
Table of Contents

The \$17 million increase in operating and maintenance expense in 2006 compared to 2005 was primarily due to a \$153 million increase in various payroll-related expenses, including increased stock-based compensation expense of \$41 million primarily as a result of the adoption of SFAS No. 123-R as of January 1, 2006 and increased direct and allocated costs related to payroll, severance, pension and other postretirement benefits, a \$22 million period-over-period increase in contractor costs, primarily related to staff augmentation and recurring maintenance work at Nuclear and Power, a \$19 million increase in nuclear refueling outage costs associated with the additional planned refueling outage days during 2006 as compared to 2005, and higher costs for inspection and maintenance activities. Additionally, on December 22, 2006, as a gesture of goodwill and corporate citizenship, Generation contributed approximately \$11 million into an escrow account to assist the Godley Public Water District with the installation of a new public drinking water system for the Village of Godley.

Depreciation and Amortization. The increase in depreciation and amortization expense for 2006 compared to 2005 was a result of recent capital additions.

Taxes Other Than Income. The increase in taxes other than income incurred during 2006 compared to 2005 was primarily due to increasing the property tax reserve for 2006 property taxes for Byron, Clinton and Dresden, higher payroll related taxes which were the result of higher payroll costs for 2006 and a reduction recorded in 2005 of a previously established real estate reserve associated with the settlement over the TMI real estate assessment. The increases were partially offset by a sales and use tax reserve recorded during the third quarter of 2005 and a gas revenue tax adjustment recorded during the fourth quarter of 2005.

Interest Expense. The increase in interest expense during 2006 as compared to 2005 was attributable to higher variable interest rates on debt outstanding, higher interest expense on Generation's one-time fee for spent nuclear fuel obligations to the DOE and an interest payment made to the IRS in settlement of a tax matter.

Other, Net. The decrease in other income in 2006 compared to 2005 was primarily due to gains realized in the second quarter of 2005 totaling \$36 million related to the decommissioning trust fund investments for the AmerGen plants due to changes in Generation's investment strategy.

Effective Income Tax Rate. The effective income tax rate from continuing operations was 38.2% for 2006 compared to 39.0% for 2005. See Note 12 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. Generation's net income in 2006 and 2005 reflects a gain on the sale of discontinued operations of \$4 million and \$19 million (both after tax), respectively. See Notes 2 and 3 of the Combined Notes to Consolidated Financial Statements for further information regarding the presentation of Sithe as discontinued operations.

The income from discontinued operations decreased by \$15 million for 2006 compared to 2005 primarily due to the gain on the sale of Sithe in the first quarter of 2005 partially offset by an adjustment to the gain on the sale of Sithe in the second quarter of 2006 as a result of the expiration of certain tax indemnifications, accrued interest and collections on receivables arising from the sale of Sithe that had been fully reserved.

Cumulative Effect of Changes in Accounting Principles. The cumulative effect of changes in accounting principles reflects the impact of adopting FIN 47 as of December 31, 2005. See Note 13 of the Combined Notes to Consolidated Financial Statements for further discussion of the adoption of FIN 47.

Table of Contents
Results of Operations—ComEd

	2006	2005	Favorable (unfavorable) variance
Operating revenues	\$6,101	\$6,264	\$ (163)
Operating expenses			
Purchased power	3,292	3,520	228
Operating and maintenance	745	833	88
Impairment of goodwill	776	1,207	431
Depreciation and amortization	430	413	(17)
Taxes other than income	303	303	—
Total operating expense	<u>5,546</u>	<u>6,276</u>	<u>730</u>
Operating income (loss)	<u>555</u>	<u>(12)</u>	<u>567</u>
Other income and deductions			
Interest expense, net	(308)	(291)	(17)
Equity in losses of unconsolidated affiliates	(10)	(14)	4
Other, net	96	4	92
Total other income and deductions	<u>(222)</u>	<u>(301)</u>	<u>79</u>
Income (loss) before income taxes and cumulative effect of a change in accounting principle	<u>333</u>	<u>(313)</u>	<u>646</u>
Income taxes	<u>445</u>	<u>363</u>	<u>(82)</u>
Loss before cumulative effect of a change in accounting principles	<u>(112)</u>	<u>(676)</u>	<u>564</u>
Cumulative effect of change in accounting principle	<u>—</u>	<u>(9)</u>	<u>9</u>
Net loss	<u>\$ (112)</u>	<u>\$ (685)</u>	<u>\$ 573</u>

Net Loss. ComEd's decreased net loss in 2006 compared to 2005 was driven by a smaller impairment of goodwill in 2006, lower purchased power expense and one-time benefits associated with reversing previously incurred expenses as a result of the July 2006 and December 2006 ICC rate orders as more fully described below, partially offset by lower operating revenues.

Operating Revenues. The changes in operating revenues for 2006 compared to 2005 consisted of the following:

	Increase (decrease)
Weather	\$ (226)
Customer choice	(67)
Volume	84
Rate changes and mix	23
Retail revenue	<u>(186)</u>
Wholesale and miscellaneous revenues	28
Mark-to-market contracts	<u>(5)</u>
Other revenues	23
Decrease in operating revenues	\$ (163)

Weather. Revenues were lower due to unfavorable weather conditions in 2006 compared to 2005. The demand for electricity is affected by weather conditions. Very warm weather in summer months

Table of Contents

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 in non-summer months reduces demand. In ComEd's service territory, cooling and heating degree days were 20% and 8% lower, respectively, than the prior year.

Customer choice. All ComEd customers have the choice to purchase energy from a competitive electric generation supplier. This choice does not impact the volume of deliveries, but affects revenue collected from customers related to supplied energy and generation service. As of December 31, 2006, 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.

For 2006 and 2005, 23% and 21%, respectively, of energy delivered to ComEd's retail customers was provided by competitive electric generation suppliers. Most of the customers previously receiving energy under the PPO are now electing either to buy their power from a competitive electric generation supplier or from ComEd under bundled rates.

	<u>2006</u>	<u>2005</u>
Retail customers purchasing energy from a competitive electric generation supplier:		
Volume (GW ^(a) hs)	20,787	19,310
Percentage of total retail deliveries	23%	21%
Retail customers purchasing energy from a competitive electric generation supplier or the ComEd PPO:		
Number of customers at period end	20,300	21,300
Percentage of total retail customers	(b)	(b)
Volume (GW ^(a) hs)	25,521	30,905
Percentage of total retail deliveries	28%	33%

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

(b) Less than one percent.

Volume. Revenues were higher in 2006 compared to 2005 due primarily to an increase in deliveries, excluding the effects of weather, due to an increased number of customers.

Rate changes and mix. The increase in revenue related to rate and mix changes represents differences in year-over-year consumption between various customer classes offset by a decline in the CTC paid by customers of competitive electric generation suppliers due to the increase in market energy prices. The average rate paid by various customers is dependent on the amount and time of day that the power is consumed. Changes in customer consumption patterns, including increased usage, can result in an overall decrease in the average rate even though the tariff or rate schedule remains unchanged. Under current Illinois law, no CTCs will be collected after 2006. Starting in January 2007, ComEd began collecting revenues consistent with the approved ICC orders in the Procurement Case and the Rate Case. See Note 4 of the Combined Notes to the Consolidated Financial Statements for more information.

Wholesale and miscellaneous revenues. The wholesale and miscellaneous revenues increase primarily reflects an increase in transmission revenue reflecting increased peak and kWh load within the ComEd service territory.

Mark-to-market contracts. Mark-to-market contracts primarily reflect a mark-to-market loss associated with one wholesale contract that had previously been recorded as a normal sale under SFAS No. 133 in 2005. This contract expires in December 2007.

Table of Contents

Purchased Power Expense. The changes in purchased power expense for 2006 compared to 2005 consisted of the following:

	Increase (decrease)
Prices	\$ (135)
Weather	(111)
Customer choice	(56)
PJM transmission	(6)
Volume	42
SECA rates	38
Decrease in purchased power expense	<u>\$ (228)</u>

Prices. Purchased power decreased due to the decrease in contracted energy prices under the PPA that ComEd had with Generation. The PPA contract was entered into in March 2004 and reflected forward power prices in existence at that time. The PPA terminated at the end of 2006 and was replaced with the reverse-auction process in 2007, which was approved by the ICC. See Note 4 of the Combined Notes to Consolidated Financial Statements for more information on the reverse-auction process.

Weather. The decrease in purchased power expense attributable to weather was due to unfavorable weather conditions in the ComEd service territory relative to the prior year.

Customer choice. The decrease in purchased power expense from customer choice was primarily due to more ComEd non-residential customers electing to purchase energy from a competitive electric generation supplier.

PJM transmission. The decrease in PJM transmission expense reflects a decrease in ancillary charges, partially offset by increased peak demand and consumption by ComEd-supplied customers.

Volume. The amount of purchased power attributable to volume increased as a result of increased usage by ComEd-supplied customers on a weather-normalized basis versus the same period in 2005.

SECA rates. Effective December 1, 2004, PJM became obligated to pay 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. As a result of current events related to SECA disputes, during the first quarter of 2006, ComEd increased its reserve for amounts to be refunded. ComEd recorded SECA collections and payments on a net basis through purchased power expense. As ComEd was a net collector of SECA charges, the 2005 purchased power expense, which reflected a full year of SECA collections, was lower than 2006, which reflected only three months of SECA collections, due to the expiration of SECA charges on March 31, 2006. See Note 4 of the Combined Notes to Consolidated Financial Statements for more information on the SECA rates.

Table of Contents

Operating and Maintenance Expense. The changes in operating and maintenance expense for 2006 compared to 2005 consisted of the following:

	<u>Increase (decrease)</u>
ICC rate order ^(a)	\$ (201)
Fringe benefits ^(b)	43
Severance-related expenses	17
Wages and salaries	17
Customers' Affordable Reliable Energy (CARE) program ^(c)	9
Environmental costs	5
Rent and lease expense	5
Storm costs	4
PSEG merger integration costs	2
Other	11
Decrease in operating and maintenance expense	\$ (88)

- (a) As a result of the July 2006 ICC rate order and the December 2006 ICC order on rehearing, ComEd recorded one-time benefits associated with reversing previously incurred expenses, including MGP costs, severance costs and procurement case costs. See Notes 4 and 18 of the Combined Notes to Consolidated Financial Statements for additional information.
- (b) Reflects increases in various fringe benefits, including increased stock-based compensation expense of \$24 million primarily due to the adoption of SFAS No. 123-R on January 1, 2006 and increased pension and other postretirement benefits costs of \$14 million.
- (c) See Note 4 of the Combined Notes to the Consolidated Financial Statements for additional information.

Impairment of Goodwill. ComEd performs an assessment of goodwill for impairment at least annually, or more frequently, if events or circumstances indicate that goodwill might be impaired. The assessment compares the carrying value of goodwill to the estimated fair value of goodwill as of a point in time. The estimated fair value incorporates management's assessment of current events and expected future cash flows. See Note 8 of the Combined Notes to the Consolidated Financial Statements for additional information. During the third quarter of 2006, ComEd completed an interim assessment of goodwill for impairment purposes to reflect the adverse affects of the ICC's July 2006 rate order. The test indicated that ComEd's goodwill was impaired and a charge of \$776 million was recorded. ComEd's 2006 annual goodwill impairment assessment (performed in the fourth quarter) resulted in no additional impairment. After reflecting the impairment, ComEd had approximately \$2.7 billion of remaining goodwill as of December 31, 2006.

During the fourth quarter of 2005, ComEd completed the annually required assessment of goodwill for impairment purposes. The 2005 test indicated that ComEd's goodwill was impaired and a charge of \$1.2 billion was recorded. The 2005 impairment was driven by changes in the fair value of ComEd's PPA with Generation, the upcoming end of ComEd's transition period and related transition revenues, regulatory uncertainty in Illinois as of November 1, 2005, anticipated increases in capital expenditures in future years and decreases in market valuations of comparable companies that are utilized to estimate the fair value of ComEd.

Depreciation and Amortization Expense. The changes in depreciation and amortization expense for 2006 compared to 2005 consisted of the following:

	<u>Increase (decrease)</u>
Depreciation expense associated with higher plant balances	\$ 12
Other amortization expense	5
Increase in depreciation and amortization expense	\$ 17

Table of Contents

In 2007, ComEd's amortization will reflect the elimination of the recoverable transition costs regulatory asset and the initial amortization of the various regulatory assets authorized by the ICC in its July and December 2006 orders. See Notes 4, 18 and 19 of the Combined Notes of the Consolidated Financial statements for more information.

Taxes Other Than Income. Taxes other than income remained constant in 2006 compared to 2005.

Interest Expense, Net. The increase in interest expense, net in 2006 compared to 2005 primarily resulted from higher debt balances and higher interest rates. In 2007, ComEd's interest expense, net will reflect the initial amortization of the regulatory asset related to the early debt retirement costs authorized by the ICC in its July 2006 order. See Notes 4, 18 and 19 of the Combined Notes of the Consolidated Financial statements for more information.

Other, Net. The changes in other, net for 2006 compared to 2005 consisted of the following:

	Increase (decrease)
ICC rate order ^(a)	\$ 87
Loss on settlement of 2005 cash-flow swaps	15
Sale of receivable in 2005	(3)
Loss on disposition of assets and investments, net	(3)
Other	(4)
Increase in other, net	<u>\$ 92</u>

(a) As a result of the July 2006 ICC rate order, ComEd recorded a one-time benefit associated with reversing previously incurred expenses to retire debt early. See Notes 4, 18 and 19 of the Combined Notes to the Consolidated Financial Statements for additional information.

Income Taxes. The effective income tax rate was 133.6% and (116.0)% for 2006 and 2005, respectively. The goodwill impairment charges increased the effective income tax rate by 81.6% in 2006 and decreased the effective income tax rate by 135.0% in 2005. See Note 12 of the Combined Notes to Consolidated Financial Statements for further details of the components of the effective income tax rates.

Cumulative Effect of a Change in Accounting Principle. The cumulative effect of a change in accounting principle reflects the impact of adopting FIN 47 as of December 31, 2005. See Note 13 of the Combined Notes to Consolidated Financial Statements for further discussion of the adoption of FIN 47.

Table of Contents
Electric Operating Statistics and Revenue Detail

Retail Deliveries—(In GWhs)	2006	2005	Variance	% Change
Full service^(a)				
Residential	28,330	30,042	(1,712)	(5.7)%
Small commercial & industrial	24,122	21,378	2,744	12.8%
Large commercial & industrial	10,336	7,904	2,432	30.8%
Public authorities & electric railroads	2,254	2,133	121	5.7%
Total full service	<u>65,042</u>	<u>61,457</u>	<u>3,585</u>	5.8%
PPO				
Small commercial & industrial	2,475	5,591	(3,116)	(55.7)%
Large commercial & industrial	2,259	6,004	(3,745)	(62.4)%
	<u>4,734</u>	<u>11,595</u>	<u>(6,861)</u>	(59.2)%
Delivery only^(b)				
Small commercial & industrial	5,505	5,677	(172)	(3.0)%
Large commercial & industrial	15,282	13,633	1,649	12.1%
	<u>20,787</u>	<u>19,310</u>	<u>1,477</u>	7.6%
Total PPO and delivery only	<u>25,521</u>	<u>30,905</u>	<u>(5,384)</u>	(17.4)%
Total retail deliveries	<u>90,563</u>	<u>92,362</u>	<u>(1,799)</u>	(1.9)%

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

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

Electric Revenue	2006	2005	Variance	% Change
Full service^(a)				
Residential	\$2,453	\$2,584	\$ (131)	(5.1)%
Small commercial & industrial	1,882	1,671	211	12.6%
Large commercial & industrial	563	408	155	38.0%
Public authorities & electric railroads	137	132	5	3.8%
Total full service	<u>5,035</u>	<u>4,795</u>	<u>240</u>	5.0%
PPO^(b)				
Small commercial & industrial	178	385	(207)	(53.8)%
Large commercial & industrial	137	345	(208)	(60.3)%
	<u>315</u>	<u>730</u>	<u>(415)</u>	(56.8)%
Delivery only^(c)				
Small commercial & industrial	85	95	(10)	(10.5)%
Large commercial & industrial	155	156	(1)	(0.6)%
	<u>240</u>	<u>251</u>	<u>(11)</u>	(4.4)%
Total PPO and delivery only	<u>555</u>	<u>981</u>	<u>(426)</u>	(43.4)%
Total electric retail revenues	5,590	5,776	(186)	(3.2)%
Wholesale and miscellaneous revenue ^(d)	516	488	28	5.7%
Mark-to-market contracts	(5)	—	(5)	n.m.
Total operating revenues	<u>\$6,101</u>	<u>\$6,264</u>	<u>\$ (163)</u>	(2.6)%

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

Table of Contents

- (b) Revenues from customers choosing the PPO include an energy charge at market rates, transmission and distribution charges, and a CTC through December 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 2006.
(d) Wholesale and miscellaneous revenues include transmission revenue (including revenue from PJM), sales to municipalities and other wholesale energy sales.
n.m. Not meaningful

Results of Operations—PECO

	2006	2005	Favorable (unfavorable) variance
Operating revenues	\$5,168	\$4,910	\$ 258
Operating expenses			
Purchased power and fuel	2,702	2,515	(187)
Operating and maintenance	628	549	(79)
Depreciation and amortization	710	566	(144)
Taxes other than income	262	231	(31)
Total operating expense	<u>4,302</u>	<u>3,861</u>	<u>(441)</u>
Operating income	866	1,049	(183)
Other income and deductions			
Interest expense, net	(266)	(279)	13
Equity in losses of unconsolidated affiliates	(9)	(16)	7
Other, net	30	13	17
Total other income and deductions	<u>(245)</u>	<u>(282)</u>	<u>37</u>
Income before income taxes and cumulative effect of a change in accounting principle	621	767	(146)
Income taxes	180	247	67
Income before cumulative effect of a change in accounting principle	441	520	(79)
Cumulative effect of a change in accounting principle	—	(3)	3
Net income	441	517	(76)
Preferred stock dividends	4	4	—
Net income on common stock	\$ 437	\$ 513	\$ (76)

Net income. PECO's net income in 2006 decreased primarily due to higher CTC amortization and higher operating and maintenance expense, which reflected higher storm costs. Partially offsetting these factors were higher revenues, net of purchased power and fuel expense. Higher net revenues reflected certain authorized electric rate increases, including a scheduled CTC rate increase, partially offset by lower net electric and gas revenues as a result of unfavorable weather relative to the prior year. The increases in CTC amortization expense and CTC rates were in accordance with PECO's 1998 restructuring settlement with the PAPUC. The increase in CTC amortization expense exceeded the increase in CTC revenues.

Table of Contents

Operating Revenues. The changes in PECO's operating revenues for 2006 compared to 2005 consisted of the following:

	Electric	Gas	Total increase (decrease)
Rate increases	\$ 237	\$ 127	\$ 364
Customer choice	62	—	62
Unbilled revenue—change in estimate	35	—	35
Volume	20	(10)	10
Weather	(91)	(130)	(221)
Other rate changes and mix	(10)	—	(10)
Retail revenue	253	(13)	240
Wholesale and miscellaneous revenues	26	(8)	18
Increase (decrease) in operating revenues	\$ 279	\$ (21)	\$ 258

Rate increases. The increase in electric revenues attributable to electric rate increases reflects scheduled CTC and generation rate increases in accordance with PECO's 1998 restructuring settlement with the PAPUC and the elimination of the aggregate \$200 million electric distribution rate reductions over the period January 1, 2002 through December 31, 2005 (approximately \$40 million in 2005) related to the PAPUC's approval of the merger between PECO and ComEd. On January 1, 2007, 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 expenses under its PPA with Generation. The increase in gas revenues was due to net increases 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 twelve months ended December 31, 2006 was 30% higher than the average rate for the same period in 2005. While PECO's average purchased gas cost rate was higher in 2006 compared to 2005, quarterly changes to purchased gas cost rates since March 1, 2006 have resulted in decreases to the rates, with the September 1, 2006 and December 1, 2006 rate decreases resulting in lower rates in 2006 compared to comparable periods in 2005. This trend will continue into the first quarter of 2007, during the peak of PECO's winter heating season, as first quarter 2007 rates will be significantly lower than first quarter 2006 rates.

Customer choice. All PECO customers have the choice to purchase energy from a competitive electric generation supplier. This choice does not impact 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.

For 2006 and 2005, 2% and 5%, respectively, of energy delivered to PECO's retail customers was provided by competitive electric generation suppliers.

	2006	2005
Retail customers purchasing energy from a competitive electric generation supplier:		
Number of customers at period end	34,400	44,500
Percentage of total retail customers	2%	3%
Volume (GWhs)	767	2,094
Percentage of total retail deliveries	2%	5%

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

Table of Contents

The increase in electric retail revenue associated with customer choice reflected customers from all customer classes returning to PECO as their electric supplier as a result of rising wholesale energy prices and a number of competitive electric generation suppliers exiting the market during 2005 and 2006.

Unbilled revenue—change in estimate. In the fourth quarter of 2006, PECO recorded a \$35 million increase to unbilled electric revenues associated with a change in estimate in the amount of revenue recognized, although unbilled, at the end of 2006. As discussed under Critical Accounting Policies and Estimates, the nature of the unbilled revenue calculation is inherently an estimation process. As a result of Exelon's integration efforts associated with its then-pending merger with PSEG, analyses received from a third-party consultant, and PECO's implementation of a new customer information management system in the fourth quarter 2006, PECO received new information with which to better analyze the data underlying its unbilled revenue calculation. This amount is partially offset by a \$14 million increase in purchased power expense as noted below.

Volume. The increase in electric revenues was primarily as a result of higher delivery volume, exclusive of the effects of weather and customer choice, primarily due to an increased number of customers in the residential and small commercial and industrial classes. The decrease in gas revenues attributable to lower delivery volume, exclusive of the effects of weather, was primarily due to decreased customer usage, which is consistent with rising gas prices.

Weather. 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 lower due to unfavorable weather conditions in PECO's service territory, where heating and cooling degree days were 18% and 15% lower, respectively, than the prior year.

Other rate changes and mix. The decrease in electric revenues attributable to other rate changes and mix was primarily due to increased large commercial and industrial sales, which are billed at lower rates relative to other customer classes, and lower rates for certain large commercial and industrial customers whose rates reflect wholesale energy prices, which were lower in the latter part of 2006 relative to 2005.

Wholesale and miscellaneous revenues. The increase in electric revenues was primarily due to increased PJM transmission revenue and increased sales of energy into the PJM spot market. If PECO's energy needs are less than the daily amount scheduled, the excess is sold into the PJM spot market. Revenues from these sales are reflected as adjustments to the billings under PECO's PPA with Generation. The decrease in gas revenues was due to decreased off-system sales.

Purchased Power and Fuel Expense. The changes in PECO's purchased power and fuel expense for 2006 compared to 2005 consisted of the following:

	<u>Electric</u>	<u>Gas</u>	<u>Total increase (decrease)</u>
Prices	\$ 94	\$ 127	\$ 221
Customer choice	62	—	62
PJM transmission	31	—	31
Unbilled revenue—change in estimate	14	—	14
Weather	(39)	(107)	(146)
Volume	4	(13)	(9)
Other	20	(6)	14
Increase in purchased power and fuel expense	<u>\$ 186</u>	<u>\$ 1</u>	<u>\$ 187</u>

Table of Contents

Prices. PECO's purchased power expense increased \$87 million corresponding to the increase in electric revenues which was attributable to the scheduled PAPUC-approved generation rate increase. In addition, PECO's purchased power expense increased \$7 million due to a change in the mix of average pricing related to its PPA with Generation. Fuel expense for gas increased due to higher average gas prices. See "Operating Revenues" above.

Customer choice. The increase in purchased power expense from customer choice was primarily due to customers from all customer classes returning to PECO as their electric supplier, primarily as a result of rising wholesale energy prices and a number of competitive electric generation suppliers exiting the market during 2005 and 2006.

PJM transmission. The increase in PJM transmission expense reflects increased peak demand and consumption by PECO-supplied customers due to load growth as well as an increase in PECO-supplied customers driven by more customers choosing PECO for supply due to competitive electric generation suppliers' higher market prices.

Unbilled revenue—change in estimate. In the fourth quarter of 2006, PECO recorded a \$14 million increase to purchased power associated with a change in estimate for unbilled electric revenue as the energy component of the estimate change is passed onto Generation.

Weather. The decrease in purchased power and fuel expense attributable to weather was primarily due to lower demand as a result of unfavorable weather conditions in the PECO service territory relative to the prior year.

Volume. The increase in purchased power expense attributable to volume, exclusive of the effects of weather and customer choice, was primarily due to an increased number of customers. The decrease in gas fuel expense attributable to volume, exclusive of the effects of weather, was primarily due to decreased customer usage, which is consistent with rising gas prices.

Other. The increase in electric purchased power expense was primarily due to increased energy purchases in the PJM spot market. If PECO's energy needs are greater than the daily amount scheduled, the shortfall is secured through purchases in the PJM spot market. These additional costs are reflected as adjustments to the billings under PECO's PPA with Generation. The decrease in gas fuel expense was related to decreased off-system sales.

Operating and Maintenance Expense. The changes in operating and maintenance expense for 2006 compared to 2005 consisted of the following:

	Increase (decrease)
Storm costs ^(a)	\$ 36
Contractors	14
Allowance for uncollectible accounts ^(b)	13
Fringe benefits ^(c)	11
Severance-related expenses	6
PSEG merger integration costs	2
Injuries and damages ^(d)	(6)
Environmental reserve ^(d)	(4)
Other	7
Increase in operating and maintenance expense	<u>\$ 79</u>

(a) Reflects higher professional fees, including \$9 million associated with tax consulting, and various other increases. See Note 18 of the Combined Notes to Consolidated Financial Statements for additional information regarding tax consulting fees.

Table of Contents

- (b) Reflects the following factors, all of which increased expense in 2006 as compared to 2005: (i) higher average accounts receivable balances in 2006 compared to 2005 resulting from increased revenues; (ii) changes in PAPUC-approved regulations related to customer payment terms; and (iii) an increase in the number of low-income customers participating in customer assistance programs, which allow for the forgiveness of certain receivables.
- (c) Reflects increased stock-based compensation expense of \$11 million primarily due to the adoption of SFAS No. 123-R on January 1, 2006.
- (d) Represents a settlement related to one Superfund site in the first quarter of 2006. See Note 18 of the Combined Notes to Consolidated Financial Statements for additional information.

Depreciation and Amortization Expense. The changes in depreciation and amortization expense for 2006 compared to 2005 consisted of the following:

	Increase (decrease)
CTC amortization ^(a)	\$ 146
Accelerated amortization of PECO billing system ^(b)	(4)
Other depreciation and amortization expense	2
Increase in depreciation and amortization expense	\$ 144

- (a) PECO's additional amortization of the CTC is in accordance with its original settlement under the Pennsylvania Competition Act.
- (b) In January 2005, as part of a broader systems strategy at PECO associated with the proposed merger with PSEG, Exelon's Board of Directors approved the implementation of a new customer information and billing system at PECO. The approval of this new system required the accelerated amortization of PECO's existing system through 2006 and the recognition of additional amortization expense of \$13 million and \$9 million in 2005 and 2006, respectively. The new system was implemented in the fourth quarter 2006.

Taxes Other Than Income. The changes in taxes other than income for 2006 compared to 2005 consisted of the following:

	Increase (decrease)
Taxes on utility revenues ^(a)	\$ 14
State franchise tax adjustments in 2006 and 2005 ^(b)	10
Real estate tax adjustment in 2005 ^(c)	6
Sales and use tax adjustments in 2006 and 2005	(2)
Other	3
Increase in taxes other than income	\$ 31

- (a) As these taxes were collected from customers and remitted to the taxing authorities and included in revenues and expenses, the increase in tax expense was offset by a corresponding increase in revenues.
- (b) Represents the reduction of tax accruals in 2006 of \$7 million following settlements related to prior year tax assessments and the \$17 million reduction of an accrual in 2005 related to prior years.
- (c) Represents the reduction of a real estate tax accrual in 2005 following settlements related to prior year tax assessments.

Interest Expense, Net. The decrease in interest expense, net for 2006 compared to 2005 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 the September 2006 issuance of \$300 million First Mortgage Bonds, higher interest rates on variable rate long-term debt and an increased amount of commercial paper outstanding at higher rates.

Other, Net. The increase in other, net for 2006 compared to 2005 was primarily due to interest income associated with an investment tax credit refund of \$11 million and interest income associated with a research and development credit refund of \$10 million in 2006. See Note 19 of the Combined Notes to the Consolidated Financial Statements for further details of the components of other, net. See Note 18 of the Combined Notes to the Consolidated Financial Statement for additional information regarding the investment tax credit and research and development credit refunds.

Table of Contents

Equity in Losses of Unconsolidated Affiliates. The decrease in equity in losses of unconsolidated affiliates was a result of a decrease in net interest expense of PETT due to scheduled repayments of outstanding long-term debt.

Income Taxes. PECO's effective income tax rate was 29.0% for 2006 compared to 32.2% for 2005. The lower effective tax rate in 2006 reflects investment tax credit and research and development credit refunds in 2006. See Note 12 of the Combined Notes to Consolidated Financial Statements for further details of the components of the effective income tax rates.

Cumulative Effect of a Change in Accounting Principle. The cumulative effect of a change in accounting principle reflects the impact of adopting FIN 47 as of December 31, 2005. See Note 13 of the Combined Notes to Consolidated Financial Statements for further discussion of the adoption of FIN 47.

PECO Electric Operating Statistics and Revenue Detail

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

Retail Deliveries—(in GWhs)	2006	2005	Variance	% Change
Full service^(a)				
Residential	12,796	13,135	(339)	(2.6)%
Small commercial & industrial	7,818	7,263	555	7.6%
Large commercial & industrial	15,898	15,205	693	4.6%
Public authorities & electric railroads	906	962	(56)	(5.8)%
Total full service	<u>37,418</u>	<u>36,565</u>	<u>853</u>	2.3%
Delivery only^(b)				
Residential	61	334	(273)	(81.7)%
Small commercial & industrial	671	1,257	(586)	(46.6)%
Large commercial & industrial	35	503	(468)	(93.0)%
Total delivery only	<u>767</u>	<u>2,094</u>	<u>(1,327)</u>	(63.4)%
Total retail deliveries	<u>38,185</u>	<u>38,659</u>	<u>(474)</u>	(1.2)%

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

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

Electric Revenue	2006	2005	Variance	% Change
Full service^(a)				
Residential	\$1,780	\$1,705	\$ 75	4.4%
Small commercial & industrial	943	818	125	15.3%
Large commercial & industrial	1,286	1,173	113	9.6%
Public authorities & electric railroads	83	84	(1)	(1.2)%
Total full service	<u>4,092</u>	<u>3,780</u>	<u>312</u>	8.3%
Delivery only^(b)				
Residential	5	25	(20)	(80.0)%
Small commercial & industrial	36	63	(27)	(42.9)%
Large commercial & industrial	1	13	(12)	(92.3)%
Total delivery only	<u>42</u>	<u>101</u>	<u>(59)</u>	(58.4)%
Total electric retail revenues	<u>4,134</u>	<u>3,881</u>	<u>253</u>	6.5%
Wholesale and miscellaneous revenue ^(c)	238	212	26	12.3%
Total electric and other revenue	<u>\$4,372</u>	<u>\$4,093</u>	<u>\$ 279</u>	6.8%

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

Table of Contents

- (b) Delivery only revenue reflects revenue from customers receiving generation service from a competitive electric generation supplier, which includes a distribution charge and a CTC.
- (c) Wholesale and miscellaneous revenues include transmission revenue from PJM and other wholesale energy sales.

PECO's 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))	2006	2005	Variance	% Change
Retail sales	50,578	59,751	(9,173)	(15.4)%
Transportation	25,527	25,310	217	0.9%
Total	76,105	85,061	(8,956)	(10.5)%

Revenue	2006	2005	Variance	% Change
Retail sales	\$ 770	\$ 783	\$ (13)	(1.7)%
Transportation	16	16	—	— %
Resales and other	10	18	(8)	(44.4)%
Total gas revenue	\$ 796	\$ 817	\$ (21)	(2.6)%

Year Ended December 31, 2005 Compared to Year Ended December 31, 2004

Results of Operations—Exelon

	2005	2004	Favorable (unfavorable) variance
Operating revenues	\$15,357	\$14,133	\$ 1,224
Operating expenses			
Purchased power and fuel expense	5,670	4,929	(741)
Operating and maintenance expense	3,694	3,700	6
Impairment of goodwill	1,207	—	(1,207)
Depreciation and amortization	1,334	1,295	(39)
Taxes other than income	728	710	(18)
Total operating expenses	<u>12,633</u>	<u>10,634</u>	<u>(1,999)</u>
Operating income	2,724	3,499	(775)
Other income and deductions			
Interest expense	(513)	(471)	(42)
Interest expense to affiliates, net	(316)	(357)	41
Equity in losses of unconsolidated affiliates	(134)	(154)	20
Other, net	134	60	74
Total other income and deductions	<u>(829)</u>	<u>(922)</u>	<u>93</u>
Income from continuing operations before income taxes and minority interest	1,895	2,577	(682)
Income taxes	944	713	(231)
Income from continuing operations before minority interest	951	1,864	(913)
Minority interest	—	6	(6)
Income from continuing operations	951	1,870	(919)
Income from discontinued operations, net of income taxes	14	(29)	43
Income before cumulative effect of a change in accounting principle	965	1,841	(876)
Cumulative effect of changes in accounting principles	(42)	23	(65)
Net income	\$ 923	\$ 1,864	\$ (941)
Diluted earnings per share	\$ 1.36	\$ 2.78	\$ (1.42)

Table of Contents

Net Income. Net income for 2005 reflects an impairment charge of \$1.2 billion associated with ComEd's goodwill and losses of \$42 million for the cumulative effect of adopting FIN 47, partially offset by higher realized prices on market sales at Generation and favorable weather conditions in the ComEd and PECO service territories. Net income for 2004 reflects income of \$32 million for the adoption of FIN 46-R, partially offset by a loss of \$9 million related to the adoption of Emerging Issues Task Force (EITF) Issue No. 03-16, "Accounting for Investments in Limited Liability Companies" (EITF 03-16). See Note 1 of the Combined Notes to Consolidated Financial Statements for further information regarding the adoption of FIN 46-R.

Operating Revenues. Operating revenues increased primarily due to increased revenues at ComEd and PECO and increased revenues from non-affiliates at Generation. The increase in revenues at ComEd and PECO was primarily due to favorable weather conditions, an increase in the number of customers choosing ComEd or PECO as their electric supplier and higher transmission revenues, partially offset by decreased CTC collections at ComEd. The increase in revenues from non-affiliates at Generation was primarily due to higher prices on energy sold in the market, partially offset by an increase in the percentage of energy produced and sold to ComEd and PECO and the sale of Boston Generating in 2004. See further analysis and discussion of operating revenues by segment below.

Purchased Power and Fuel Expense. Purchased power and fuel expense increased primarily due to overall higher market energy prices and higher natural gas and oil prices, partially offset by the decrease in fuel expense due to the sale of Boston Generating in 2004, favorable mark-to-market adjustments related to non-trading activities and the expiration of the PPA with Midwest Generation in 2004. Purchased power represented 22% of Generation's total supply in 2005 compared to 24% in 2004. 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 a gain recorded in 2004 related to the DOE settlement, an increase to the reserve for the estimated future asbestos-related bodily injury claims that was recorded in 2005, higher costs associated with planned nuclear refueling outages, and increased costs related to an operating agreement with a subsidiary of Tamuin International, Inc. (formerly Sithe International, Inc.), partially offset by the sale of Boston Generating in 2004 and decreased severance and benefit expense. See further discussion of operating and maintenance expenses by segment below.

Impairment of Goodwill. During 2005, in connection with the annually required assessment of goodwill for impairment, ComEd recorded a \$1.2 billion charge.

Depreciation and Amortization Expense. The increase in depreciation and amortization expense was primarily due to additional plant placed in service, additional amortization of the CTC at PECO and accelerated amortization of PECO's current customer information and billing system, partially offset by the establishment of an ARC asset for retired nuclear units in 2004 which was immediately impaired through depreciation expense.

Operating Income. Exclusive of the changes in operating revenues, purchased power and fuel expense, operating and maintenance expense, impairment of goodwill and depreciation and amortization expense discussed above, the change in operating income was the result of increased taxes other than income, partially offset by the sale of Boston Generating in 2004 and reduced property tax expense.

Other Income and Deductions. The change in other income and deductions reflects a 2004 charge at ComEd associated with the accelerated retirement of debt and the related reduction in interest expense from these debt retirements and increased realized gains related to the decommissioning trust fund investments for the AmerGen plants, partially offset by increased interest expense on short-term debt at Exelon, increased losses from Exelon's investment in synthetic fuel-producing facilities and an \$85 million gain recorded in 2004 on the sale of Boston Generating.

Table of Contents

Effective Income Tax Rate. The effective income tax rate from continuing operations was 49.8% for 2005 compared to 27.7% for 2004. The goodwill impairment charge increased the effective income tax rate from continuing operations by 22.3% for 2005. See Note 12 of the Combined Notes to the 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. In addition, Exelon sold or wound down substantially all components of Enterprises and AllEnergy, a business within Exelon Energy. 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 and Generation's Consolidated Statements of Operations. See Notes 2 and 3 of the Combined Notes to Consolidated Financial Statements for further information regarding the presentation of Sithe, certain Enterprises businesses and AllEnergy as discontinued operations and the sale of Sithe. The results of Sithe and AllEnergy are included in the Generation discussion below.

The income from discontinued operations increased by \$43 million from 2004 to 2005 primarily due to the gain on the sale of Sithe in the first quarter of 2005.

Cumulative Effect of Changes in Accounting Principles. The cumulative effect of changes in accounting principles reflects the impact of adopting FIN 47 as of December 31, 2005 and the consolidation of Sithe in accordance with FIN 46-R as of March 31, 2004. See Notes 1 and 13 of the Combined Notes to Consolidated Financial Statements for further discussion of the consolidation of Sithe and the adoption of FIN 47, respectively.

Results of Operations by Business Segment

The comparisons of 2005 and 2004 operating results and other statistical information set forth below include intercompany transactions, which are eliminated in Exelon's consolidated financial statements.

Net Income (Loss) from Continuing Operations by Business Segment

	2005	2004	Favorable (unfavorable) variance
Generation	\$1,109	\$ 657	\$ 452
ComEd	(676)	676	(1,352)
PECQ ^(a)	520	455	65
Other	(2)	82	(84)
Total	\$ 951	\$1,870	\$ (919)

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

Income (Loss) Before Cumulative Effect of Changes in Accounting Principles by Business Segment

	2005	2004	Favorable (unfavorable) variance
Generation	\$1,128	\$ 641	\$ 487
ComEd	(676)	676	(1,352)
PECQ ^(a)	520	455	65
Other	(7)	69	(76)
Total	\$ 965	\$1,841	\$ (876)

Table of Contents

(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

	2005	2004	Favorable (unfavorable) variance
Generation	\$1,098	\$ 673	\$ 425
ComEd	(685)	676	(1,361)
PECO	517	455	62
Other ^(a)	(7)	60	(67)
Total	\$ 923	\$1,864	\$ (941)

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

Results of Operations—Generation

	2005	2004	Favorable (unfavorable) variance
Operating revenues	\$9,046	\$7,703	\$ 1,343
Operating expenses			
Purchased power and fuel	4,482	4,011	(471)
Operating and maintenance	2,288	2,201	(87)
Depreciation and amortization	254	286	32
Taxes other than income	170	166	(4)
Total operating expenses	7,194	6,664	(530)
Operating income	1,852	1,039	813
Other income and deductions			
Interest expense	(128)	(103)	(25)
Equity in losses of unconsolidated affiliates	(1)	(14)	13
Other, net	95	130	(35)
Total other income and deductions	(34)	13	(47)
Income from continuing operations before income taxes and minority interest	1,818	1,052	766
Income taxes	709	401	(308)
Income from continuing operations before minority interest	1,109	651	458
Minority interest	—	6	(6)
Income from continuing operations	1,109	657	452
Discontinued operations			
Loss from discontinued operations	—	(16)	16
Gain on disposal of discontinued operations	19	—	19
Income (loss) from discontinued operations	19	(16)	35
Income before cumulative effect of changes in accounting principles	1,128	641	487
Cumulative effect of changes in accounting principles	(30)	32	(62)
Net Income	\$1,098	\$ 673	\$ 425

Table of Contents

Net Income. Generation's net income in 2005 increased \$425 million as compared to the prior year, primarily as a result of higher revenue, net of purchased power and fuel expense, partially offset by higher operating and maintenance expense and interest expense. Generation's revenue, net of purchased power and fuel expense, increased \$872 million in 2005 as compared to the prior year. This increase was driven by the contractual increase in prices associated with Generation's PPA with ComEd and higher average margins on wholesale market sales as higher spot market prices more than compensated for higher fuel prices and the impact of higher nuclear generation.

Operating Revenues. For 2005 and 2004, Generation's sales were as follows:

Revenue	2005	2004	Variance	% Change
Electric sales to affiliates	\$4,775	\$3,749	\$ 1,026	27.4%
Wholesale and retail electric sales	3,341	3,227	114	3.5%
Total energy sales revenue	8,116	6,976	1,140	16.3%
Retail gas sales	613	448	165	36.8%
Trading portfolio	17	—	17	n.m.
Other revenue	300	279	21	7.5%
Total revenue	\$9,046	\$7,703	\$ 1,343	17.4%

(a) Includes sales related to tolling agreements, fossil fuel sales, operating service agreements and decommissioning revenue from ComEd and PECO.
n.m. Not meaningful

Sales (in GWhs)	2005	2004	Variance	% Change
Electric sales to affiliates	121,961	110,465	11,496	10.4%
Wholesale and retail electric sales	72,376	92,134	(19,758)	(21.4)%
Total sales	194,337	202,599	(8,262)	(4.1)%

Trading volumes of 26,924 GWhs and 24,001 GWhs for 2005 and 2004, respectively, are not included in the table above.

Electric sales to affiliates. Revenue from sales to affiliates increased \$1,026 million in 2005 as compared to the prior year. The increase in revenue from sales to affiliates was primarily due to a \$635 million increase from overall higher prices associated with Generation's PPA with ComEd and a \$391 million increase from higher electric sales volume. As a result of the Amended and Restated Purchase Power Agreement as of April 30, 2004 with ComEd, effective January 1, 2005, Generation began receiving overall higher prices from ComEd for its purchased power. The higher sales volumes to ComEd and PECO resulted from favorable weather conditions in the summer and winter periods in the ComEd and PECO service territories and an increase in the number of customers returning from competitive electric generation suppliers in 2005 compared to the prior year.

Wholesale and retail electric sales. The changes in Generation's wholesale and retail electric sales for 2005 compared to 2004 consisted of the following:

	Increase (decrease)
Price	\$ 879
Volume	(526)
Sale of Boston Generating	(239)
Increase in wholesale and retail electric sales	\$ 114

(a) Sales to Boston Generating of \$9 million were included in other revenue for 2004.

Table of Contents

Wholesale and retail sales increased \$114 million due to an increase in market prices in 2005 compared to the prior year. The increase in market prices was primarily driven by higher fuel prices (e.g. oil and natural gas). The increase in price was partially offset by lower volumes of generation capacity sold to the market in 2005 as compared to 2004. Generation had less power to sell into the market as a result of higher demand for power sold to affiliates in 2005 and the expiration of its PPA with Midwest Generation in 2004. The remaining decrease in wholesale and retail sales of \$239 million was due to the sale of Boston Generating in May 2004.

Retail gas sales. Retail gas sales increased \$165 million primarily due to significantly higher gas prices in the overall market.

Trading portfolio. Trading portfolio income increased \$17 million in 2005 compared to the prior year due to an increase in trading volumes. See ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk—Proprietary Trading Activities for further information.

Other revenues. The increase in other revenues in 2005 was primarily due to an increase of \$60 million associated with revenue from Generation's operating services agreements with PSEG and Tamuin International, Inc. This increase was partially offset by a decrease of \$39 million related to lower fuel sales, a reduction in decommissioning revenue from ComEd and lower sales from tolling and gas management agreements. The increased revenue from the operating services agreements was substantially offset by a corresponding increase in Generation's operating and maintenance expense.

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

Supply Source (in GWhs)	2005	2004	Variance	% Change
Nuclear generation ^(a)	137,936	136,621	1,315	1.0%
Purchases—non—trading portfolio	42,623	48,968	(6,345)	(13.0)%
Fossil and hydroelectric generation	13,778	17,010	(3,232)	(19.0)%
Total supply	<u>194,337</u>	<u>202,599</u>	<u>(8,262)</u>	(4.1)%

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

The changes in Generation's purchased power and fuel expense for 2005 compared to 2004 consisted of the following:

	Price	Volume	Increase (Decrease)
Purchased power costs	\$ 654	\$ (327)	\$ 327
Generation costs	198	16	214
Fuel resale costs	149	(2)	147
Sale of Boston Generating	n.m.	n.m.	(226)
Mark-to-market	n.m.	n.m.	9
Increase in purchased power and fuel expense			<u>\$ 471</u>

n.m. Not meaningful

Purchased Power Costs. Purchased power costs include all costs associated with the procurement of electricity (i.e., capacity, energy and fuel costs). Generation experienced overall higher realized prices for purchased power in 2005 compared to 2004, resulting in a \$654 million increase. This was offset by a decrease of \$327 million due to lower volumes of purchased power in the market as a result of more demand from affiliates.

Table of Contents

Generation Costs. Generation costs include fuel cost for internally generated energy. Generation experienced overall higher generation costs for 2005 compared to 2004 due to overall energy market conditions resulting in higher prices for raw materials (e.g., oil, natural gas and coal) used in the production of electricity. Additionally, there was an increase of \$16 million related to higher nuclear and fossil generation need to meet affiliates' demand.

Fuel Resale Costs. Fuel resale costs include retail gas purchase and wholesale fossil fuel expenses. The changes in Generation's fuel resale costs in 2005 as compared to 2004 consisted of overall higher realized gas prices, offset by a \$2 million volume decrease in the gas retail business.

Sale of Boston Generating. The decrease in purchased power and fuel expense associated with Boston Generating was due to the sale of the business in May 2004.

Mark-to-market. Mark-to-market losses on power derivative activities were \$12 million for 2005 compared to losses of \$3 million for 2004.

Generation's average margin per MWh of electricity sold for 2005 and 2004 was as follows:

(\$/MWh)	2005	2004	% Change
Average electric revenue ^(a)			
Electric sales to affiliates	\$39.15	\$33.94	15.4%
Wholesale and retail electric sales	46.16	35.03	31.8%
Total—excluding the trading portfolio	41.76	34.43	21.3%
Average electric supply cost ^(b) —excluding the trading portfolio	\$20.11	\$17.60	14.3%
Average margin—excluding the trading portfolio	\$21.65	\$16.83	28.6%

(a) The increase in \$/MWh was due to higher prices in 2005 associated with Generation's PPA with ComEd.

(b) 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.

Nuclear fleet operating data and purchased power cost data for 2005 and 2004 were as follows:

	2005	2004
Nuclear fleet capacity factor ^(a)	93.5%	93.5%
Nuclear fleet production cost per MWh ^(a)	\$13.03	\$12.43

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

Generation's nuclear fleet capacity factor was the same in 2005 as 2004. Higher costs associated with the planned refuel outages and higher non-outage operating costs resulted in a higher production cost per MWh produced for 2005 as compared to 2004. There were nine planned refueling outages and 25 non-refueling outages in 2005 compared to nine planned refuel outages and 20 non-refueling outages in 2004.

During 2004, both Quad Cities' units operated intermittently at Extended Power Uprate (EPU) generation levels due to performance issues with their steam dryers. As of the third quarter of 2005, both of the Quad Cities' units returned to EPU generation levels after extensive testing and load verification on new replacement steam dryers was completed. Near the end of 2005, the generation levels of both Quad Cities' units were again reduced to pre-EPU generation levels to address vibration—related equipment issues not directly related to the steam dryers. The units will be brought back to full EPU generation levels after all issues are addressed to ensure safe and reliable operations at the EPU output levels which is expected to occur in 2006.

Table of Contents

Operating and Maintenance Expense. The increase in operating and maintenance expense for 2005 compared to 2004 consisted of the following:

	Increase (decrease)
Nuclear refueling and non-outage operating costs	\$ 78
DOE settlement in 2004	42
Tamuin International	44
Accrual for estimated future asbestos-related bodily injury claims	43
Nuclear operating services agreement	14
Pension, payroll and benefit costs	(58)
Boston Generating	(62)
Decommissioning-related activity	(38)
Other	24
Increase in operating and maintenance expense	<u>\$ 87</u>

This net \$87 million increase was attributable to the following:

- A \$78 million increase in nuclear refueling and non-outage operating costs due to an increase in nuclear maintenance costs of \$44 million related to planned nuclear refueling outages for plants operated by Generation and the co-owned Salem Generating Station, and increases in other nuclear operating and maintenance expenses of \$34 million, primarily security and inflationary costs;
- A \$42 million reimbursement in 2004 of costs incurred prior to 2004 for the storage of spent nuclear fuel associated with the DOE settlement agreement;
- A \$44 million increase in expenses associated with Generation's operating service agreement with a subsidiary of Tamuin International, Inc.;
- The establishment of a \$43 million liability in June 2005 for estimated future asbestos-related bodily injury claims (see further discussion in Note 17 to the Combined Notes to Consolidated Financial Statements); and
- Costs of \$14 million in 2005 associated with the Salem and Hope Creek Operating Services Agreement with PSEG, the reimbursement of which is included in other revenues.

The increases in operating and maintenance expense described above were partially offset by lower payroll-related expenses (a \$58 million reduction), the elimination of \$62 million in expenses at Boston Generating due to its sale in May 2004 and a \$36 million reduction in the contractual obligation that Generation has to ComEd related to decommissioning obligations (which is included in the \$38 million of decommissioning-related activity in the table above).

Depreciation and Amortization. The decrease in depreciation and amortization expense for 2005 compared to 2004 was primarily due to the establishment of an ARC asset for retired nuclear units of \$36 million recorded in the third quarter of 2004 which was immediately impaired through depreciation expense as this asset was associated with retired nuclear units that do not have any remaining useful life. This decrease was partially offset by increased depreciation expense due to recent capital additions.

Taxes Other Than Income. The increase in taxes other than income for 2005 as compared to 2004 was primarily due to a net increase in Generation's reserves related to payroll taxes, sales and use taxes and other taxes other than income, partially offset by a reduction in taxes resulting from the sale of Boston Generating in May 2004.

Other, Net. The decrease in other income for 2005 as compared to the prior year was primarily due to the \$85 million gain (\$52 million, net of taxes) on the disposal of Boston Generating recorded in

Table of Contents

May 2004, partially offset by gains of \$36 million realized in the second quarter of 2005 related to the decommissioning trust fund investments for the AmerGen plants, primarily associated with changes in Generation's investment strategy.

Effective Income Tax Rate. The effective income tax rate from continuing operations was 39.0% for 2005 compared to 38.1% for 2004. See Note 12 of the Combined Notes to the 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. In addition, Generation sold or wound down substantially all components of AllEnergy, a business within Exelon Energy. Accordingly, the results of operations and the gain on the sale of Sithe and results of AllEnergy have been presented as discontinued operations for 2005 within Generation's Consolidated Statements of Operations. See Notes 2 and 3 of the Combined Notes to Consolidated Financial Statements for further information regarding the presentation of Sithe's and AllEnergy's results of operations as discontinued operations and the sale of Sithe as discontinued operations.

Cumulative Effect of Changes in Accounting Principles. The cumulative effect of changes in accounting principles reflects the impact of adopting FIN 47 as of December 31, 2005 and the consolidation of Sithe in accordance with FIN 46-R as of March 31, 2004. See Notes 1 and 13 of the Combined Notes to Consolidated Financial Statements for further discussion of the consolidation of Sithe and the adoption of FIN 47, respectively.

Results of Operations—ComEd

	2005	2004	Favorable (unfavorable) variance
Operating revenues	\$6,264	\$5,803	\$ 461
Operating expenses			
Purchased power	3,520	2,588	(932)
Operating and maintenance	833	897	64
Impairment of goodwill	1,207	—	(1,207)
Depreciation and amortization	413	410	(3)
Taxes other than income	303	291	(12)
Total operating expense	6,276	4,186	(2,090)
Operating income (loss)	(12)	1,617	(1,629)
Other income and deductions			
Interest expense, net	(291)	(349)	58
Equity in losses of unconsolidated affiliates	(14)	(19)	5
Net loss on extinguishment of long-term debt	—	(130)	130
Other, net	4	14	(10)
Total other income and deductions	(301)	(484)	183
Income (loss) before income taxes and cumulative effect of a change in accounting principle	(313)	1,133	(1,446)
Income taxes	363	457	94
Income (loss) before cumulative effect of a change in accounting principles	(676)	676	(1,352)
Cumulative effect of change in accounting principle	(9)	—	(9)
Net income (loss)	\$ (685)	\$ 676	\$ (1,361)

Table of Contents

Net Loss. ComEd's net loss in 2005 was driven by the impairment of goodwill and higher purchased power expense, partially offset by higher operating revenues due to favorable weather and due to the impacts of a 2004 charge associated with the accelerated retirement of long-term debt and lower interest expense.

Operating Revenues. The changes in operating revenues for 2005 compared to 2004 consisted of the following:

	Increase (decrease)
Weather	\$ 415
Customer choice	81
Rate changes and mix	(66)
Volume	(3)
Other	(9)
Retail revenue	<u>418</u>
PJM transmission	58
T&O / SECA rates	(28)
Miscellaneous revenues	<u>13</u>
Other revenues	<u>43</u>
Increase in operating revenues	<u>\$ 461</u>

Weather. Revenues were higher due to favorable weather conditions in 2005 compared to 2004. The demand for electricity is affected by weather conditions. In ComEd's service territory, cooling and heating degree days were 90% and 1% higher, respectively, than the prior year.

Customer choice. All ComEd customers have the choice to purchase energy from a competitive electric generation supplier. This choice does not impact the volume of deliveries, but affects revenue collected from customers related to supplied energy and generation service. As of December 31, 2005, one competitive electric generation supplier was approved to serve residential customers in the ComEd service territory. However, they are not currently supplying electricity to any residential customers.

For 2005 and 2004, 33% and 35% of energy delivered to ComEd's retail customers was provided by competitive electric generation suppliers or under the PPO.

	2005	2004
Retail customers purchasing energy from a competitive electric generation supplier:		
Volume (GW ^(a) hs)	19,310	20,939
Percentage of total retail deliveries	21%	24%
Retail customers purchasing energy from a competitive electric generation supplier or the ComEd PPO:		
Number of customers at period end	21,300	22,200
Percentage of total retail customers	(b)	(b)
Volume (GW ^(a) hs)	30,905	30,426
Percentage of total retail deliveries	33%	35%

- (a) One GWh is the equivalent of one million kilowatt-hours (kWh).
- (b) Less than one percent.

Rate changes and mix. The change was primarily due to the increased wholesale market price of electricity and other adjustments to the energy component of the CTC calculation which resulted in a decrease of \$64 million to \$105 million in 2005 as compared to 2004.

Table of Contents

PJM transmission. ComEd's transmission revenues increased in 2005 due to ComEd's May 1, 2004 entry into PJM.

T&O / SECA rates. Revenues decreased as a result of the elimination of T&O rates in accordance with FERC orders that became effective December 1, 2004. Effective December 1, 2004, PJM became obligated to pay SECA collections to ComEd, and ComEd became obligated to pay SECA charges—see "Purchased Power Expense" below. See Note 4 of the Combined Notes to Consolidated Financial Statements for more information on T&O / SECA rates.

Purchased Power Expense. The changes in purchased power expense for 2005 compared to 2004 consisted of the following:

	Increase (decrease)
Prices	\$ 606
Weather	200
Customer choice	65
PJM	63
Volume	7
T&O collections / SECA rates	(15)
Other	6
Increase in purchased power expense	<u>\$ 932</u>

Prices. Purchased power increased due to higher prices associated with ComEd's PPA with Generation of \$497 million, and ancillary services of \$109 million from PJM. In 2000, ComEd and Generation entered into a PPA that fixed the pricing for purchased power through December 31, 2004 based upon the then current market prices. As a result of the Amended and Restated Purchase Power Agreement with Generation, starting in January 1, 2005, ComEd began paying higher prices for its purchased power from Generation and ceased to procure its ancillary services from Generation. This agreement fixed the pricing for purchased power through December 31, 2006 based upon the current market prices as of April 30, 2004.

Weather. The increase in purchased power expense attributable to weather was due to favorable weather conditions in the ComEd service territory, which increased the amount of electricity sold.

Customer choice. The increase in purchased power expense from customer choice was primarily due to fewer ComEd non-residential customers electing to purchase energy from a competitive electric generation supplier.

PJM. The increase reflects higher transmission and purchased power expense of \$57 million due to ComEd's May 1, 2004 entry into PJM and PJM administrative fees that increased by \$6 million over 2004 fees.

T&O Collections / SECA rates. Prior to FERC orders issued in November 2004, ComEd collected T&O rates for transmission service scheduled out of or across ComEd's transmission system. Rates collected as the transmission owner were recorded in operating revenues. After joining PJM on May 1, 2004, PJM allocated T&O collections to ComEd as a load-serving entity. The collections received by ComEd as a load-serving entity were recorded as a decrease to purchased power expense. ComEd's purchased power expense increased \$14 million due to ComEd no longer collecting T&O revenues in 2005.

Table of Contents

Effective December 1, 2004, PJM became obligated to pay SECA collections to ComEd and ComEd became obligated to pay SECA charges. During 2005, ComEd recorded SECA collections net of SECA charges of \$29 million. See Note 4 of the Combined Notes to Consolidated Financial Statements for more information on T&O /SECA rates.

Operating and Maintenance Expense. The changes in operating and maintenance expense for 2005 compared to 2004 consisted of the following:

	Increase (decrease)
Severance-related expenses ^(a)	\$ (47)
Employee fringe benefits ^(b)	(18)
Pension expense and deferred compensation ^(c)	(15)
Allowance for uncollectible accounts	(13)
Injuries and damages ^(b)	(2)
Corporate allocations	15
Storm costs	14
Contractors	12
PSEG merger integration costs	8
Other	(18)
Decrease in operating and maintenance expense	\$ (64)

(a) Consists of salary continuance severance costs, curtailment charges for pension and other postretirement benefits, and special termination benefit charges related to other postretirement benefits. The decrease reflects reduced severance-related activity in 2005 as compared to 2004.

(b) Excludes severance-related expenses and pension expense. Reflects fewer employees compared to prior year and a reduction in 2005 related to estimated medical plan fees. A portion of the employee reduction is offset by an increase in corporate allocations.

(c) Pension expense in 2005 is lower than in 2004 due in large part to significant pension plan contributions made in the first quarter of 2005. See Note 14 of the Combined Notes to Consolidated Financial Statements for additional information.

Impairment of Goodwill. During the fourth quarter of 2005, ComEd completed the annually required assessment of goodwill for impairment purposes. The 2005 test indicated that ComEd's goodwill was impaired and a charge of \$1.2 billion was recorded. The 2005 impairment was driven by changes in the fair value of ComEd's PPA with Generation, the upcoming end of ComEd's transition period and related transition revenues, regulatory uncertainty in Illinois as of November 1, 2005, anticipated increases in capital expenditures in future years and decreases in market valuations of comparable companies that are utilized to estimate the fair value of ComEd. After reflecting the impairment, ComEd has approximately \$3.5 billion of remaining goodwill as of December 31, 2005.

Depreciation and Amortization Expense. The changes in depreciation and amortization expense for 2005 compared to 2004 consisted of the following:

	Increase (decrease)
Depreciation expense	\$ 17
Other amortization expense	(14)
Increase in depreciation and amortization expense	\$ 3

The increase in depreciation expense is primarily due to capital additions.

The decrease in other amortization expense was primarily due to completing the amortization of one of ComEd's software packages in 2004.

Table of Contents

Taxes Other Than Income. The changes in taxes other than income for 2005 compared to 2004 consisted of the following:

	Increase (decrease)
Taxes on utility revenues ^(a)	\$ 13
Tax refund ^(b)	6
Other	(7)
Increase in taxes other than income	\$ 12

(a) As these taxes were collected from customers and remitted to the taxing authorities and included in revenues and expenses, the increase in expense was offset by a corresponding increase in revenues.

(b) During 2004, a refund was received for Illinois electricity distribution taxes.

Interest Expense, Net. The reduction in interest expense, net for 2005 compared to 2004 was primarily due to long-term debt retirements and prepayments in 2004 pursuant to Exelon's accelerated liability management plan and scheduled payments on long-term debt owed to the ComEd Transitional Funding Trust, partially offset by a \$16 million decrease in interest income on the long-term receivable from UII, LLC as a result of this receivable being repaid in late 2004.

Equity in Losses of Unconsolidated Affiliates. The decrease in equity in losses of unconsolidated affiliates was a result of a decrease in interest expense of the deconsolidated financing trusts due to scheduled repayments of outstanding long-term debt.

Net Loss on Extinguishment of Long-Term Debt. In 2004, Exelon initiated an accelerated liability management plan at ComEd that resulted in the retirement of approximately \$768 million of long-term debt, of which \$618 million was retired during the third quarter of 2004. During 2004, ComEd recorded a charge of \$130 million associated with the retirement of debt under the plan. The components of this charge included the following: \$86 million related to prepayment premiums; \$12 million related to net unamortized premiums, discounts and debt issuance costs; \$24 million of losses on reacquired debt previously deferred as regulatory assets; and \$12 million related to settled cash-flow interest-rate swaps previously deferred as regulatory assets partially offset by \$4 million of unamortized gain on settled fair value interest-rate swaps.

Other, Net. The changes in other, net for 2005 compared to 2004 included a \$15 million loss on settlement of cash-flow swaps in 2005. See Note 9 of the Combined Notes to Consolidated Financial Statements for further information.

Income Taxes. The effective income tax rate was (116.0)% and 40.3% for 2005 and 2004, respectively. The goodwill impairment charge decreased the effective income tax rate by 135.0% in 2005. See Note 12 of the Combined Notes to Consolidated Financial Statements for further details of the components of the effective income tax rates.

Cumulative Effect of a Change in Accounting Principle. The cumulative effect of a change in accounting principle reflects the impact of adopting FIN 47 as of December 31, 2005. See Note 13 of the Combined Notes to Consolidated Financial Statements for further discussion of the adoption of FIN 47.

Table of Contents
Electric Operating Statistics and Revenue Detail

	2005	2004	Variance	% Change
Retail Deliveries—(in GWhs)				
Full service^(a)				
Residential	30,042	26,463	3,579	13.5%
Small commercial & industrial	21,378	21,662	(284)	(1.3)%
Large commercial & industrial	7,904	6,913	991	14.3%
Public authorities & electric railroads	2,133	1,893	240	12.7%
Total full service	61,457	56,931	4,526	7.9%
PPO				
Small commercial & industrial	5,591	4,110	1,481	36.0%
Large commercial & industrial	6,004	5,377	627	11.7%
	11,595	9,487	2,108	22.2%
Delivery only^(b)				
Small commercial & industrial	5,677	6,305	(628)	(10.0)%
Large commercial & industrial	13,633	14,634	(1,001)	(6.8)%
	19,310	20,939	(1,629)	(7.8)%
Total PPO and delivery only	30,905	30,426	479	1.6%
Total retail deliveries	<u>92,362</u>	<u>87,357</u>	<u>5,005</u>	5.7%

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

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

	2005	2004	Variance	% Change
Electric Revenue				
Full service^(a)				
Residential	\$2,584	\$2,295	\$ 289	12.6%
Small commercial & industrial	1,671	1,649	22	1.3%
Large commercial & industrial	408	380	28	7.4%
Public authorities & electric railroads	132	126	6	4.8%
Total full service	4,795	4,450	345	7.8%
PPO^(b)				
Small commercial & industrial	385	274	111	40.5%
Large commercial & industrial	345	304	41	13.5%
	730	578	152	26.3%
Delivery only^(c)				
Small commercial & industrial	95	128	(33)	(25.8)%
Large commercial & industrial	156	204	(48)	(23.5)%
	251	332	(81)	(24.4)%
Total PPO and delivery only	981	910	71	7.8%
Total electric retail revenues	5,776	5,360	416	7.8%
Wholesale and miscellaneous revenue ^(d)	488	443	45	10.2%
Total operating revenues	<u>\$6,264</u>	<u>\$5,803</u>	<u>\$ 461</u>	7.9%

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

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

Table of Contents

- (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. Prior to ComEd's full integration into PJM on May 1, 2004, ComEd's transmission charges received from competitive electric generation suppliers were included in wholesale and miscellaneous revenue.
- (d) Wholesale and miscellaneous revenues include transmission revenue (including revenue from PJM), sales to municipalities and other wholesale energy sales.

Results of Operations—PECO

	2005	2004	Favorable (unfavorable) variance
Operating revenues	<u>\$4,910</u>	<u>\$4,487</u>	<u>\$ 423</u>
Operating expenses			
Purchased power and fuel	2,515	2,172	(343)
Operating and maintenance	549	547	(2)
Depreciation and amortization	566	518	(48)
Taxes other than income	231	236	5
Total operating expense	<u>3,861</u>	<u>3,473</u>	<u>(388)</u>
Operating income	<u>1,049</u>	<u>1,014</u>	<u>35</u>
Other income and deductions			
Interest expense, net	(279)	(303)	24
Equity in losses of unconsolidated affiliates	(16)	(25)	9
Other, net	13	18	(5)
Total other income and deductions	<u>(282)</u>	<u>(310)</u>	<u>28</u>
Income before income taxes and cumulative effect of a change in accounting principle	<u>767</u>	<u>704</u>	<u>63</u>
Income taxes	<u>247</u>	<u>249</u>	<u>2</u>
Income before cumulative effect of a change in accounting principle	<u>520</u>	<u>455</u>	<u>65</u>
Cumulative effect of a change in accounting principle	<u>(3)</u>	<u>—</u>	<u>(3)</u>
Net income	<u>517</u>	<u>455</u>	<u>62</u>
Preferred stock dividends	4	3	(1)
Net income on common stock	<u>\$ 513</u>	<u>\$ 452</u>	<u>\$ 61</u>

Net Income. PECO's net income in 2005 increased primarily as a result of higher revenues, net of related purchased power expense, due to favorable weather and lower interest expense due to the scheduled retirement of debt owed to PETT, partially offset by higher CTC amortization.

Operating Revenues. The changes in PECO's operating revenues for 2005 compared to 2004 consisted of the following:

	Electric	Gas	Total increase (decrease)
Rate changes and mix	\$ 72	\$ 90	\$ 162
Customer choice	118	—	118
Volume	101	(21)	80
Weather	54	10	64
Retail revenue	<u>345</u>	<u>79</u>	<u>424</u>
T&O / SECA rates	3	—	3
PJM transmission	(3)	—	(3)
Other	9	(10)	(1)
Wholesale and miscellaneous revenues	<u>9</u>	<u>(10)</u>	<u>(1)</u>
Increase in operating revenues	<u>\$ 354</u>	<u>\$ 69</u>	<u>\$ 423</u>

Table of Contents

Rate changes and mix. The increase in electric revenues at PECO attributable to rate changes and mix resulted from increased residential sales, which are billed at higher average rates relative to other customer classes. In addition, rates were higher in 2005 for certain large commercial and industrial customers whose rates reflect wholesale energy prices, which were higher in 2005 relative to 2004.

The increase in gas revenues was due to increases in rates through PAPUC-approved changes to the purchased gas adjustment clause that became effective March 1, 2004, March 1, 2005, June 1, 2005, September 1, 2005 and December 1, 2005. The average purchased gas cost rate per million cubic feet in effect for 2005 was 12% higher than the average rate for 2004.

Customer choice. All PECO customers have the choice to purchase energy from a competitive electric generation supplier. This choice does not impact 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.

For 2005 and 2004, 5% and 12%, respectively, of energy delivered to PECO's retail customers was provided by competitive electric generation suppliers.

	2005	2004
Retail customers purchasing energy from a competitive electric generation supplier:		
Number of customers at period end	44,500	101,500
Percentage of total retail customers	3%	7%
Volume (GWhs)	2,094	4,605
Percentage of total retail deliveries	5%	12%

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

The increase in electric retail revenue associated with customer choice was primarily related to a significant number of residential customers returning to PECO as their energy provider in December 2004. This action followed the assignment of approximately 194,000 residential customers to competitive electric generation suppliers for a one-year term beginning in December 2003, as required by the PAPUC and PECO's final electric restructuring order. In 2005, additional customers returned to PECO as their energy supplier primarily as a result of two alternative energy suppliers exiting the market.

Volume. The increase in electric revenues was primarily as a result of higher delivery volume, exclusive of the effects of weather and customer choice, due to an increased number of customers and increased usage per customer across all customer classes. The decrease in gas revenues attributable to lower delivery volume, exclusive of the effects of weather, was primarily due to decreased customer usage, which is consistent with rising gas prices.

Weather. 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 positively affected by favorable weather conditions at PECO in 2005 compared to 2004. In the PECO service territory, cooling and heating degree days were 21% and 2% higher, respectively, than the prior year.

T&O / SECA rates. Effective December 1, 2004, PJM became obligated to pay SECA collections to PECO, and PECO became obligated to pay SECA charges—see "Purchased Power and Fuel"

Table of Contents

Expense" below. The elimination of T&O revenues and inclusion of SECA revenues had a minimal impact on PECO as T&O revenues recognized in the past were not material and SECA revenues currently being recognized also are not material. See Note 4 of the Combined Notes to Consolidated Financial Statements for more information on T&O / SECA rates.

Other wholesale and miscellaneous revenues. Electric revenues increased \$9 million primarily due to increased wholesale sales, and gas revenues decreased \$10 million primarily due to decreased off-system sales.

Purchased Power and Fuel Expense. The changes in PECO's purchased power and fuel expense for 2005 compared to 2004 consisted of the following:

	<u>Electric</u>	<u>Gas</u>	<u>Total increase (decrease)</u>
Prices	\$ 83	\$ 90	\$ 173
Customer choice	118	—	118
Weather	21	7	28
Volume	32	(15)	17
PJM transmission	11	—	11
SECA rates	9	—	9
Other	—	(13)	(13)
Increase in purchased power and fuel expense	<u>\$ 274</u>	<u>\$ 69</u>	<u>\$ 343</u>

Prices. PECO's purchased power expense increased due to a change in the mix of average pricing related to its PPA with Generation. Fuel expense for gas increased due to higher gas prices. See "Operating Revenues" above.

Customer choice. The increase in purchased power expense from customer choice was primarily due to a significant number of residential customers returning to PECO as their energy provider in December 2004.

Weather. The increase in purchased power and fuel expense attributable to weather was primarily due to serving the increased demand due to favorable weather conditions in the PECO service territory.

Volume. The increase in purchased power expense attributable to volume, exclusive of the effects of weather and customer choice, was due primarily to an increased number of customers and increased usage per customer across all customer classes. The decrease in gas fuel expense attributable to volume, exclusive of the effects of weather, was due to decreased customer usage, which is consistent with rising gas prices.

SECA rates. Effective December 1, 2004, PJM became obligated to pay SECA collections to PECO, and PECO became obligated to pay SECA charges. During 2005 and 2004, PECO recorded SECA charges of \$10 million and \$1 million, respectively. See Note 4 of the Combined Notes to Consolidated Financial Statements for more information on T&O and SECA rates.

Other. The decrease in gas fuel expense of \$13 million was associated with decreased off-system sales.

Table of Contents

Operating and Maintenance Expense. The changes in operating and maintenance expense for the 2005 compared to 2004 consisted of the following:

	Increase (decrease)
Contractors ^(a)	\$ 8
Storm costs	7
Implementation of new customer information and billing system	4
PSEG merger integration costs	2
Severance-related expenses	(14)
Injuries and damages	(6)
Other	1
Increase in operating and maintenance expense	\$ 2

(a) The increase was primarily due to increases in vegetation management services compared to the prior year at PECO.

(b) Consists of salary continuance severance costs, curtailment charges for pension and other post retirement benefits, and special termination benefit charges related to other postretirement benefits. The decrease reflects reduced severance-related activity in 2005 compared to 2004.

Depreciation and Amortization Expense. The changes in depreciation and amortization expense for 2005 compared to 2004 consisted of the following:

	Increase (decrease)
Competitive transition charge amortization ^(a)	\$ 37
Accelerated amortization of PECO billing system ^(b)	13
Depreciation expense ^(c)	3
Other amortization expense	(5)
Increase in depreciation and amortization expense	\$ 48

(a) PECO's additional amortization of the CTC is in accordance with its original settlement under the Pennsylvania Competition Act.

(b) In January 2005, as part of a broader systems strategy at PECO associated with the proposed merger with PSEG, Exelon's Board of Directors approved the implementation of a new customer information and billing system at PECO. The approval of this new system requires the accelerated amortization of PECO's current system through 2006 and the recognition of additional amortization expense of \$13 million and \$9 million in 2005 and 2006, respectively.

(c) The increase in depreciation expense is primarily due to capital additions.

Taxes Other Than Income. The changes in taxes other than income for 2005 compared to 2004 consisted of the following:

	Increase (decrease)
Reduction in capital stock tax accrual in 2005 ^(a)	\$ (17)
Reduction in real estate tax accrual in 2005 ^(b)	(6)
Taxes on utility revenues ^(c)	24
Other	(6)
Decrease in taxes other than income	\$ (5)

(a) Represents a reduction in 2005 of prior year capital stock tax accruals as a result of a favorable decision from the Pennsylvania Board of Finance and Revenue.

(b) Represents the reduction of a real estate tax accrual in March 2005 following settlements between PECO and various taxing authorities related to prior year tax assessments. See Note 18 of the Combined Notes to the Financial Statements for additional information.

(c) As these taxes were collected from customers and remitted to the taxing authorities and included in revenues and expenses, the increase in tax expense was offset by a corresponding increase in revenues.

Table of Contents

Interest Expense, Net. The reduction in interest expense, net for 2005 compared to 2004 was primarily due to scheduled payments on long-term debt owed to PETT.

Equity in Losses of Unconsolidated Affiliates. The decrease in equity in losses of unconsolidated affiliates was a result of a decrease in interest expense of the deconsolidated financing trusts of PECO due to scheduled repayments of outstanding long-term debt.

Income Taxes. PECO's effective income tax rate was 32.2% for 2005 compared to 35.4% for 2004. The lower effective tax rate reflects a state income tax benefit recorded as a result of the favorable settlement of a 2000 Pennsylvania corporate net income tax audit. See Note 12 of the Combined Notes to Consolidated Financial Statements for further details of the components of the effective income tax rates.

Cumulative Effect of a Change in Accounting Principle. The cumulative effect of a change in accounting principle reflects the impact of adopting FIN 47 as of December 31, 2005. See Note 13 of the Combined Notes to Consolidated Financial Statements for further discussion of the adoption of FIN 47.

PECO Electric Operating Statistics and Revenue Detail

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

Retail Deliveries—(in GWhs)	2005	2004	Variance	% Change
Full service^(a)				
Residential	13,135	10,349	2,786	26.9%
Small commercial & industrial	7,263	6,728	535	8.0%
Large commercial & industrial	15,205	14,908	297	2.0%
Public authorities & electric railroads	962	914	48	5.3%
Total full service	<u>36,565</u>	<u>32,899</u>	<u>3,666</u>	11.1%
Delivery only^(b)				
Residential	334	2,158	(1,824)	(84.5)%
Small commercial & industrial	1,257	1,687	(430)	(25.5)%
Large commercial & industrial	503	760	(257)	(33.8)%
Total delivery only	<u>2,094</u>	<u>4,605</u>	<u>(2,511)</u>	(54.5)%
Total retail deliveries	<u>38,659</u>	<u>37,504</u>	<u>1,155</u>	3.1%

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

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

Table of Contents

Electric Revenue	2005	2004	Variance	% Change
Full service^(a)				
Residential	\$1,705	\$1,317	\$ 388	29.5%
Small commercial & industrial	818	756	62	8.2%
Large commercial & industrial	1,173	1,113	60	5.4%
Public authorities & electric railroads	84	80	4	5.0%
Total full service	<u>3,780</u>	<u>3,266</u>	<u>514</u>	15.7%
Delivery only^(b)				
Residential	25	164	(139)	(84.8)%
Small commercial & industrial	63	86	(23)	(26.7)%
Large commercial & industrial	13	20	(7)	(35.0)%
Total delivery only	<u>101</u>	<u>270</u>	<u>(169)</u>	(62.6)%
Total electric retail revenues	<u>3,881</u>	<u>3,536</u>	<u>345</u>	9.8%
Wholesale and miscellaneous revenue^(c)	<u>212</u>	<u>203</u>	<u>9</u>	4.4%
Total electric and other revenue	<u>\$4,093</u>	<u>\$3,739</u>	<u>\$ 354</u>	9.5%

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

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

PECO's 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))	2005	2004	Variance	% Change
Retail sales	59,751	59,949	(198)	(0.3)%
Transportation	25,310	27,148	(1,838)	(6.8)%
Total	<u>85,061</u>	<u>87,097</u>	<u>(2,036)</u>	(2.3)%
Revenue				
Retail sales	\$ 783	\$ 702	\$ 81	11.5%
Transportation	16	18	(2)	(11.1)%
Resales and other	18	28	(10)	(35.7)%
Total gas revenue	<u>\$ 817</u>	<u>\$ 748</u>	<u>\$ 69</u>	9.2%

Liquidity and Capital Resources

The Registrants' businesses are capital intensive and require considerable capital resources. These capital resources are primarily provided by internally generated cash flows from operations. When necessary, the Registrants obtain funds from external sources in the capital markets and through bank borrowings. The Registrants' access to external financing on reasonable terms depends on their credit ratings and current 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. See the "Credit Issues" section of "Liquidity and Capital Resources" for further discussion.