	1
Other, net	2	1	1
Total other income and deductions	(83)	(78)	(5)
Income before income taxes	8	91	(83)
Income taxes	3	37	34
Net income	$ 5	$ 54	$ (49)

Net Income. As more fully described below, ComEd's net income for the three months ended March 31, 2007 compared to the same period in 2006 reflects higher purchased power expense, higher operating and maintenance expense, higher depreciation and amortization expense and higher interest expense, partially offset by higher operating revenues. Beginning in 2007, ComEd ceased including margin on the energy component of its deliveries to its customers, nor is it collecting CTC revenues. While ComEd's 2007 results reflect an $83 million annual rate increase as allowed by the ICC, this rate increase was based generally on 2004 costs and does not include the impacts of increased expenditures since 2004 or additional net capital investment since the end of 2004. ComEd anticipates filing a new delivery service rate case during the second quarter of 2007 based on a 2006 test year and also filed a transmission rate case during the first quarter 2007. These rate filings will help reduce the regulatory lag related to recovery of these costs and returns on ComEd's investments. See Note 5 of the Combined Notes to Consolidated Financial Statements for further discussion.

Operating Revenues and Purchased Power Expense. The changes in operating revenues and purchased power expense for the three months ended March 31, 2007 compared to the same period in 2006 consisted of the following:

	Increase (Decrease) Operating Revenues	Increase (Decrease) Purchased Power	Increase (Decrease) Revenue Net of Purchased Power
Customer choice	$ (294)	$ (234)	$ (60)
Rate changes and mix	304	329	(25)
Weather	32	19	13
Transmission	6	(7)	13
Volume	7	—	7
Other	9	(1)	10
Total increase (decrease)	$ 64	$ 106	$ (42)

Customer choice

Revenue. All ComEd customers have the choice to purchase electricity from a competitive electric generation supplier. This choice does not impact the volume of deliveries, but affects revenue collected from customers related to supplied electricity and generation service. As of March 31, 2007, one competitive electric generation supplier had been granted approval to serve residential customers in the ComEd service territory. However, they are not currently supplying electricity to any residential customers.

As a result of ComEd's higher electricity rates, more non–residential customers have elected to have a competitive electric generation supplier provide their electricity. For the three months ended March 31, 2007 and 2006, 44% and 18%, respectively, of electricity delivered to ComEd's retail customers was provided by competitive electric generation suppliers. Most of the customers previously receiving electricity under the power purchase option (PPO) are now electing either to buy their electricity from a competitive electric generation supplier or from ComEd under tariff rates.

	Three Months Ended March 31,	
	2007	2006
Retail customers purchasing electricity from a competitive electric generation supplier:		
Volume (GWhs)(a)	10,071	3,845
Percentage of total retail deliveries	44%	18%
Retail customers purchasing electricity from a competitive electric generation supplier or the ComEd PPO:		
Number of customers at period end	36,900	20,700
Percentage of total retail customers	1%	(b)
Volume (GWhs)(a)	10,127	6,877
Percentage of total retail deliveries	45%	32%

(a) One GWh is the equivalent of one million kilowatthours (kWh).

(b) Less than one percent.

Purchased Power. The decrease in purchased power expense from customer choice was primarily due to more ComEd non–residential customers electing to purchase electricity from a competitive electric generation supplier.

Rate changes and mix

Revenue. The increase in revenue related to rate changes and mix primarily reflects the end of the rate freeze and the implementation of marketbased rates for electricity and the impact of the distribution rate increase. In 2006, most customers were charged a bundled rate that included distribution, transmission and the cost of electricity. Additionally, under Illinois law, no CTCs are permitted to be collected after 2006. As of January 2007, ComEd began billing customers on an unbundled basis which includes separate charges for distribution, transmission and electricity. Given the relatively small increase approved by the ICC in the annual distribution rates of $83 million, the majority of the change in year over year pricing is driven by the inclusion of market–based electricity rates. The market–based electricity rates were determined through the reverse–auction competitive bidding process. See Note 5 of the Combined Notes to the Consolidated Financial Statements for more information. Starting in 2007, ComEd is recovering former manufacturing gas plant remediation costs from customers.

Purchased Power. Purchased power increased due to higher electricity prices. The PPA with Generation terminated at the end of 2006. In 2007, as a result of the ICC approved reverse–auction process, ComEd began procuring electricity, including ancillary services, under its supplier forward contracts for the blended and annual products and from PJM–administered wholesale electricity markets for the hourly product. See Note 5 of the Combined Notes to Consolidated Financial Statements for more information on the reverse–auction process.

Weather

Revenue. Revenues were higher due to favorable weather conditions for the three months ended March 31, 2007 compared to the same period in 2006. The demand for electricity is affected by weather conditions. Very warm weather in summer months and very cold weather in other months are referred to as "favorable weather conditions" because these weather conditions result in increased sales of electricity. Conversely, mild weather reduces demand. In ComEd's service territory, heating degree days were 15% higher during the three months ended March 31, 2007 compared to the same period in 2006.

Purchased Power. The increase in purchased power expense attributable to weather was due to higher demand due to favorable weather conditions in the ComEd service territory relative to the prior year.

Transmission

Revenue. The increase in revenue for the provision of transmission services reflects increased peak and kWh load within the ComEd service territory.

Purchased Power. Effective December 1, 2004, PJM became obligated to pay Seams Elimination Charge / Cost Adjustment/Assignment (SECA) collections to ComEd and ComEd became obligated to pay SECA charges. These charges were being collected subject to refund as they are being disputed. ComEd recorded SECA collections and payments on a net basis through purchased power expense. As ComEd was a net collector of SECA charges, ComEd recorded $5 million of net SECA collections during the three months ended March 31, 2006. During the three months ended March 31, 2006, ComEd adjusted its reserve for SECA. Management of ComEd believes that the appropriate reserve has been established in the event that some portion of SECA collections are required to be refunded. SECA charges expired on March 31, 2006. See Note 5 of the Combined Notes to Consolidated Financial Statements for more information on the SECA rates.

Volume

Revenue. The increase in revenues for the provision of distribution services primarily resulted from an increase in deliveries, excluding the effects of weather, due to an increased number of customers.

Other

Revenue — Economic Hedge Derivative Contracts. During the three months ended March 31, 2007 as compared to the three months March 31, 2006, ComEd had a net increase in economic hedge derivative contracts including mark–to–market and settlement activity.

Operating and Maintenance Expense. The changes in operating and maintenance expense for the three months ended March 31, 2007 compared to the same period in 2006 consisted of the following:

	Increase (Decrease)
Wages and salaries	$ 6
Fringe benefits(a)	4
Corporate allocations	4
Severance–related expenses	3
Repair and maintenance of transformer and synchronous condenser	3
CARE program(b)	2
Other	6
Increase in operating and maintenance expense	$ 28

(a) Reflects increases in various fringe benefits primarily due to increased pension and other postretirement benefits costs of $4 million.

(b) See Note 5 of the Combined Notes to the Consolidated Financial Statements for additional information.

Depreciation and Amortization Expense. The increase in depreciation and amortization expense for the three months ended March 31, 2007 compared to the same period in 2006 consisted of the following:

	Increase
Amortization of regulatory assets	$ 5
Depreciation expense associated with higher plant balances	4
Increase in depreciation and amortization expense	$ 9

In 2007, ComEd's amortization reflects the initial amortization of the various regulatory assets authorized by the ICC in its 2006 orders, partially offset by the elimination of recoverable transition costs regulatory asset. See Note 5 of the Combined Notes of the Consolidated Financial Statements for more information.

Taxes Other Than Income. Taxes other than income remained constant for the three months ended March 31, 2007 compared to the same period in 2006.

Interest Expense, Net. The $7 million increase in interest expense, net for the three months ended March 31, 2007 compared to the same period in 2006 primarily resulted from higher debt balances and higher interest rates. Also, in 2007, ComEd's interest expense, net reflected $3 million of the initial amortization of the regulatory asset related to the early debt retirement costs authorized by the ICC in 2006.

Other, Net. Other, net remained constant for the three months ended March 31, 2007 compared to the same period in 2006.

Income Taxes. The effective income tax rate was 37.5% for the three months ended March 31, 2007 compared to 40.7% for the three months ended March 31, 2006. See Note 10 of the Combined Notes to Consolidated Financial Statements for further discussion of the change in the effective income tax rate.

ComEd Electric Operating Statistics and Revenue Detail

Retail Deliveries — (in GWhs)	Three Months Ended March 31, 2007	2006	Variance	% Change
Full service(a)				
Residential	7,089	6,797	292	4.3%
Small commercial & industrial	4,586	5,319	(733)	(13.8)%
Large commercial & industrial	706	2,179	(1,473)	(67.6)%
Public authorities & electric railroads	183	601	(418)	(69.6)%
Total full service	12,564	14,896	(2,332)	(15.7)%
PPO				
Small commercial & industrial	25	1,509	(1,484)	(98.3)%
Large commercial & industrial	31	1,523	(1,492)	(98.0)%
	56	3,032	(2,976)	(98.2)%
Delivery only(b)				
Small commercial & industrial	3,495	894	2,601	n.m.
Large commercial & industrial	6,423	2,951	3,472	117.7%
Public authorities & electric railroads	153	—	153	n.m.
	10,071	3,845	6,226	161.9%
Total PPO and delivery only	10,127	6,877	3,250	47.3%
Total retail deliveries	22,691	21,773	918	4.2%

(a) Full service reflects deliveries to customers taking electric service under tariff rates.

(b) Delivery only service reflects customers electing to receive electricity from a competitive electric generation supplier.

n.m. Not meaningful.

Electric Revenue	Three Months Ended March 31, 2007	2006	Variance	% Change
Full service(a)				
Residential	$ 727	$ 549	$ 178	32.4%
Small commercial & industrial	435	388	47	12.1%
Large commercial & industrial	61	110	(49)	(44.5)%
Public authorities & electric railroads	17	36	(19)	(52.8)%
Total full service	1,240	1,083	157	14.5%
PPO(b)				
Small commercial & industrial	2	102	(100)	(98.0)%
Large commercial & industrial	2	90	(88)	(97.8)%
	4	192	(188)	(97.9)%
Delivery only(c)				
Small commercial & industrial	49	11	38	n.m.
Large commercial & industrial	63	27	36	133.3%
Public authorities & electric railroads	1	—	1	n.m.
	113	38	75	197.4%
Total PPO and delivery only	117	230	(113)	(49.1)%
Total electric retail revenues	1,357	1,313	44	3.4%
Other revenue(d)	132	123	9	7.3%
Economic hedge derivative contracts	1	(10)	11	(110.0)%
Total operating revenues	$ 1,490	$ 1,426	$ 64	4.5%

(a) Full service revenue reflects deliveries to customers taking electric service under tariff rates, which include the cost of electricity and the cost of transmission and distribution of the electricity.

(b) Revenues from customers choosing the PPO include an energy charge at market rates, transmission and distribution charges, and a CTC through December 31, 2006.

(c) Delivery only revenues reflect revenue under tariff rates from customers electing to receive electricity from a competitive electric generation supplier, which includes a distribution charge and a CTC through December 31, 2006.

(d) Other revenues include transmission revenue (including revenue from PJM), sales to municipalities and other wholesale energy sales.

n.m. Not meaningful.

Results of Operations — PECO

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006	Favorable (Unfavorable) Variance
Operating revenues	$ 1,500	$ 1,407	$ 93
Operating expenses			
Purchased power and fuel	843	813	(30)
Operating and maintenance	148	148	—
Depreciation and amortization	185	171	(14)
Taxes other than income	71	65	(6)
Total operating expenses	1,247	1,197	(50)
Operating income	253	210	43
Other income and deductions			
Interest expense, net	(62)	(69)	7
Equity in losses of unconsolidated affiliates	(2)	(3)	1
Other, net	5	3	2
Total other income and deductions	(59)	(69)	10
Income before income taxes	194	141	53
Income taxes	66	48	(18)
Net income	128	93	35
Preferred stock dividends	1	1	—
Net income on common stock	$ 127	$ 92	$ 35

Net Income. PECO's net income for the three months ended March 31, 2007 compared to the same period in 2006 increased primarily due to higher operating revenues, net of purchased power and fuel expense, which reflected increased sales from favorable weather conditions, the completion of certain authorized rate increases which began in 2006 and the favorable settlement of a PJM billing dispute. Partially offsetting higher net operating revenues was higher CTC amortization, which was in accordance with PECO's 1998 restructuring settlement with the PAPUC.

Electric and Gas Operating Revenues, Purchased Power and Fuel Expense. The changes in PECO's operating revenues and purchased power and fuel expense for the three months ended March 31, 2007 compared to the same period in 2006 consisted of the following:

	Increase (Decrease)								
	Electric			Gas			Total		
	Operating Revenues	Purchased Power	Net	Operating Revenues	Fuel Expense	Net	Operating Revenues	Purchased Power and Fuel	Net
Weather	$ 30	$ 13	$ 17	$ 55	$ 46	$ 9	$ 85	$ 59	$ 26
Volume	28	12	16	13	10	3	41	22	19
Rate increases (decreases)	55	44	11	(104)	(104)	—	(49)	(60)	11
Settlement of PJM billing dispute	—	(10)	10	—	—	—	—	(10)	10
Customer choice	3	3	—	—	—	—	3	3	—
Other rate changes and mix	(10)	(3)	(7)	(1)	6	(7)	(11)	3	(14)
Other	7	(2)	9	17	15	2	24	13	11
Total increase (decrease)	$ 113	$ 57	$ 56	$ (20)	$ (27)	$ 7	$ 93	$ 30	$ 63

Weather

Revenues. The demand for electricity and gas is affected by weather conditions. With respect to the electric business, very warm weather in summer months and, with respect to the electric and gas businesses, very cold weather in other months are referred to as "favorable weather conditions" because these weather conditions result in increased sales of electricity and gas. Conversely, mild weather reduces demand. Revenues were higher due to favorable weather conditions in PECO's service territory, where heating degree days were 15% higher during the three months ended March 31, 2007 compared to the same period in 2006.

Purchased Power and Fuel Expense. The increase in purchased power and fuel expense attributable to weather was due to higher demand as a result of favorable weather conditions in the PECO service territory relative to the prior year.

Volume

Revenues. The increase in revenues as a result of higher delivery volume, exclusive of the effects of weather and customer choice, reflected increased usage across all customer classes for electric and gas. In addition, there was a favorable impact of an increased number of customers primarily in the small commercial and industrial class for electric and the residential and small commercial and industrial classes for gas.

Purchased Power and Fuel Expense. The increase in expenses as a result of higher delivery volume, exclusive of the effects of weather and customer choice, reflected increased usage across all customer classes for electric and gas and the impact of an increased number of customers primarily in the small commercial and industrial class for electric and the residential and small commercial and industrial classes for gas.

Rate increases (decreases)

Revenues. The increase in electric revenues attributable to electric rate increases reflected $11 million associated with the completion in January 2007 of scheduled CTC and distribution rate increases which began in 2006. In addition, effective for customer bills for electric generation service delivered after customers' January 2007 meter readings, a scheduled electric generation rate increase took effect, which represents the last scheduled rate increase through 2010 under PECO's 1998 restructuring settlement. This rate increase will not affect operating income as PECO will incur corresponding and offsetting purchased power expense under its PPA with Generation. The decrease in gas revenues was due to net decreases in rates through PAPUC–approved quarterly changes to the purchased gas adjustment clause. The average purchased gas cost rate per million cubic feet in effect for the three months ended March 31, 2007 was 26% lower than the average rate for the same period in 2006.

Purchased Power and Fuel Expense. PECO's purchased power expense increased primarily due to increased costs under its PPA with Generation, which reflects the scheduled generation rate increase. Fuel expense for gas decreased due to lower gas prices.

Settlement of PJM billing dispute

Purchased Power. PECO's purchased power expense decreased $10 million due to the PJM billing dispute settlement with PPL. See Note 13 of the Combined Notes to Consolidated Financial Statements for further discussion.

Customer choice

Revenues and Purchased Power. For the three months ended March 31, 2007 and 2006, 2% of energy delivered to PECO's retail customers was provided by competitive electric generation suppliers.

All PECO customers have the choice to purchase energy from a competitive electric generation supplier. This choice does not affect the volume of deliveries, but affects revenue collected from customers related to supplied energy and generation service. PECO's operating income is not affected by customer choice since any increase or decrease in revenues is completely offset by any related increase or decrease in purchased power expense.

	Three Months Ended March 31,	
	2007	2006
Retail customers purchasing energy from a competitive electric generation supplier:		
Number of customers at period end	34,000	40,700
Percentage of total retail customers	2%	3%
Volume (GWhs)(a)	159	218
Percentage of total retail deliveries	2%	2%

(a) One GWh is the equivalent of one million kWh.

The increase in electric retail revenue and expense associated with customer choice reflects customers, primarily from the small commercial and industrial customer class, returning to PECO as their electric supplier.

Other rate changes and mix

Revenues. The decrease in electric and gas revenues attributable to other rate changes and mix reflects the effects of rate blocking. During the winter heating season, certain customer charges per unit of energy are reduced when customer usage exceeds a certain threshold.

Purchased Power and Fuel Expense. The decrease in electric purchased power attributable to other rate changes and mix reflects a change in the mix of average pricing related to PECO's PPA with Generation. The decrease in gas fuel expense reflects a timing difference between how fuel costs are recognized versus how they are collected, including billing adjustments.

Other revenues and expenses

Revenues. The increase in electric revenues was due to various factors, none of which were individually material. The increase in gas revenues was primarily due to increased off–system sales.

Purchased Power and Fuel. The increase in gas fuel expense was due to increased off–system sales.

Operating and Maintenance Expense. Operating and maintenance expense for the three months ended March 31, 2007 compared to the same period in 2006 was unchanged due to the following offsetting factors:

	Increase (Decrease)
Allowance for uncollectible accounts	$ (7)
Storm costs	(3)
Contractors	6
Environmental reserve(a)	4
Change in operating and maintenance expense	$ —

(a) Reflects lower expense in 2006 due to a settlement related to a Superfund site in the first quarter of 2006.

Depreciation and Amortization Expense. The increase in depreciation and amortization expense for the three months ended March 31, 2007 compared to the same period in 2006 was primarily due to an increase in CTC amortization of $17 million. PECO's additional amortization of the CTC is in accordance with its original settlement under the Pennsylvania Competition Act.

Taxes Other Than Income. The increase in taxes other than income for the three months ended March 31, 2007 compared to the same period in 2006 was primarily due to an increase in taxes on utility revenues as a result of higher electric operating revenues.

Interest Expense, Net. The decrease in interest expense, net for the three months ended March 31, 2007 compared to the same period in 2006 was primarily due to scheduled payments on long–term debt owed to PECO Energy Transition Trust (PETT), partially offset by an increase in interest expense associated with higher outstanding long–term first mortgage bonds.

Other, Net. The increase for the three months ended March 31, 2007 compared to the same period in 2006 was primarily due to interest income associated with the adoption of FIN 48 and the PJM billing dispute settlement. See Note 14 of the Combined Notes to the Consolidated Financial Statements for further details of the components of other, net. See Notes 3 and 10 of the Combined Notes to the Consolidated Financial Statements for additional information regarding the adoption of FIN 48. See Note 13 of the Combined Notes to the Consolidated Financial Statements for additional information on the PJM billing dispute settlement.

Income Taxes. The effective income tax rate was 34.0% for the three months ended March 31, 2007 and 2006. See Note 10 of the Combined Notes to the Consolidated Financial Statements for further details of the components of the effective income tax rates.

PECO Electric Operating Statistics and Revenue Detail

PECO's electric sales statistics and revenue detail were as follows:

	Three Months Ended March 31,			
Retail Deliveries — (in GWhs)	**2007**	**2006**	**Variance**	**% Change**
Full service(a)				
Residential	3,414	3,198	216	6.8%
Small commercial & industrial	2,069	1,883	186	9.9%
Large commercial & industrial	3,907	3,702	205	5.5%
Public authorities & electric railroads	232	243	(11)	(4.5)%
Total full service	9,622	9,026	596	6.6%
Delivery only(b)				
Residential	12	18	(6)	(33.3)%
Small commercial & industrial	144	182	(38)	(20.9)%
Large commercial & industrial	3	18	(15)	(83.3)%
Total delivery only	159	218	(59)	(27.1)%
Total retail deliveries	9,781	9,244	537	5.8%

(a) Full service reflects deliveries to customers taking electric service under tariff rates.

(b) Delivery only service reflects customers receiving electric generation service from a competitive electric generation supplier.

Electric Revenue	Three Months Ended March 31, 2007	2006	Variance	% Change
Full service(a)				
Residential	$ 449	$ 405	$ 44	10.9%
Small commercial & industrial	239	209	30	14.4%
Large commercial & industrial	329	295	34	11.5%
Public authorities & electric railroads	22	21	1	4.8%
Total full service	1,039	930	109	11.7%
Delivery only(b)				
Residential	1	1	—	—
Small commercial & industrial	7	9	(2)	(22.2)%
Large commercial & industrial	—	1	(1)	(100.0)%
Total delivery only	8	11	(3)	(27.3)%
Total electric retail revenues	1,047	941	106	11.3%
Other revenue(c)	65	58	7	12.1%
Total electric and other revenue	$ 1,112	$ 999	$ 113	11.3%

(a) Full service revenue reflects revenue from customers taking generation service under tariff rates which includes the cost of energy, the cost of transmission and distribution of the energy and a CTC.

(b) Delivery only revenue reflects revenue from customers receiving generation service from a competitive electric generation supplier, which includes the cost of distribution of the energy and a CTC.

(c) Miscellaneous revenues include transmission revenue from PJM and other wholesale energy sales.

PECO Gas Sales Statistics and Revenue Detail

PECO's gas sales statistics and revenue detail were as follows:

Deliveries to customers (in million cubic feet (mmcf))	Three Months Ended March 31, 2007	2006	Variance	% Change
Retail sales	28,968	24,921	4,047	16.2%
Transportation	7,049	6,880	169	2.5%
Total	36,017	31,801	4,216	13.3%

Revenue	Three Months Ended March 31, 2007	2006	Variance	% Change
Retail sales	$ 366	$ 403	$ (37)	(9.2)%
Transportation	4	4	—	—
Resales and other	18	1	17	n.m.
Total gas revenue	$ 388	$ 408	$ (20)	(4.9)%

n.m. Not meaningful

Liquidity and Capital Resources

The Registrants' operating and capital expenditures requirements are provided by internally generated cash flows from operations as well as funds from external sources in the capital markets and through bank borrowings or in the case of Generation and PECO, through capital contributions from Exelon when necessary. The Registrants' businesses are capital intensive and require considerable capital resources. The Registrants' access to external financing on reasonable terms depends on their credit ratings and current overall capital market business conditions, including that of the utility industry in general. If these conditions deteriorate to the extent that the Registrants no longer have access to the capital markets at reasonable terms, Exelon, Generation, ComEd and PECO have access to revolving credit facilities with aggregate bank commitments of $1 billion, $5 billion, $1 billion and $600 million, respectively, that they currently utilize to support their commercial paper programs and to issue letters of credit. At March 31, 2007, ComEd has borrowed $340 million from its credit facility since its access to the commercial paper market is limited due to its current credit ratings. See the "Credit Matters" section below for further discussion. Exelon expects cash flows to be sufficient to meet operating, financing and capital expenditure requirements. See "Liquidity and Capital Resources" within Exelon's 2006 Annual Report on Form 10–K for additional information.

The Registrants primarily use their capital resources, including cash, to fund capital requirements, including construction expenditures, retire debt, pay dividends, fund pension obligations and invest in new and existing ventures. The Registrants spend a significant amount of cash on capital improvements and construction projects that have a long–term return on investment. Additionally, ComEd and PECO operate in rate–regulated environments in which the amount of new investment recovery may be limited and where such recovery takes place over an extended period of time. As a result of these factors, each of Exelon's, ComEd's and PECO's working capital, defined as current assets less current liabilities, is in a net deficit position. ComEd intends to refinance maturing long–term debt. To manage cash flows as more fully described below, ComEd did not pay a dividend in 2006 or during the three months ended March 31, 2007. Future acquisitions that Exelon may undertake may involve external debt financing or the issuance of additional Exelon common stock.

During the three months ended March 31, 2007, ComEd experienced negative operating cash flows primarily due to a change in its payment terms with energy suppliers resulting from downgraded credit ratings and due to under–recovery of energy costs, which have been recognized as a regulatory asset. Beginning in 2007, ComEd ceased including margin on the energy component of its deliveries to its customers, nor is it collecting CTC revenues. While ComEd's 2007 results reflect an $83 million annual rate increase as allowed by the ICC, this rate increase was based generally on 2004 costs and does not include the impacts of increased expenditures since 2004 or additional net capital investment since the end of 2004. ComEd anticipates filing a new delivery service rate case during the second quarter of 2007 based on a 2006 test year and also filed a transmission rate case during the first quarter 2007. These rate filings will help reduce the regulatory lag related to recovery of these costs and returns on ComEd's investments. See Note 5 of the Combined Notes to Consolidated Financial Statements for further discussion.

Cash Flows from Operating Activities

Generation's cash flows from operating activities primarily result from the sale of electric energy to wholesale customers, including ComEd and PECO. Generation's future cash flows from operating activities will be affected by demand for and market prices of energy and its ability to continue to produce and supply power at competitive costs as well as make collections from customers. ComEd's and PECO's cash flows from operating activities primarily result from sales of electricity and, in the case of PECO, gas to a stable and diverse base of retail customers at fixed prices and are weighted toward the third quarter of each fiscal year. ComEd's and PECO's future cash flows will be affected by the economy, weather, customer choice, existing and future regulatory proceedings relating to their revenues and their ability to achieve operating cost reductions. See Notes 5 and 13 of the Combined Notes to Consolidated Financial Statements for further discussion of regulatory and legal proceedings and proposed legislation.

Operating cash flows could be negatively affected by changes in the rate regulatory environments of ComEd and PECO, although any effects are not expected to hinder the ability of PECO to fund its business requirements. Beginning in 2007, ComEd began purchasing electricity through the ICC authorized reverse–auction process in order to meet the retail electricity needs of ComEd's customers because ComEd does not own any generation. If the price at which ComEd is allowed to sell electricity is below ComEd's cost to procure and deliver electricity, there may be potential material adverse consequences to ComEd and, possibly, Exelon. ComEd has implemented a voluntary "cap and deferral" program to mitigate the impact on its residential customers of transitioning to the post rate freeze period. ComEd's cash flows from operations will be reduced in the first years of the program, but will increase as any deferred amounts are collected with a 3.25% return on any deferred balances. As of March 31, 2007, approximately 34,000 or 1% of ComEd's residential customers have enrolled in the program. See Note 5 of the Combined Notes to Consolidated Financial Statements for further discussion of ComEd's procurement case and the residential rate stabilization program.

Beginning in 2007, Generation's sales to counterparties other than ComEd and PECO increased due to the expiration of the PPA with ComEd on December 31, 2006. The bilateral contracts are subject to credit risk, which relates to the ability of counterparties to meet their contractual payment obligations. Any failure to collect these payments from counterparties could have a material impact on Exelon's and Generation's results of operations, cash flows and financial position. When Generation sells power, as market prices rise above contracted price levels, Generation is required to post collateral with purchasers; as market prices fall below contracted price levels, counterparties are required to post collateral with Generation. Beginning in 2007, under the Illinois auction rules and the supplier forward contracts that Generation entered into with ComEd and Ameren, collateral postings will be one–sided from Generation only. That is, if market prices fall below ComEd's or Ameren's contracted price levels, ComEd or Ameren, as the case may be, is not required to post collateral; however, if market prices rise above contracted price levels with ComEd or Ameren, Generation is required to post collateral. See Note 8 of the Combined Notes to Consolidated Financial Statements for further information regarding Generation's collateral policy.

Additionally, Exelon, through ComEd, has taken certain tax positions, which have been disclosed to the IRS, to defer the tax gain on the 1999 sale of its fossil generating assets. In November 2006, ComEd received from the IRS a notice of proposed adjustment disallowing the deferral of gain associated with its position that proceeds from the fossil plant sales resulted from an "involuntary conversion." This tax obligation is significant and an adverse determination could require a significant payment. See Note 10 of the Combined Notes to Consolidated Financial Statements for further discussion regarding ComEd's tax position on the 1999 sale of its fossil generating assets.

The following table provides a summary of the major items affecting Exelon's cash flows from operations for the three months ended March 31, 2007 and 2006:

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006	Variance
Net income	$ 691	$ 400	$ 291
Add (subtract):			
Non–cash operating activities(a)	744	686	58
Income taxes	319	35	284
Changes in working capital and other noncurrent assets and liabilities(b)	(1,066)	(258)	(808)
Pension and non–pension postretirement benefit contributions	(20)	(15)	(5)
Net cash flows provided by operations	$ 668	$ 848	$ (180)

(a) Represents depreciation, amortization and accretion, deferred income taxes, provision for uncollectible accounts, pension and non–pension postretirement benefit expense, equity in earnings and losses of unconsolidated affiliates and investments, other decommissioning–related activities, stock compensation expense and other non–cash charges.

(b) Changes in working capital and other noncurrent assets and liabilities exclude the changes in commercial paper, income taxes and the current portion of long–term debt.

Cash flows provided by (used in) operations for the three months ended March 31, 2007 and 2006 by registrant were as follows:

	Three Months Ended March 31,	
	2007	2006
Exelon	$ 668	$ 848
Generation	823	597
ComEd	(31)	274
PECO	201	235

Changes in Exelon's, Generation's, ComEd's and PECO's cash flows from operations were generally consistent with changes in its results of operations, as adjusted by changes in working capital in the normal course of business. In addition, significant operating cash flow impacts for the Registrants for the three months ended March 31, 2007 and 2006 were as follows:

Generation

- At March 31, 2007 and December 31, 2006, Generation had accounts receivable from ComEd of $53 million under its supplier forward agreement and $197 million under the PPA, which expired on December 31, 2006, respectively. At March 31, 2006 and December 31, 2005, Generation had accounts receivable from ComEd under the PPA of $251 million and $242 million, respectively.
- At March 31, 2007 and December 31, 2006, Generation had accounts receivable from PECO under the PPA of $186 million and $153 million, respectively. At March 31, 2006 and December 31, 2005, Generation had accounts receivable from PECO under the PPA of $143 million and $151 million, respectively.
- During the three months ended March 31, 2007 and 2006, Generation had net disbursements of counterparty collateral of $347 million and net collections of counterparty collateral of $105 million. The decrease in cash flows was primarily due to changes in collateral requirements resulting from increased activity within exchange–based markets for energy and fossil fuel.
- In 2005, Exelon received a $102 million Federal income tax refund for capital losses generated in 2003 related to Generation's previously owned investment in Sithe, which were carried back to prior periods. In the first quarter of 2006, Exelon remitted a $98 million payment to the IRS in connection with the settlement of the IRS's challenge of the timing of the above–described deduction. This payment included $6 million of interest which was recognized as interest expense in the first quarter of 2006.

ComEd

- As a result of ComEd's downgraded credit ratings, ComEd is making semi–monthly payments under its supplier forward contracts with its energy suppliers, including Generation. Prior to the credit ratings downgrade, ComEd made monthly payments to its energy suppliers. At March 31, 2007 and December 31, 2006, ComEd had accrued payments to Generation for energy purchases of $53 million and $197 million, respectively. At March 31, 2006 and December 31, 2005, ComEd had accrued payments to Generation for energy purchases of $251 million and $242 million, respectively. At March 31, 2007 and December 31, 2006, ComEd had accrued payments to other energy suppliers of $81 million and $10 million, respectively. At March 31, 2006 and December 31, 2005, ComEd accrued payments to other energy suppliers of $1 million and $12 million, respectively.
- During the three months ended March 31, 2007, ComEd had net under–recovered energy costs of $67 million. See Note 5 of the Combined Notes to the Consolidated Financial Statements for more information.
- During the three months ended March 31, 2007, ComEd's revenue exceeded its cash collections from customers by $38 million. During the three months ended March 31, 2006, ComEd's cash collections exceeded its revenue to customers by $58 million.

Cash Flows from Investing Activities

Cash flows used in investing activities for the three months ended March 31, 2007 and 2006 by registrant were as follows:

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Exelon	$ (659)	$ (713)
Generation	(380)	(354)
ComEd	(288)	(236)
PECO	(85)	(84)

Capital expenditures by registrant and business segment for the three months ended March 31, 2007 and projected amounts for the twelve months ended December 31, 2007 are as follows:

	Three Months Ended March 31, 2007	Projected 2007
Generation	$ 290	$ 1,353
ComEd	289	1,055
PECO	85	355
Other(a)	8	38
Total Exelon capital expenditures	$ 672	$ 2,801

(a) Other includes corporate operations and shared service entities, including BSC.

Projected capital expenditures and other investments are subject to periodic review and revision to reflect changes in economic conditions and other factors.

Generation. Generation's capital expenditures for 2007 reflect additions and upgrades to existing facilities (including material condition improvements during nuclear refueling outages) and nuclear fuel. Exelon anticipates that Generation's capital expenditures will be funded by internally generated funds, borrowings or capital contributions from Exelon.

ComEd and PECO. Approximately 50% of the projected 2007 capital expenditures at ComEd and PECO are for continuing projects to maintain and improve the reliability of their transmission and distribution systems. The remaining amounts are for capital additions to support new business and customer growth. Exelon is continuing to evaluate its total capital spending requirements. Exelon anticipates that ComEd's and PECO's capital expenditures will be funded by internally generated funds, borrowings and the issuance of debt or preferred securities.

Other significant investing activities of the Registrants for the three months ended March 31, 2007 and 2006 were as follows:

Exelon

- Exelon contributed $24 million and $33 million to its investments in synthetic fuel–producing facilities during the three months ended March 31, 2007 and 2006, respectively.

Generation

- Generation contributed $117 million to the Exelon intercompany money pool during the three months ended March 31, 2007.
- On February 9, 2007, Tamuin International Inc., a wholly owned subsidiary of Generation, sold its 49.5% ownership interests in TEG and TEP to a subsidiary of AES Corporation for $95 million in cash plus certain purchase price adjustments.

PECO

- As a result of its prior contributions to the Exelon intercompany money pool, $8 million was returned to PECO during the three months ended March 31, 2006.

Cash Flows from Financing Activities

Cash flows provided by (used in) financing activities for the three months ended March 31, 2007 and 2006 by registrant were as follows:

	Three Months Ended March 31,	
	2007	2006
Exelon	$ 147	$ (101)
Generation	(294)	(246)
ComEd	336	(40)
PECO	(123)	(108)

Debt. On January 15, 2007, ComEd repaid at maturity $145 million of its 7.625% notes.

On March 22, 2007, ComEd issued an additional $300 million aggregate principal amount of the same series as ComEd's currently outstanding First Mortgage 5.90% Bonds due March 15, 2036. The proceeds of the bonds were used to refinance outstanding commercial paper and to repay a portion of borrowings under its revolving credit facility.

On March 19, 2007, PECO issued $175 million aggregate principal amount of its First and Refunding Mortgage Bonds, 5.70% Series due 2037. The proceeds of the bonds were used to supplement working capital previously financed through sales of commercial paper and for other general corporate purposes.

On March 6, 2006, ComEd issued $325 million aggregate principal amount of its First Mortgage 5.90% Bonds, Series 103, due March 15, 2036. The proceeds of the bonds were used to supplement working capital previously used to refinance amounts that ComEd used to repay bonds and notes.

From time to time and as market conditions warrant, the Registrants may engage in long–term debt retirements via tender offers, open market repurchases or other viable options to strengthen their respective balance sheets.

Dividends. Cash dividend payments and distributions during the three months ended March 31, 2007 and 2006 by registrant were as follows:

	Three Months Ended March 31,	
	2007	2006
Exelon	$ 296	$ 267
Generation	295	165
PECO	156	117

Exelon paid dividends of $296 million on March 10, 2007 to shareholders of record at the close of business on February 15, 2007. On February 27, 2007, Exelon's board of directors declared a quarterly dividend of $0.44 per share on Exelon's common stock, which is payable on June 11, 2007 to shareholders of record at the end of the day on May 15, 2007. See "Dividends" section of ITEM 5 of Exelon's 2006 Annual Report on Form 10–K for a further discussion of Exelon's dividend policy.

During 2006 and the three months ended March 31, 2007, ComEd did not pay any dividend. The decision by the ComEd Board of Directors not to declare a dividend was the result of several factors, including ComEd's need for a rate increase to cover existing costs and anticipated levels of future capital expenditures as well as the continued uncertainty related to ComEd's regulatory filings as discussed in Note 5 of the Combined Notes to

Consolidated Financial Statements. ComEd's Board of Directors will continue to assess ComEd's ability to pay a dividend on a quarterly basis.

Intercompany Money Pool. Generation repaid borrowings from the Exelon intercompany money pool totaling $88 million during the three months ended March 31, 2006. During the three months ended March 31, 2006, ComEd repaid $140 million that it had borrowed from the Exelon intercompany money pool. During the three months ended March 31, 2007, PECO repaid $32 million that it had borrowed from the Exelon intercompany money pool.

Short–Term Borrowings. During the three months ended March 31, 2007, Exelon, ComEd and PECO issued (repaid) $(9) million, $(60) million and $5 million of commercial paper, respectively. During the three months ended March 31, 2006, Exelon, Generation, ComEd and PECO issued (repaid) $31 million, $2 million, $(151) million and $87 million of commercial paper, respectively. At March 31, 2007, ComEd had $340 million outstanding borrowings under its credit agreement.

Retirement of Long–Term Debt to Financing Affiliates. Retirement of long–term debt to financing affiliates during the three months ended March 31, 2007 and 2006 by registrant was as follows:

	Three Months Ended March 31,	
	2007	2006
Exelon	$ 264	$ 215
ComEd	86	89
PECO	178	126

Contributions from Parent/Member. Contributions from Parent/Member (Exelon) during the three months ended March 31, 2007, and 2006 by registrant were as follows:

	Three Months Ended March 31,	
	2007	2006
Generation	$ —	$ 5
ComEd	—	23
PECO	65	48

Other. Other significant financing activities for Exelon for the three months ended March 31, 2007 and 2006 were as follows:

- Exelon purchased treasury shares totaling $37 million and $54 million during the three months ended March 31, 2007 and 2006, respectively.
- Exelon received proceeds from employee stock plans of $98 million and $81 million during the three months ended March 31, 2007 and 2006, respectively.
- There were $34 million and $21 million of excess tax benefits included as a cash inflow in other financing activities during the three months ended March 31, 2007 and 2006, respectively.

Credit Matters

Credit Facilities. Exelon, Generation and PECO meet their short–term liquidity requirements primarily through the issuance of commercial paper and ComEd meets its short–term liquidity requirements primarily through borrowings from its credit facilities and the issuance of commercial paper. The Registrants may use credit facilities for general corporate purposes, including meeting short–term funding requirements and the issuance of letters of credit. At March 31, 2007, ComEd had $340 million outstanding under its credit agreement. See Note 7 of the Combined Notes to Consolidated Financial Statements for further information regarding the Registrants' credit facilities.

At March 31, 2007, the Registrants had the following bank commitments and available capacity under the various credit agreements to which they are a party and the indicated amounts of outstanding commercial paper:

Borrower	Aggregate Bank Commitment(a)	Available Capacity(b)	Outstanding Commercial Paper
Exelon	$ 1,000	$ 993	$ 196
Generation	5,000	4,914	—
ComEd	1,000	590	—
PECO	600	598	100

(a) Represents the total bank commitments to the borrower under credit agreements to which the borrower is a party.

(b) Available capacity represents the unused bank commitments under the borrower's credit agreements net of outstanding letters of credit and any required reserves. The amount of commercial paper outstanding does not reduce the available capacity under the credit agreements.

Interest rates on advances under the credit facilities are based on either prime or the London Interbank Offering Rate (LIBOR) plus an adder based on the credit rating of the borrower as well as the total outstanding amounts under the agreement at the time of borrowing. In the cases of Exelon, Generation and PECO, the maximum LIBOR adder is 65 basis points, and in the case of ComEd, it is 200 basis points.

The average interest rates on commercial paper for the three months ended March 31, 2007 for Exelon, Generation, ComEd and PECO were approximately 5.33%, 5.32%, 5.58% and 5.32%, respectively.

The credit agreements require the Registrants to maintain a minimum cash from operations to interest expense ratio for the twelve–month period ended on the last day of any quarter. The ratios exclude revenues and interest expenses attributable to securitization debt, certain changes in working capital, distributions on preferred securities of subsidiaries and, in the case of Exelon and Generation, interest on the debt of its project subsidiaries. The following table summarizes the minimum thresholds reflected in the credit agreements for the three–month period ended March 31, 2007:

	Exelon	Generation	ComEd	PECO
Credit agreement threshold	2.50 to 1	3.00 to 1	2.25 to 1	2.00 to 1

At March 31, 2007, the Registrants were in compliance with the foregoing thresholds.

The ComEd credit agreement imposes a restriction on future mortgage bond issuances by ComEd. It requires ComEd to maintain at least $1.75 billion of issuance availability (ignoring any interest coverage test) in the form of "property additions" or "bondable bond retirements" (previously issued, but now retired, bonds), most of which are required to be maintained in the form of "bondable bond retirements." In general, a dollar of bonds can be issued under ComEd's Mortgage on the basis of $1.50 of property additions, subject to an interest coverage test, or $1 of bondable bond retirements, which may or may not be subject to an interest coverage test. As of March 31, 2007, ComEd was in compliance with this requirement.

Intercompany Money Pool. To provide an additional short–term borrowing option that will generally be more favorable to the borrowing participants than the cost of external financing, Exelon operates an intercompany money pool. As of January 10, 2006, ComEd suspended its participation in the money pool. Maximum amounts contributed to and borrowed from the money pool by participant during the three months ended March 31, 2007 are presented in the following table in addition to the net contribution or borrowing as of March 31, 2007:

	Maximum Contributed	Maximum Borrowed	March 31, 2007 Contributed (Borrowed)
Generation	$ 314	$ 11	$ 130
PECO	60	207	(13)
BSC	—	165	(117)
UII, LLC	—	—	—
Exelon	56	N/A	—

Security Ratings. The Registrants' access to the capital markets, including the commercial paper market, and their respective financing costs in those markets depend on the securities ratings of the entity that is accessing the capital markets. The securities ratings and outlook for Exelon, Generation and PECO have not changed from those set forth in Exelon's 2006 Annual Report on Form 10–K.

On March 9, 2007, Fitch Ratings (Fitch) downgraded the debt ratings of ComEd's senior secured debt, senior unsecured debt and commercial paper. The ratings remain on Ratings Watch Negative. The rating action reflects Fitch's concerns regarding the continued legislative efforts to freeze rates and the prospects for adequate and timely cost recovery through future rate increases.

On March 26, 2007, Moody's Investor Service (Moody's) downgraded ComEd's senior unsecured debt and commercial paper due to continued regulatory and political uncertainty in Illinois. ComEd's long–term debt ratings remain under review for a possible downgrade.

Listed below are ComEd's current ratings resulting from the latest rating actions.

ComEd Security Ratings	Fitch	Moody's
Senior secured debt	BBB	Baa2
Senior unsecured debt	BB+	Ba1
Commercial paper	B	Not prime

None of the Registrants' borrowings are subject to default or prepayment as a result of a downgrading of securities although such a downgrading could increase fees and interest charges under the Registrants' credit agreements.

A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency.

As part of the normal course of business, Generation routinely enters into physical or financially settled contracts for the purchase and sale of capacity, energy, fuels and emissions allowances. These contracts either contain express provisions or otherwise permit Generation and its counterparties to demand adequate assurance of future performance when there are reasonable grounds for doing so. In accordance with the contracts and applicable contracts law, if Exelon or Generation is downgraded by a credit rating agency, especially if such downgrade is to a level below investment grade, it is possible that a counterparty would attempt to rely on such a downgrade as a basis for making a demand for adequate assurance of future performance. Depending on its net position with a counterparty, the demand could be for the posting of collateral. In the absence of expressly agreed to provisions that specify the collateral that must be provided, the obligation to supply the collateral requested will be a function of the facts and circumstances of Exelon or Generation's situation at the time of the demand. If Exelon can reasonably claim that it is willing and financially able to perform its obligations, it may be possible to successfully argue that no collateral should be posted or that only an amount equal to two or three months of future payments should be sufficient.

Shelf Registrations

As of March 31, 2007, Exelon, PECO and ComEd had current shelf registration statements for the sale of $300 million, $75 million and an unspecified amount, respectively, of securities that were effective with the SEC. Exelon and ComEd are well–known seasoned issuers as described by the SEC and may file automatic shelf registration statements that are not required to specify the amount of securities to be offered thereon. The ability of Exelon, ComEd or PECO to sell securities in the public market or to access the private placement markets will depend on a number of factors at the time of the proposed sale, including other required regulatory approvals, the current financial condition of the company, its securities ratings and market conditions.

Investments in Synthetic Fuel–Producing Facilities

Exelon, through three wholly owned subsidiaries, has investments in synthetic fuel–producing facilities. Section 45K (formerly Section 29) of the Internal Revenue Code provides tax credits for the sale of synthetic fuel produced from coal. However, Section 45K contains a provision under which credits are phased out (i.e., eliminated) in the event crude oil prices for a year exceed certain thresholds.

The following table (in dollars) provides the estimated phase–out range for 2007 based on the per barrel price of oil as of March 31, 2007. The table also contains the estimated 2007 annual average New York Mercantile Exchange, Inc. index (NYMEX) prices per barrel at March 31, 2007 based on year–to–date and futures prices.

	Estimated 2007
Beginning of Phase–Out Range(a)	$ 62
End of Phase–Out Range(a)	78
2007 Annual Average NYMEX	66

(a) The estimated 2007 phase–out range as of March 31, 2007 is based upon the actual 2006 phase–out range. The actual 2006 phase–out range was determined using the inflation adjustment factor published by the IRS in April 2007. The actual 2006 phase–out range was increased by 2% (Exelon's estimate of inflation) to arrive at the estimated 2007 phase–out range.

As of March 31, 2007, Exelon has estimated the 2007 phase–out to be 27%, which has reduced Exelon's earned after–tax credits of $65 million to $48 million for the three months ended March 31, 2007. Exelon anticipates generating approximately $210 million of cash over the life of these investments, of which approximately $75 million is expected in total for 2007 and 2008, assuming a 27% phase–out of tax credits. This estimate may change significantly due to the volatility of oil prices. See Note 10 of the Combined Notes to Consolidated Financial Statements for further discussion.

Contractual Obligations and Off–Balance Sheet Arrangements

Contractual obligations represent cash obligations that are considered to be firm commitments and commercial commitments triggered by future events. The Registrants' contractual obligations and commercial commitments as of March 31, 2007 were materially unchanged, other than in the normal course of business, from the amounts set forth in the 2006 Annual Report on Form 10–K except for the following:

Exelon

- Guarantees increased by $211 million primarily as a result of leasing activities, energy trading and performance guarantees.

Generation

- Letters of credit increased by $6 million and guarantees increased by $175 million primarily as a result of Generation's energy trading activities and the performance guaranty agreement entered in connection with the sale of TEG and TEP.
- Generation's total commitments for future sales of energy to unaffiliated third–party utilities and others increased by approximately $149 million during the three months ended March 31, 2007, reflecting increases of approximately $578 million, $346 million and $121 million in 2008, 2009 and 2010 sales commitments, respectively, offset by the fulfillment of approximately $896 million of 2007 commitments during the three months ended March 31, 2007. The increases were primarily due to increased forward sales of energy to counterparties other than ComEd as a result of the expiration of the PPA with ComEd on December 31, 2006 (see Note 5 of the Combined Notes to Consolidated Financial Statements for further information), as well as increased overall hedging activity in the normal course of business.
- Generation's long–term commitments for nuclear fuel as of March 31, 2007 increased by $79 million for 2009 and 2010, and $270 million for 2011 and beyond, as compared to December 31, 2006. Generation's long–term commitments for coal as of March 31, 2007 increased by $58 million for 2008 and $10 million for 2009 and 2010 as compared to December 31, 2006. Increases in nuclear fuel and coal commitments are due to contracts entered into in the normal course of business.

ComEd

- ComEd issued $300 million First Mortgage 5.90% Bonds due March 15, 2036.

PECO

- PECO issued $175 million First and Refunding Mortgage Bonds, 5.70% Series due March 15, 2037.
- PECO's total fuel purchase obligations increased by approximately $105 million during the three months ended March 31, 2007, reflecting an increase of $19 million, $36 million, $31 million and $19 million in 2007, 2008, 2009 and 2010, respectively, primarily related to the purchase of natural gas and related transportation services.