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

Cash Flows from Operating Activities

Generation's cash flows from operating activities primarily result from the sale of electric energy to wholesale customers, including ComEd and PECO. Generation's future cash flows from operating activities will be affected by future demand for and market prices of energy and its ability to continue to produce and supply power at competitive costs as well as to obtain collections from customers. ComEd's and PECO's cash flows from operating activities primarily result from sales of electricity and gas to a stable and diverse base of retail customers and are weighted toward the third quarter of each fiscal year. ComEd's and PECO's future cash flows will be affected by the economy, weather, customer choice, future regulatory proceedings with respect to their rates and their ability to achieve operating cost reductions. See Note 4 of the Combined Notes to Consolidated Financial Statements for further discussion of regulatory and legal proceedings and proposed legislation.

Cash flows from operations have been a reliable, steady source of cash flow, sufficient to meet operating and capital expenditures requirements. Taking into account the factors noted above, Exelon also obtains cash from non-operating sources such as the proceeds from the debt issuance in 2005 to fund Exelon's \$2 billion pension contribution (see Note 11 of the Combined Notes to Consolidated Financial Statements). Operating cash flows after 2006 could be negatively affected by changes in the rate regulatory environments of ComEd and PECO. ComEd is required, beginning in 2007, to purchase energy in the wholesale energy markets in order to meet the retail energy needs of ComEd's customers because ComEd does not own any generation. If the price at which ComEd is allowed to sell energy is below ComEd's cost to procure and deliver electricity, there may be potential material adverse consequences to ComEd and, possibly, Exelon. The ICC approved a "cap and deferral" program, proposed by ComEd, to ease the impact of the expected increase in rates on residential customers. The cap and deferral program, generally speaking, will limit the procurement costs that ComEd can pass through to its customers for a specified period of time and allow ComEd to collect any unrecovered procurement costs in later years. See Note 4 of the Combined Notes to the Consolidated Financial Statements for further detail on the procurement case.

Generation's sales to counterparties other than ComEd and PECO will increase due to the expiration of the PPA with ComEd at the end of 2006. The bilateral contracts are subject to credit risk, which relates to the ability of counterparties to meet their contractual payment obligations. Any failure to collect these payments from counterparties could have a material impact on Exelon's and Generation's results of operations, cash flows and financial position. As market prices rise above contracted price levels, Generation is required to post collateral with purchasers; as market prices fall below contracted price levels, counterparties are required to post collateral with Generation. Under the Illinois auction rules and the supplier forward contracts that Generation entered into with ComEd and Ameren, beginning in 2007, collateral postings will be one-sided from Generation only. That is, if market prices fall below ComEd's or Ameren's contracted price levels, ComEd or Ameren are not required to post collateral; however, if market prices rise above contracted price levels with ComEd or Ameren, Generation is required to post collateral. See Note 9 of the Combined Notes to Consolidated Financial Statements for further information regarding Generation's collateral policy.

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Additionally, Exelon, through ComEd, has taken certain tax positions, which have been disclosed to the IRS, to defer the tax gain on the 1999 sale of its fossil generating assets, to which the IRS has objected. As discussed in Note 12 of the Combined Notes to the Consolidated Financial Statements, this deferred tax obligation is significant.

The following table provides a summary of the major items affecting Exelon's cash flows from operations:

	2006	2005	Variance
Net income	\$1,592	\$ 923	\$ 669
Add (subtract):			
Non-cash operating activities ^(a)	3,213	4,102	(889)
Income taxes	69	138	(69)
Changes in working capital and other noncurrent assets and liabilities ^(b)	141	(791)	932
Pension contributions and postretirement healthcare benefit payments, net	(180)	(2,225)	2,045
Net cash flows provided by operations	<u>\$4,835</u>	<u>\$2,147</u>	<u>\$ 2,688</u>

- (a) Includes depreciation, amortization and accretion, deferred income taxes, provision for uncollectible accounts, equity in earnings of unconsolidated affiliates, pension and other postretirement benefits expense, other decommissioning-related activities, cumulative effect of a change in accounting principle, impairment charges and other non-cash items.
- (b) Changes in working capital and other noncurrent assets and liabilities exclude the changes in commercial paper, income taxes and the current portion of long-term debt.

The increase in cash flows from operations during 2006 was primarily the result of \$2 billion of discretionary contributions to Exelon's pension plans during 2005, which was initially funded through a term loan agreement, as further described in the "Cash Flows from Financing Activities" section below. Of the total contribution, Generation, ComEd and PECO contributed \$844 million, \$803 million, and \$109 million, respectively. The Generation contribution was primarily funded by capital contributions from Exelon and included \$2 million from internally generated funds. ComEd's and PECO's contributions were funded by capital contributions from Exelon.

Cash flows provided by operations for 2006 and 2005 by registrant were as follows:

	2006	2005
Exelon	\$4,835	\$2,147
Generation	2,550	972
ComEd	987	247
PECO	1,017	704

Excluding the March 2005 discretionary pension contributions discussed above, changes in the Registrants' cash flows from operations were generally consistent with changes in their results of operations, as adjusted by changes in working capital in the normal course of business.

In addition to the items mentioned in "Results of Operations" and the discretionary pension contributions discussed above, significant operating cash flow impacts for Generation and ComEd for 2006 and 2005 were as follows:

Generation

- At December 31, 2006, 2005 and 2004, Generation had accounts receivable from ComEd under the PPA of \$197 million, \$242 million and \$189 million, respectively.

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- At December 31, 2006, 2005 and 2004, Generation had accounts receivable from PECO under the PPA of \$153 million, \$151 million and \$125 million, respectively.
- During 2006, Generation had net collections of counterparty collateral of \$431 million compared to \$187 million of net disbursements of counterparty collateral in 2005. The increase in cash inflows from 2005 was primarily due to changes in collateral requirements resulting from the extension of letters of credit and changes in market prices relative to positions with counterparties.
- During 2006 and 2005, Generation had net payments of approximately \$220 million and \$165 million, respectively, primarily due to increased use of financial instruments to economically hedge future sales of power and future purchases of fossil fuel.
- During 2005, Exelon received a \$102 million Federal income tax refund for capital losses generated in 2003 related to Generation's investment in Sithe, which were carried back to prior periods. In the first quarter of 2006, Exelon remitted a \$98 million payment to the IRS in connection with the settlement of the IRS's challenge of the timing of the above-described deduction. This payment included \$6 million of interest which was recognized as interest expense in the first quarter of 2006. Exelon received approximately \$92 million on December 13, 2006 related to this same deduction in connection with the filing of its 2005 tax return.

ComEd

- At December 31, 2006, 2005 and 2004, ComEd had accrued payments to Generation under the PPA of \$197 million, \$242 million and \$189 million, respectively.
- In 2005, ComEd settled \$325 million of interest rate swaps that were designated as cash flow hedges for a loss of \$15 million. This was recorded as a pre-tax charge to net income because the underlying transaction for which these interest rate swaps were entered into was no longer probable of occurring.

Cash Flows from Investing Activities

Cash flows used in investing activities for 2006 and 2005 by registrant were as follows:

	2006	2005
Exelon	\$(2,762)	\$(2,487)
Generation	(1,406)	(1,294)
ComEd	(894)	(479)
PECO	(332)	(241)

Capital expenditures by registrant and business segment for 2006 and projected amounts for 2007 are as follows:

	2006	2007
Generation ^(a)	\$1,109	\$1,353
ComEd	911	1,055
PECO ^(b)	345	355
Other	53	38
Total Exelon capital expenditures	\$2,418	\$2,801

(a) Includes nuclear fuel.

(b) Other primarily consists of corporate operations.

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

Generation. Generation's capital expenditures for 2006 reflected additions and upgrades to existing facilities (including material condition improvements during nuclear refueling outages) and nuclear fuel. Generation anticipates that its capital expenditures will be funded by internally generated funds, borrowings or capital contributions from Exelon.

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

Other significant investing activities for Exelon, Generation, ComEd and PECO for 2006 and 2005 were as follows:

Exelon

- Exelon contributed \$92 million and \$102 million to its investments in synthetic fuel-producing facilities during 2006 and 2005, respectively.

Generation

- During 2006, Generation made contributions to the Exelon intercompany money pool totaling \$13 million.
- During 2005, Generation received approximately \$52 million from Generation's nuclear decommissioning trust funds for reimbursement of expenditures previously incurred for nuclear plant decommissioning activities related to its retired units.
- On January 31, 2005, subsidiaries of Generation completed a series of transactions that resulted in Generation's sale of its investment in Sithe. Specifically, subsidiaries of Generation closed on the acquisition of Reservoir Capital Group's 50% interest in Sithe for cash payments of \$97 million and the sale of 100% of Sithe to Dynegy, for net cash proceeds of \$103 million. See Note 3 of the Combined Notes to the Consolidated Financial Statements for further discussion of the sale of Sithe.

ComEd

- As a result of its prior contributions to the Exelon intercompany money pool, \$308 million was returned to ComEd during 2005.

PECO

- During 2006 and 2005, \$8 million and \$26 million, respectively, were returned to PECO as a result of its prior contributions to the Exelon intercompany money pool.

Table of Contents**Cash Flows from Financing Activities**

Cash flows provided by (used in) financing activities for 2006 and 2005 by registrant were as follows:

	2006	2005
Exelon	\$(1,989)	\$ (19)
Generation	(1,050)	93
ComEd	(96)	240
PECO	(693)	(500)

Debt. Debt activity for 2006 by registrant was as follows:

Registrant	Debt issued in 2006	Use of proceeds
ComEd	\$325 million of First Mortgage 5.90% Bonds, Series 103, due March 15, 2036	Used to supplement working capital previously used to refinance amounts that ComEd used to repay bonds and notes.
ComEd	\$300 million of First Mortgage 5.95% Bonds, Series 104, due August 15, 2016	Used to repay commercial paper and for other general corporate purposes.
ComEd	Additional \$115 million of First Mortgage 5.95% Bonds, Series 104, due August 15, 2016	Used to repay bonds at maturity.
ComEd	\$345 million of First Mortgage 5.40% Bonds, Series 105, due December 15, 2011	Used to repay borrowings under ComEd's revolving credit agreement which had been used to repay bonds and to refinance notes.
PECO	\$300 million of First Mortgage Bonds 5.95% Series, due October 1, 2036	Used to repay commercial paper and for other general corporate purposes.

On March 7, 2005, Exelon entered into a \$2 billion term loan agreement. The loan proceeds were used to fund discretionary contributions of \$2 billion to Exelon's pension plans, including contributions of \$842 million, \$803 million and \$109 million by Generation, ComEd and PECO, respectively. To facilitate the contributions by Generation, ComEd and PECO, Exelon contributed the corresponding amounts to the capital of each company. On April 1, 2005, Exelon entered into a \$500 million term loan agreement that was subsequently fully borrowed to reduce the \$2 billion term loan. During the second quarter of 2005, \$200 million of the \$500 million term loan, as well as the remaining \$1.5 billion balance on the \$2 billion term loan described above, were repaid with the net proceeds received from the issuance of the long-term senior notes discussed below. See Note 11 of the Combined Notes to Consolidated Financial Statements for further discussion.

On June 9, 2005, Exelon issued and sold \$1.7 billion of senior debt securities pursuant to its senior debt indenture, dated as of May 1, 2001, consisting of \$400 million of 4.45% senior notes due 2010, \$800 million of 4.90% senior notes due 2015 and \$500 million of 5.625% senior notes due 2035. The net proceeds from the sale of the notes were used to repay the \$1.5 billion in remaining principal due on the \$2 billion term loan agreement and \$200 million of the \$500 million term loan agreement referenced above. Exelon may redeem some or all of the notes at any time prior to maturity at a specified redemption price. The notes are unsecured and rank equally with the other senior unsecured indebtedness of Exelon. Additionally, Exelon settled interest rate swaps for a net payment of \$38 million and paid approximately \$12 million of fees in connection with the debt offering.

In 2005, ComEd used funding received from \$324 million of commercial paper to retire long-term debt.

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

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Generation and Peoples Calumet, LLC (Peoples Calumet), a subsidiary of Peoples Energy Corporation, were joint owners of Southeast Chicago Energy Project, LLC (SCEP), a 350-megawatt natural gas-fired, peaking electric power plant located in Chicago, Illinois, which began operation in 2002. In 2002, Generation and Peoples Calumet owned 70% and 30%, respectively, of SCEP. Generation reflected the third-party interest in this majority-owned investment as a long-term liability in its consolidated financial statements. Pursuant to the joint owners agreement, Generation was obligated to purchase Peoples Calumet's 30% interest ratably over a 20-year period. On March 31, 2006, Generation entered into an agreement to accelerate the acquisition of Peoples Calumet's interest in SCEP. This transaction closed on May 31, 2006. Under the agreement, Generation paid Peoples Calumet approximately \$47 million for its remaining interest in SCEP. Generation financed this transaction using short-term debt and available cash.

Cash dividend payments and distributions in 2006 and 2005 by registrant were as follows:

	2006	2005
Exelon	\$ 1,071	\$ 1,070
Generation	609	857
ComEd	—	498
PECO	506	473

Exelon paid dividends of \$267 million, \$268 million, \$268 million and \$268 million on March 10, 2006, June 12, 2006, September 11, 2006 and December 11, 2006, respectively, to shareholders of record at the close of business on February 15, 2006, May 15, 2006, August 15, 2006 and November 15, 2006, respectively. On December 5, 2006, Exelon's board of directors declared a quarterly dividend of \$0.44 per share on Exelon's common stock, which is payable on March 10, 2007 to shareholders of record at the end of the day on February 15, 2007. See "Dividends" section of ITEM 5 for a further discussion of Exelon's dividend policy.

During 2006, ComEd did not pay any dividend. The decision by the ComEd Board of Directors not to declare a dividend was the result of several factors, including ComEd's need for a rate increase to cover existing costs and anticipated levels of future capital expenditures as well as the continued uncertainty related to ComEd's regulatory filings as discussed in Note 4 of the Combined Notes to Consolidated Financial Statements. ComEd's Board of Directors will continue to assess ComEd's ability to pay a dividend on a quarterly basis.

In 2003, Congress passed and President Bush signed into law the Jobs and Growth Tax Reconciliation Act, legislation which lowered the tax rate on capital gains and corporate dividends to 15% for most investors and to 5% for lower-income investors. Prior to enactment of this law, the maximum tax rate on dividend income was 38.6%. These provisions, which were originally scheduled to expire at the end of 2008, were extended to 2010 as part of the Tax Relief Reconciliation Act of 2005 passed in May 2006.

Intercompany Money Pool. Generation's net borrowings from the Exelon intercompany money pool decreased \$92 million and \$191 million during 2006 and 2005, respectively. During 2006, ComEd repaid \$140 million that it had borrowed from the Exelon intercompany money pool. ComEd's net borrowings from the Exelon intercompany money pool increased \$140 million during 2005. As of January 10, 2006, ComEd suspended participation in the intercompany money pool. PECO's net borrowings from the Exelon intercompany money pool increased \$45 million in 2006.

Commercial Paper and Notes Payable. During 2006, Exelon, Generation, ComEd and PECO repaid \$685 million, \$311 million, \$399 million and \$125 million, net, of commercial paper, respectively. During 2005, Exelon, Generation, ComEd and PECO issued \$500 million, \$311 million, \$459 million and \$220 million, net, of commercial paper, respectively.

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In 2006, Exelon terminated its \$300 million term loan agreement. See Note 11 of the Combined Notes to the Consolidated Financial Statements for further information.

Retirement of Long-Term Debt to Financing Affiliates. Retirement of long-term debt to financing affiliates during 2006 and 2005 by registrant were as follows:

	Year Ended December 31,	
	2006	2005
Exelon	\$ 910	\$ 835
ComEd	339	354
PECO	571	481

Contributions from Parent/Member. Contributions from Parent/Member (Exelon) for the years ended December 31, 2006 and 2005 by registrant were as follows:

Generation	Year Ended December 31,	
	2006	2005
ComEd	\$ 25	\$ 843
PECO	37	834
	181	250

Other. Other significant financing activities for Exelon for the year ended December 31, 2006 and 2005 were as follows:

- Exelon purchased treasury shares totaling \$186 million and \$362 million during 2006 and 2005, respectively.
- Exelon received proceeds from employee stock plans of \$184 million and \$222 million during 2006 and 2005, respectively.
- There was \$60 million and \$0 of excess tax benefits included as a cash inflow in other financing activities during 2006 and 2005, respectively.

Credit Issues

Exelon Credit Facilities

Exelon meets its short-term liquidity requirements primarily through the issuance of commercial paper by the Registrants. At December 31, 2006, 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. These revolving credit agreements are used principally to support the commercial paper programs at the Registrants and to issue letters of credit. During 2006, ComEd borrowed and fully repaid \$240 million under its credit agreement.

At December 31, 2006, the Registrants had the following aggregate bank commitments and available capacity under the credit agreements and the indicated amounts of outstanding commercial paper:

Borrower	Aggregate Bank Commitment (a)	Available Capacity (b)	Outstanding Commercial Paper
Exelon Corporate	\$ 1,000	\$ 993	\$ 150
Generation	5,000	4,920	—
ComEd	1,000	956	60
PECO	600	598	95

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

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

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

The average interest rates on commercial paper in 2006 for Exelon, Generation, ComEd and PECO were approximately 5.02%, 4.99%, 5.06% and 4.97%, respectively.

Each credit agreement requires the affected borrower to maintain a minimum cash from operations to interest expense ratio for the twelve-month period ended on the last day of any quarter. The ratios exclude revenues and interest expenses attributable to securitization debt, certain changes in working capital, distributions on preferred securities of subsidiaries and, in the case of Exelon and Generation, revenues from Sithe and interest on the debt of its project subsidiaries. The following table summarizes the minimum thresholds reflected in the credit agreements for the year ended December 31, 2006:

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

At December 31, 2006, the Registrants were in compliance with the foregoing thresholds.

The ComEd credit agreement is secured by first mortgage bonds and imposes a restriction on future mortgage bond issuances by ComEd. It requires ComEd to maintain at least \$1.75 billion of issuance availability (ignoring any interest coverage test) in the form of "property additions" or "bondable bond retirements" (previously issued, but now retired, bonds), most of which are required to be maintained in the form of "bondable bond retirements." In general, a dollar of bonds can be issued under ComEd's Mortgage on the basis of \$1.50 of property additions, subject to an interest coverage test, or \$1 of bondable bond retirements, which may or may not be subject to an interest coverage test. As of December 31, 2006, ComEd was in compliance with this requirement.

Capital Structure. At December 31, 2006, the capital structures of the Registrants consisted of the following:

	Exelon Consolidated	Generation	ComEd	PECO (a)
Long-term debt	40%	25%	33%	25%
Long-term debt to affiliates	16	—	9	43
Common equity	43	—	57	29
Member's equity	—	75	—	—
Preferred securities	—	—	—	1
Commercial paper and notes payable	1	—	1	2

(a) As of December 31, 2006, PECO's capital structure, excluding the deduction from shareholders' equity of the \$1.1 billion receivable from Exelon (which amount is deducted for GAAP purposes as reflected in the table, but is excluded from the percentages in this footnote), consisted of 40% common equity, 1% preferred securities, 2% notes payable and 57% long-term debt, including long-term debt to unconsolidated affiliates.

(b) Includes \$3.6 billion, \$1.0 billion and \$2.6 billion owed to unconsolidated affiliates of Exelon, ComEd and PECO, respectively, that qualify as special purpose entities under FIN 46-R. These special purpose entities were created for the sole purpose of issuing debt obligations to securitize intangible transition property and CTCs of ComEd and PECO or mandatorily redeemable preferred securities. See Note 1 of the Combined Notes to Consolidated Financial Statements for further information regarding FIN 46-R.

Intercompany Money Pool

To provide an additional short-term borrowing option that will generally be more favorable to the borrowing participants than the cost of external financing, Exelon operates an intercompany money

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pool. Participation in the intercompany money pool is subject to authorization by Exelon's treasurer. Generation, PECO, and BSC may participate in the intercompany money pool as lenders and borrowers, and Exelon and UII, LLC, a wholly owned subsidiary of Exelon, may participate as lenders. Funding of, and borrowings from, the intercompany money pool are predicated on whether the contributions and borrowings result in economic benefits. Interest on borrowings is based on short-term market rates of interest or, if from an external source, specific borrowing rates. Maximum amounts contributed to and borrowed from the intercompany money pool by participant during 2006 are described in the following table in addition to the net contribution or borrowing as of December 31, 2006:

	Maximum Contributed	Maximum Borrowed	December 31, 2006 Contributed (Borrowed)
Generation	\$ 83	\$ 234	\$ 13
ComEd ^(a)	—	140	—
PECO	59	183	(45)
BSC	234	134	(25)
UII, LLC	5	—	—
Exelon	248	—	56

(a) As of January 10, 2006, ComEd suspended participation in the intercompany money pool. During the first quarter of 2006, ComEd repaid \$140 million that it had borrowed from the intercompany money pool.

Security Ratings

The Registrants' access to the capital markets, including the commercial paper market, and their respective financing costs in those markets depend on the securities ratings of the entity that is accessing the capital markets. The following table shows the Registrants' securities ratings at December 31, 2006:

	Securities	Moody's Investors Service	Standard & Poor's Corporation	Fitch Ratings.
Exelon	Senior unsecured debt	Baa2	BBB	BBB+
	Commercial paper	P2	A2	F2
Generation	Senior unsecured debt	Baa1	BBB+	BBB+
	Commercial paper	P2	A2	F2
ComEd	Senior unsecured debt	Baa3	BB+	BBB
	Senior secured debt	Baa2	BBB	BBB+
	Commercial paper	P3	A3	F2
	Transition bonds ^(a)	Aaa	AAA	AAA
PECO	Senior unsecured debt	A3	BBB	A-
	Senior secured debt	A2	A-	A
	Commercial paper	P1	A2	F1
	Transition bonds ^(b)	Aaa	AAA	AAA

(a) Issued by ComEd Transitional Funding Trust, an unconsolidated affiliate of ComEd.

(b) Issued by PETT, an unconsolidated affiliate of PECO.

On July 26, 2006, Moody's Investors Service (Moody's) downgraded the long-term and short-term debt ratings of ComEd. The rating action concluded Moody's review for possible downgrade that commenced on December 15, 2005. Moody's attributed the downgrade to a difficult political and regulatory environment in Illinois, uncertainty about the outcome of the electricity supply auction and the expectation of a material regulatory deferral. On October 10, 2006, Moody's placed ComEd's security ratings under review for possible downgrade resulting from perceived increasing political and regulatory risk in Illinois.

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On July 31, 2006, Fitch Ratings downgraded the long-term ratings of ComEd. On November 17, 2006, Fitch Ratings placed the ratings of ComEd under Ratings Watch negative due to on-going uncertainty in Illinois resulting from recent legislative actions supporting a rate freeze.

On October 5, 2006, Standard & Poor's (S&P) downgraded the short-term and long-term security ratings of ComEd due to perceived political risk related to the rate freeze extension proposal. S&P downgraded ComEd's senior unsecured debt to BB+, which is below investment grade. The ratings on Exelon, PECO and Generation were affirmed. The ratings for all Registrants were placed under Credit Watch with negative implications.

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

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

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

Shelf Registrations

As of December 31, 2006, Exelon and PECO had current shelf registration statements for the sale of \$300 million and \$250 million, respectively, of securities that were effective with the SEC. ComEd, a well-known seasoned issuer as described by the SEC, filed an automatic registration statement on May 10, 2006 and the shelf registration was effective immediately. The ability of Exelon, ComEd or PECO to sell securities off its shelf registration statement or to access the private placement markets will depend on a number of factors at the time of the proposed sale, including other required regulatory approvals, the current financial condition of the company, its securities ratings and market conditions.

Regulatory Restrictions

The issuance by ComEd of long-term debt or equity securities requires the prior authorization of the ICC. The issuance by PECO of long-term debt or equity securities requires the prior authorization of the PAPUC. ComEd and PECO normally obtain the required approvals on a periodic basis to cover their anticipated financing needs for a period of time or in connection with a specific financing.

Under PUHCA, the SEC had financing jurisdiction over ComEd's and PECO's short-term financings and all of Generation's and Exelon's financings. As a result of the repeal of PUHCA,

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effective February 8, 2006, the SEC's financing jurisdiction under PUHCA for ComEd's and PECO's short-term financings and Generation's financings reverted to FERC and Exelon's financings are no longer subject to regulatory approvals.

In February 2006, ComEd and PECO received orders from FERC approving their requests for short-term financing authority with FERC in the amounts of \$2.5 billion and \$1.5 billion, respectively, effective February 8, 2006 through December 31, 2007.

Generation currently has blanket financing authority that it received from FERC with its market-based rate authority in November 2000 and that became effective again with the repeal of PUHCA. See Note 4 of the Combined Notes to Consolidated Financial Statements for further information.

Under applicable law, Generation, ComEd and PECO can pay dividends only from retained, undistributed or current earnings. A significant loss recorded at Generation, ComEd or PECO may limit the dividends that these companies can distribute to Exelon. At December 31, 2006, Exelon had retained earnings of \$3.4 billion, including Generation's undistributed earnings of \$1.8 billion, ComEd's retained deficit of \$(193) million consisting of an unappropriated retained deficit of \$(1.6) billion partially offset by \$1.4 billion of retained earnings appropriated for future dividends, and PECO's retained earnings of \$584 million.

Investments in Synthetic Fuel-Producing Facilities

Exelon, through three separate wholly owned subsidiaries, owns interests in two limited liability companies and one limited partnership that own synthetic fuel-producing facilities. Section 45K (formerly Section 29) of the Internal Revenue Code provides tax credits for the sale of synthetic fuel produced from coal. However, Section 45K contains a provision under which the tax credits are phased out (i.e., eliminated) in the event crude oil prices for a year exceed certain thresholds. On April 11, 2006, the IRS published the 2005 oil Reference Price and it did not exceed the beginning of the phase-out range. Consequently, there was no phase-out of tax credits for calendar year 2005.

The following table (in dollars) provides the estimated phase-out ranges for 2006 and 2007 based on the per barrel price of oil as of December 31, 2006. The table also contains the annual average New York Mercantile Exchange, Inc. index (NYMEX) prices per barrel at December 31, 2006 based on actual prices for the year ended December 31, 2006 and the estimated average futures prices for the year ended December 31, 2007.

	<u>2006</u>	<u>2007</u>
Beginning of Phase-Out Range ^(a)	\$ 60	\$ 62
End of Phase-Out Range ^(a)	76	77
Annual Average NYMEX	66	64

(a) The estimated 2006 and 2007 phase-out ranges are based upon the actual 2005 phase-out range. The actual 2005 phase-out range was determined using the inflation adjustment factor published by the IRS in April 2006. The actual 2005 phase-out range was increased by 2% per year (Exelon's estimate of inflation) to arrive at the estimated 2006 and 2007 phase-out ranges.

Exelon and the operators of the synthetic fuel-producing facilities in which Exelon has interests idled the facilities in May 2006. The decision to suspend synthetic fuel production was primarily driven by the level and volatility of oil prices. In addition, the proposed Federal legislation that would have provided certainty that tax credits would exist for 2006 production was not included in the Tax Increase Prevention and Reconciliation Act of 2005. Due to the reduction in oil prices during the third quarter of 2006, the operators resumed production at their synthetic fuel-producing facilities in September 2006

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and produced at full capacity through the remainder of 2006. As of December 31, 2006, Exelon has estimated the 2006 phase-out to be 38%, which has reduced Exelon's earned after-tax credits of \$164 million to \$101 million for the year ended December 31, 2006. At December 31, 2006, Exelon has estimated the 2007 phase-out of tax credits to be 18%. Exelon anticipates generating approximately \$220 million of cash over the life of these investments, of which \$80 million is expected in total for 2007 and 2008, assuming an 18% phase-out of tax credits. These estimates may change significantly due to the volatility of oil prices. See Note 12 of the Combined Notes to Consolidated Financial Statements for further discussion. The estimated 2006 and 2007 phase-out ranges are based upon the actual 2005 phase-out range. The actual 2005 phase-out range was determined using the inflation adjustment factor published by the IRS in April 2006. The actual 2005 phase-out range was increased by 2% each year (Exelon's estimate of inflation) to arrive at the estimated 2006 and 2007 phase-out ranges.

Contractual Obligations and Off-Balance Sheet Arrangements

Exelon

The following table summarizes Exelon's future estimated cash payments under existing contractual obligations, including payments due by period.

	Total	Payment due within			Due 2012 and beyond
		2007	2008-2009	2010-2011	
Long-term debt	\$ 9,126	\$ 246	\$ 922	\$ 2,427	\$ 5,531
Long-term debt to financing trusts	3,596	581	1,664	806	545
Interest payments on long-term debt ^(a)	4,976	486	888	757	2,845
Interest payments on long-term debt to financing trusts ^(a)	1,318	225	285	98	710
Capital leases	44	2	4	4	34
Operating leases ^(b)	716	58	110	93	455
Purchase power obligations	7,802	1,967	1,492	1,134	3,209
Fuel purchase agreements ^{(b)(c)}	5,022	1,047	1,463	1,169	1,343
Other purchase obligations ^(d)	642	292	140	95	115
Chicago agreement	36	6	12	12	6
Spent nuclear fuel obligation	950	—	—	—	950
Pension ERISA minimum funding requirement	32	32	—	—	—
Total contractual obligations	\$ 34,260	\$ 4,942	\$ 6,980	\$ 6,595	\$ 15,743

(a) Interest payments are estimated based on final maturity dates of debt securities outstanding at December 31, 2006 and do not reflect anticipated future refinancing, early redemptions or debt issuances. Variable rate interest obligations are estimated based on rates as of December 31, 2006.

(b) Net capacity purchases include tolling agreements that are accounted for as operating leases. Amounts presented in the commitments represent Generation's expected payments under these arrangements at December 31, 2006. Expected payments include certain capacity charges which are contingent on plant availability. Does not include ComEd's supplier forward contracts as these contracts do not require purchases of fixed or minimum quantities. See Notes 4 and 18 of the Combined Notes to the Consolidated Financial Statements.

(c) Commitments for services, materials and information technology.

(d) On February 20, 2003, ComEd entered into separate agreements with Chicago and with Midwest Generation (Midwest Agreement). Under the terms of the agreement with Chicago, ComEd will pay Chicago \$60 million over ten years to be relieved of a requirement, originally transferred to Midwest Generation upon the sale of ComEd's fossil stations in 1999, to build a 500-MW generation facility.

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Generation

The following table summarizes Generation's future estimated cash payments under existing contractual obligations, including payments due by period.

(in millions)	Total	Payment Due within			Due 2012 and beyond
		2007	2008-2009	2010-2011	
Long-term debt	\$ 1,749	\$ 10	\$ 19	\$ 700	\$ 1,020
Interest payments on long-term debt ^(a)	786	96	190	138	362
Capital leases	44	2	4	4	34
Operating leases	503	34	61	53	355
Purchase power obligations ^(b)	7,802	1,967	1,492	1,134	3,209
Fuel purchase agreements ^(c)	4,516	830	1,317	1,104	1,265
Other purchase commitments	277	165	50	38	24
Pension ERISA minimum funding requirement	24	24	—	—	—
Spent nuclear fuel obligations	950	—	—	—	950
Total contractual obligations	\$ 16,651	\$ 3,128	\$ 3,133	\$ 3,171	\$ 7,219

(a) Interest payments are estimated based on final maturity dates of debt securities outstanding at December 31, 2006 and do not reflect anticipated future refinancing, early redemptions or debt issuances. Variable rate interest obligations are estimated based on rates as of December 31, 2006.

(b) Net capacity purchases include tolling agreements that are accounted for as operating leases. Amounts presented in the commitments represent Generation's expected payments under these arrangements at December 31, 2006. Expected payments include certain capacity charges which are contingent on plant availability.

(c) Commitments for services, materials and information technology.

ComEd

The following table summarizes ComEd's future estimated cash payments under existing contractual obligations, including payments due by period.

	Total	Payment due within			Due 2012 and beyond
		2007	2008-2009	2010-2011	
Long-term debt	\$3,597	\$147	\$ 434	\$ 560	\$ 2,456
Long-term debt to financing trusts ^(a)	1,009	308	340	—	361
Interest payments on long-term debt ^(a)	1,970	192	346	326	1,106
Interest payments on long-term debt to financing trusts ^(a)	655	57	64	52	482
Operating leases ^(b)	143	19	38	30	56
Other purchase commitments ^(c)	38	27	7	4	—
Chicago agreement ^(c)	36	6	12	12	6
Total contractual obligations	\$7,448	\$756	\$ 1,241	\$ 984	\$ 4,467

(a) Interest payments are estimated based on final maturity dates of debt securities outstanding at December 31, 2006 and do not reflect anticipated future refinancing, early redemptions or debt issuances.

(b) Other purchase commitments include commitments for services, materials and information technology. Other purchase commitments do not include ComEd's supplier forward contracts as these contracts do not require purchases of fixed or minimum quantities. See Notes 4 and 18 of the Combined Notes to the Consolidated Financial Statements for further detail on ComEd's supplier forward contracts.

(c) On February 20, 2003, ComEd entered into separate agreements with Chicago and with Midwest Generation (Midwest Agreement). Under the terms of the agreement with Chicago, ComEd will pay Chicago \$60 million over ten years to be relieved of a requirement, originally transferred to Midwest Generation upon the sale of ComEd's fossil stations in 1999, to build a 500-MW generation facility.

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PECO

The following table summarizes PECO's future estimated cash payments under existing contractual obligations, including payments due by period.

(in millions)	Total	Payment due within			Due 2012 and beyond
		2007	2008-2009	2010-2011	
Long-term debt	\$1,471	\$—	\$ 450	\$ 267	\$ 754
Long-term debt to financing trusts ^(a)	2,588	273	1,325	806	184
Interest payments on long-term debt	851	70	114	105	562
Interest payments on long-term debt to financing trusts ^(a)	663	168	221	46	228
Operating leases ^(b)	5	1	2	1	1
Fuel purchase agreements ^(b)	506	217	146	65	78
Other purchase commitments ^(c)	209	20	51	47	91
Total contractual obligations	\$6,293	\$749	\$ 2,309	\$ 1,337	\$ 1,898

- (a) Interest payments are estimated based on final maturity dates of debt securities outstanding at December 31, 2006 and do not reflect anticipated future refinancing, early redemptions or debt issuances.
 (b) Represents commitments to purchase natural gas and related transportation and storage capacity and services.
 (c) Commitments for services, materials and information technology.

For additional information about:

- commercial paper, see Note 11 of the Combined Notes to Consolidated Financial Statements.
- long-term debt, see Note 11 of the Combined Notes to Consolidated Financial Statements.
- capital lease obligations, see Note 11 of the Combined Notes to Consolidated Financial Statements.
- operating leases, energy commitments and fuel purchase agreements, see Note 18 of the Combined Notes to Consolidated Financial Statements.
- the contribution required to Exelon's pension plans to satisfy ERISA minimum funding requirements, see Note 14 of the Combined Notes to Consolidated Financial Statements.
- the spent nuclear fuel and nuclear decommissioning obligations, see Note 13 of the Combined Notes to Consolidated Financial Statements.
- regulatory commitments, see Note 4 of the Combined Notes to Consolidated Financial Statements.

Mystic Development, LLC (Mystic), a former affiliate of Exelon New England, has a long-term agreement through January 2020 with Distrigas of Massachusetts Corporation (Distrigas) for gas supply, primarily for the Boston Generating units. Under the agreement, gas purchase prices from Distrigas are indexed to the New England gas markets. Exelon New England has guaranteed Mystic's financial obligations to Distrigas under the long-term supply agreement. Exelon New England's guarantee to Distrigas remained in effect following the transfer of ownership interest in Boston Generating in May 2004. Under FIN 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others (FIN 45)," approximately \$14 million was included as a liability within the Consolidated Balance Sheets of Exelon and Generation as of December 31, 2006 related to this guarantee. The terms of the guarantee do not limit the potential future payments that Exelon New England could be required to make under the guarantee.

Generation has an obligation to decommission its nuclear power plants. NRC regulations require that licensees of nuclear generating facilities demonstrate reasonable assurance that funds will be

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available in specified minimum amounts at the end of the life of the facility to decommission the facility. Based on estimates of decommissioning costs for each of the nuclear facilities in which Generation has an ownership interest, the ICC permitted ComEd through December 31, 2006, and the PAPUC permits PECO, to collect from their customers and deposit in nuclear decommissioning trust funds maintained by Generation amounts which, together with earnings thereon, will be used to decommission such nuclear facilities. Generation also maintains nuclear decommissioning trust funds for each of the AmerGen units. At December 31, 2006, the asset retirement obligation recorded within Generation's Consolidated Balance Sheets related to its nuclear-fueled generating facilities was approximately \$3.5 billion. Decommissioning expenditures are expected to occur primarily after the plants are retired. Following the completion of decommissioning activities, any excess nuclear decommissioning trust funds related to the former ComEd and PECO nuclear power plants will be required to be refunded to ComEd or PECO, as appropriate. To fund future decommissioning costs, Generation held approximately \$6.4 billion of investments in trust funds, including unrealized gains at December 31, 2006. See Note 13 of the Combined Notes to Consolidated Financial Statements for further discussion of Generation's decommissioning obligation.

See Note 18 of the Combined Notes to Consolidated Financial Statements for discussion of Exelon's commercial commitments as of December 31, 2006.

Refund Claims

ComEd and PECO have several pending tax refund claims seeking acceleration of certain tax deductions and additional tax credits. ComEd and PECO are unable to estimate the ultimate outcome of these refund claims and will account for any amounts received in the period the matters are settled with the IRS and state taxing authorities. While Generation currently has state reviews by governmental agencies pending, they are not expected to have a significant impact on the financial condition or result of operations of Generation.

ComEd and PECO have entered into several agreements with a tax consultant related to the filing of refund claims with the IRS. The fees for these agreements are contingent upon a successful outcome of the claims and are based upon a percentage of the refunds recovered from the IRS, if any. The ultimate net cash impacts to ComEd and PECO related to these agreements will either be positive or neutral depending upon the outcome of the refund claim with the IRS. These potential tax benefits and associated fees could be material to the financial position, results of operations and cash flows of ComEd and PECO. If a settlement is reached, a portion of ComEd's tax benefits, including any associated interest for periods prior to the PECO/Unicom Merger, would be recorded as a reduction of goodwill under the provisions of EITF Issue 93-7, "Uncertainties Related to Income Taxes in a Purchase Business Combination" (EITF 93-7). Exelon cannot predict the timing of the final resolution of these refund claims.

In 2006, the Joint Committee on Taxation (Joint Committee) completed its review and granted approval for PECO's income tax refund claims for investment tax credits. A majority of the investment tax credits claimed in the refund related to PECO's formerly owned generation property. The asset transfer agreement between PECO and Generation provides that PECO retains all current tax and interest benefits associated with the refund claims. Thus, as a result of the agreement, PECO recorded the current tax and interest benefits and Generation recorded the remaining unamortized investment tax credits and the related future deferred tax effects. As a result, the investment tax credit refund and associated interest of \$19 million (after tax) have been recorded as a credit in Exelon's and PECO's Consolidated Statements of Operations in 2006. Exelon and Generation recorded unamortized investment tax credits and related tax impacts of \$10 million (after tax) as a charge to their Consolidated Statements of Operations. The unamortized investment tax credit recorded at Exelon, PECO and Generation will be amortized over the remaining depreciable book lives of the transmission, distribution and generation property using the deferral method pursuant to APB No. 2, "Accounting for the 'Investment Credit'" and APB No. 4, "Accounting for the 'Investment Credit'." In addition, as a result

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of the approval of the refund claim, Exelon and PECO recorded a consulting expense of \$3 million (after tax) in 2006. The net after-tax result of this settlement and consulting fees was \$6 million, \$16 million and \$(10) million for Exelon, PECO and Generation, respectively.

During 2006, the IRS indicated to PECO that it agreed with a substantial portion of a research and development refund claim. This refund claim was subject to the approval of the Joint Committee. In 2006, the Joint Committee completed its review and granted approval of the research and development claim. A majority of the refund claim also related to PECO's formerly owned generation property. Consistent with the investment tax credit refund claims, pursuant to the asset transfer agreement between PECO and Generation, PECO recorded the current tax and interest benefits and Generation recorded the future deferred tax effects. As a result, a research and development credit and the associated interest refund of \$20 million (after tax) have been recorded as a credit in Exelon's and PECO's Consolidated Statements of Operations in 2006. Exelon and Generation recorded the future deferred tax impact of \$11 million as a charge to their Consolidated Statements of Operations. In addition, based on the IRS' indication of its agreement with a portion of the refund claim, PECO recorded an estimated tax consulting contingent fee of \$2 million (after tax) during 2006. The net after-tax result of this settlement and consulting fees was \$7 million, \$18 million, and \$(11) million for Exelon, PECO, and Generation respectively.

Variable Interest Entities

Sithe. As of December 31, 2004, Generation was a 50% owner of Sithe. In accordance with FIN 46-R, Generation consolidated Sithe within its financial statements as of March 31, 2004. The determination that Sithe qualified as a variable interest entity and that Generation was the primary beneficiary under FIN 46-R required analysis of the economic benefits accruing to all parties pursuant to their ownership interests supplemented by management's judgment. See Note 2 of the Combined Notes to Consolidated Financial Statements for a discussion of the sale of Generation's entire interest in Sithe that was completed on January 31, 2005.

Financing Trusts of ComEd and PECO. During June 2003, PECO issued \$103 million of subordinated debentures to PECO Trust IV in connection with the issuance by PECO Trust IV of \$100 million of preferred securities. Effective July 1, 2003, PECO Trust IV was deconsolidated from the financial statements of PECO in conjunction with FIN 46. The \$103 million of subordinated debentures issued by PECO to PECO Trust IV was recorded as long-term debt to financing trusts within the Consolidated Balance Sheets.

Effective December 31, 2003, ComEd Financing II, ComEd Financing III, ComEd Funding, LLC, ComEd Transitional Funding Trust, PECO Trust III and PETT were deconsolidated from the financial statements of Exelon in conjunction with the adoption of FIN 46-R. Amounts of \$1.0 billion and \$2.5 billion, respectively, owed by ComEd and PECO to these financing trusts were recorded as long-term debt to ComEd Transitional Funding Trust and PETT and long-term debt to financing trusts within the Consolidated Balance Sheets as of December 31, 2006.

Nuclear Insurance Coverage

Generation carries property damage, decontamination and premature decommissioning insurance for each station loss resulting from damage to Generation's nuclear plants, subject to certain exceptions. Additionally, Generation carries business interruption insurance in the event of a major accidental outage at a nuclear station. Finally, Generation participates in the American Nuclear Insurers (ANI) Master Worker Program, which provides coverage for worker tort claims filed for bodily injury caused by a nuclear energy accident. See Note 18 of the Combined Notes to Consolidated Financial Statements for further discussion of nuclear insurance. For its types of insured losses,

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Generation is self-insured to the extent that losses are within the policy deductible or exceed the amount of insurance maintained. Such losses could have a material adverse effect on Exelon and Generation's financial condition and their results of operations and cash flows.

PECO Accounts Receivable Agreement

PECO is party to an agreement with a financial institution under which it can sell or finance with limited recourse an undivided interest, adjusted daily, in up to \$225 million of designated accounts receivable through November 2010. At December 31, 2006, PECO had sold a \$225 million interest in accounts receivable, consisting of a \$208 million interest in accounts receivable, which PECO accounted for as a sale under SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities—a Replacement of FASB Statement No. 125," (SFAS No. 140), and a \$17 million interest in special-agreement accounts receivable which was accounted for as a long-term note payable. At December 31, 2005, PECO had sold a \$225 million interest in accounts receivable, consisting of a \$195 million interest in accounts receivable, which PECO accounted for as a sale under SFAS No. 140, and a \$30 million interest in special-agreement accounts receivable, which was accounted for as a long-term note payable. PECO retains the servicing responsibility for these receivables. The agreement requires PECO to maintain the \$225 million interest, which, if not met, requires cash, which would otherwise be received by PECO under this program, to be held in escrow until the requirement is met. At December 31, 2006 and 2005, PECO met this requirement and was not required to make any cash deposits.

Beginning in 2007, this agreement will be subject to the provisions of SFAS No. 156, "Accounting for Servicing of Financial Assets, amendment of FASB Statement No. 140," which is not expected to have a material impact to PECO.

New Accounting Pronouncements

See Note 1 of the Combined Notes to Consolidated Financial Statements for information regarding new accounting pronouncements.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Exelon Corporation

The Registrants are exposed to market risks associated with adverse changes in commodity prices, counterparty credit, interest rates, and equity prices. Exelon's RMC approves risk management policies and objectives for risk assessment, control and valuation, counterparty credit approval, and the monitoring and reporting of risk exposures. The RMC is chaired by the chief risk officer and includes the chief financial officer, general counsel, treasurer, vice president of corporate planning, vice president of strategy, vice president of audit services and officers representing Exelon's business units. The RMC reports to the Exelon Board of Directors on the scope of the risk management activities.

Commodity Price Risk (Exelon, Generation and ComEd)

To the extent the amount of energy Exelon generates differs from the amount of energy it has contracted to sell, Exelon has price risk from commodity price movements. Commodity price risk is associated with price movements resulting from changes in supply and demand, fuel costs, market liquidity, weather, governmental regulatory and environmental policies, and other factors. Exelon seeks to mitigate its commodity price risk through the purchase and sale of electric capacity, energy and fossil fuels including oil, gas, coal and emission allowances. Within Exelon, Generation is primarily exposed to commodity price risk with ComEd having modest exposure due to the need to purchase ancillary services.

Exelon and Generation

In 2005, Exelon and Generation entered into certain derivatives in the normal course of trading operations to economically hedge a portion of the exposure to a phase-out of the tax credits for the sale of synthetic fuel produced from coal. One of the counterparties has security interests in these derivatives. Including the related mark-to-market gains and losses on these derivatives, interests in synthetic fuel-producing facilities reduced Exelon's net income by \$24 million and increased Exelon's net income by \$81 million and \$70 million during the years ended December 31, 2006, 2005 and 2004, respectively. Exelon anticipates that it will continue to record income or losses related to the mark-to-market gains or losses on its derivative instruments and changes to the tax credits earned by Exelon during the period of production due to the volatility of oil prices. Net income or net losses from interests in synthetic fuel-producing facilities are reflected in Exelon's Consolidated Statements of Operations within income taxes, operating and maintenance expense, depreciation and amortization expense, interest expense, equity in losses of unconsolidated affiliates and other, net. See Note 12 of the Combined Notes to consolidated Financial Statements for further information in regards to synthetic fuel activity.

Generation

Generation's energy contracts are accounted for under SFAS No. 133. Non-trading contracts qualify for the normal purchases and normal sales exemption to SFAS No. 133, which is discussed in Critical Accounting Policies and Estimates. Energy contracts that do not qualify for the normal purchases and normal sales exception are recorded as assets or liabilities on the balance sheet at fair value. Changes in the fair value of qualifying hedge contracts are recorded in other comprehensive income (OCI), and gains and losses are recognized in earnings when the underlying transaction occurs. Changes in the derivatives recorded at fair value are recognized in earnings unless specific hedge accounting criteria are met and they are designated as cash-flow hedges, in which case those changes are recorded in OCI, and gains and losses are recognized in earnings when the underlying transaction occurs. Changes in the fair value of derivative contracts that do not meet the hedge criteria under SFAS No. 133 or are not designated as such are recognized in current earnings.

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Normal Operations and Hedging Activities. Electricity available from Generation's owned or contracted generation supply in excess of Generation's obligations to customers, including ComEd's and PECO's retail load, is sold into the wholesale markets. To reduce price risk caused by market fluctuations, Generation enters into physical contracts as well as derivative contracts, including forwards, futures, swaps, and options, with approved counterparties to hedge anticipated exposures. The maximum length of time over which cash flows related to energy commodities are currently being hedged is approximately three years. Generation has estimated a greater than 90% economic and cash flow hedge ratio for 2007 for its energy marketing portfolio. This hedge ratio represents the percentage of its forecasted aggregate annual economic generation supply that is committed to firm sales, including sales to ComEd's and PECO's retail load. ComEd's and PECO's retail load assumptions are based on forecasted average demand. A portion of Generation's hedge may be accomplished with fuel products based on assumed correlations between power and fuel prices, which routinely change in the market. The hedge ratio is not fixed and will vary from time to time depending upon market conditions, demand, energy market option volatility and actual loads. During peak periods, Generation's amount hedged declines to meet its energy and capacity commitments to ComEd and PECO. Market price risk exposure is the risk of a change in the value of unhedged positions. The forecasted market price exposure for Generation's non-trading portfolio associated with a ten percent reduction in the annual average around-the-clock market price of electricity would be a decrease of less than \$50 million in net income. This sensitivity assumes that price changes occur evenly throughout the year and across all markets. The sensitivity also assumes a static portfolio. Generation expects to actively manage its portfolio to mitigate market price exposure. Actual results could differ depending on the specific timing of, and markets affected by, price changes, as well as future changes in Generation's portfolio.

Proprietary Trading Activities. Generation uses financial contracts for proprietary trading purposes. Proprietary trading includes all contracts entered into purely to profit from market price changes as opposed to hedging an exposure. These activities are accounted for on a mark-to-market basis. The proprietary trading activities are a complement to Generation's energy marketing portfolio but represent a very small portion of Generation's overall energy marketing activities. For example, the limit on open positions in electricity for any forward month represents less than one percent of Generation's owned and contracted supply of electricity. Generation expects this level of proprietary trading activity to continue in the future. Trading portfolio activity for the year ended December 31, 2006 resulted in a gain of \$14 million (before income taxes), which represented a net unrealized mark-to-market gain of \$10 million and realized gain of \$4 million. Generation uses a 95% confidence interval, one day holding period, one-tailed statistical measure in calculating its Value-at-Risk (VaR). The daily VaR on proprietary trading activity averaged \$120,000 of exposure over the last 18 months. Because of the relative size of the proprietary trading portfolio in comparison to Generation's total gross margin from continuing operations for year ended December 31, 2006 of \$5,165 million, Generation has not segregated proprietary trading activity in the following tables. The trading portfolio is subject to a risk management policy that includes stringent risk management limits, including volume, stop-loss and value-at-risk limits to manage exposure to market risk. Additionally, the Exelon risk management group and Exelon's RMC monitor the financial risks of the proprietary trading activities.

Trading and Non-Trading Marketing Activities. The following detailed presentation of Generation's trading and non-trading marketing activities is included to address the recommended disclosures by the energy industry's Committee of Chief Risk Officer (CCRO).

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The following table provides detail on changes in Generation's mark-to-market net asset or liability balance sheet position from January 1, 2005 to December 31, 2006. It indicates the drivers behind changes in the balance sheet amounts. This table incorporates the mark-to-market activities that are immediately recorded in earnings as well as the settlements from OCI to earnings and changes in fair value for the hedging activities that are recorded in accumulated OCI on the Consolidated Balance Sheets.

	<u>Total</u>
Total mark-to-market energy contract net liabilities at January 1, 2005 ^(a)	\$(145)
Total change in fair value during 2005 of contracts recorded in earnings	108
Reclassification to realized at settlement of contracts recorded in earnings	(105)
Reclassification to realized at settlement from OCI	583
Effective portion of changes in fair value—recorded in OCI	(879)
Purchase/sale/disposal of existing contracts or portfolios subject to mark-to-market ^(a)	(102)
Total mark-to-market energy contract net liabilities at December 31, 2005	(540)
Total change in fair value during 2006 of contracts recorded in earnings	41
Reclassification to realized at settlement of contracts recorded in earnings	66
Reclassification to realized at settlement from OCI	146
Effective portion of changes in fair value—recorded in OCI	789
Purchase/sale/disposal of existing contracts or portfolios subject to mark-to-market	(3)
Total mark-to-market energy contract net assets at December 31, 2006	<u>\$ 499</u>

(a) Includes a \$39 million liability related to Sithe and the related mark-to-market expense which were reclassified to discontinued operations.

The following table details the balance sheet classification of the mark-to-market energy contract net assets (liabilities) recorded as of December 31, 2006 and 2005:

	<u>December 31, 2006</u>	<u>December 31, 2005</u>
Current assets	\$ 1,408	\$ 916
Noncurrent assets	171	286
Total mark-to-market energy contract assets	<u>1,579</u>	<u>1,202</u>
Current liabilities	(1,003)	(1,282)
Noncurrent liabilities	(77)	(460)
Total mark-to-market energy contract liabilities	<u>(1,080)</u>	<u>(1,742)</u>
Total mark-to-market energy contract net assets (liabilities)	<u>\$ 499</u>	<u>\$ (540)</u>

The majority of Generation's contracts are non-exchange-traded contracts valued using prices provided by external sources, primarily price quotations available through brokers or over-the-counter, on-line exchanges. Prices reflect the average of the bid-ask mid-point prices obtained from all sources that Generation believes provide the most liquid market for the commodity. The terms for which such price information is available vary by commodity, region and product. The remainder of the assets represents contracts for which external valuations are not available, primarily option contracts. These contracts are valued using the Black model, an industry standard option valuation model. The fair values in each category reflect the level of forward prices and volatility factors as of December 31, 2006 and may change as a result of changes in these factors. Management uses its best estimates to determine the fair value of commodity and derivative contracts Generation holds and sells. These estimates consider various factors including closing exchange and over-the-counter price quotations, time value, volatility factors and credit exposure. It is possible, however, that future market prices could vary from those used in recording assets and liabilities from energy marketing and trading activities and such variations could be material.

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The following table, which presents maturity and source of fair value of mark-to-market energy contract net assets (liabilities), provides two fundamental pieces of information. First, the table provides the source of fair value used in determining the carrying amount of Generation's total mark-to-market asset or liability. Second, the table provides the maturity, by year, of Generation's net assets (liabilities), giving an indication of when these mark-to-market amounts will settle and either generate or require cash.

(in millions)	Maturities within					2012 and Beyond	Total Fair Value
	2007	2008	2009	2010	2011		
Normal Operations, qualifying cash-flow hedge contracts^(a):							
Actively quoted prices	\$ (4)	\$—	\$—	\$—	\$—	\$—	\$ (4)
Prices provided by other external sources	345	59	14	1	—	—	419
Total	\$ 341	\$ 59	\$ 14	\$ 1	\$—	\$—	\$ 415
Normal Operations, other derivative contracts^(b):							
Actively quoted prices	\$(122)	\$ 25	\$ (1)	\$—	\$—	\$—	\$ (98)
Prices provided by other external sources	232	—	1	—	—	—	233
Prices based on model or other valuation methods	(50)	(1)	—	—	—	—	(51)
Total	\$ 60	\$ 24	\$—	\$—	\$—	\$—	\$ 84

(a) Mark-to-market gains and losses on contracts that qualify as cash-flow hedges are recorded in other comprehensive income.

(b) Mark-to-market gains and losses on other non-trading and trading derivative contracts that do not qualify as cash-flow hedges are recorded in earnings.

The table below provides details of effective cash-flow hedges under SFAS No. 133 included in the balance sheet as of December 31, 2006. The data in the table gives an indication of the magnitude of SFAS No. 133 hedges Generation has in place; however, since under SFAS No. 133 not all hedges are recorded in OCI, the table does not provide an all-encompassing picture of Generation's hedges. The table also includes a roll-forward of accumulated OCI related to cash-flow hedges for the years ended December 31, 2006 and December 31, 2005, providing insight into the drivers of the changes (new hedges entered into during the period and changes in the value of existing hedges). Information related to energy merchant activities is presented separately from interest-rate hedging activities.

(In millions)	Total Cash-Flow Hedge OCI Activity, Net of Income Tax		
	Power Team Normal Operations and Hedging Activities	Interest- Rate and Other Hedges	Total Cash- Flow Hedges
Accumulated OCI derivative loss at January 1, 2005	\$(137)	\$ (9)	\$ (146)
Changes in fair value	(533)	5	(528)
Reclassifications from OCI to net income	356	—	356
Accumulated OCI derivative loss at December 31, 2005	(314)	(4)	(318)
Changes in fair value	476	1	477
Reclassifications from OCI to net income	88	—	88
Accumulated OCI derivative gain (loss) at December 31, 2006	\$ 250	\$ (3)	\$ 247

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ComEd has derivatives related to one wholesale contract and certain other contracts to manage the market price exposures to several wholesale contracts that extend into 2007, which is beyond the expiration of ComEd's PPA with Generation. Additionally, the supplier forward contracts that ComEd has entered into as part of the initial ComEd auction (see Note 4 of the Combined Notes to Consolidated Financial Statements) are deemed to be derivatives that qualify for the normal purchases and normal sales exception to SFAS No. 133. ComEd does not enter into derivatives for speculative or trading purposes. As of December 31, 2006, the fair value of the derivative wholesale contract of \$5 million was recorded on ComEd's Consolidated Balance Sheet, which is classified as a current liability. The financial derivative used to manage the market price exposure to several wholesale contracts is designated and effective as a cash flow hedge, as defined in SFAS No. 133. As such, changes in the fair value of the derivative are recorded in OCI and gains and losses are recognized in earnings when the underlying transaction occurs. As of December 31, 2006, the fair value of this contract of \$6 million was recorded on ComEd's Consolidated Balance Sheet as a current liability.

ComEd has exposure to commodity price risk in relation to ancillary services that are purchased from PJM.

Credit Risk (Exelon, Generation, ComEd and PECO)**Generation**

Generation's PPA with ComEd expired at the end of 2006. In September 2006, Generation participated in and won portions of the ComEd and Ameren auctions. As a result of the expiration of the PPA and the results of the auctions, beginning in 2007, Generation will sell more electricity through bilateral agreements with other new and existing counterparties. Generation has credit risk associated with counterparty performance on energy contracts which includes, but is not limited to, the risk of financial default or slow payment; therefore, Generation's credit risk profile is anticipated to change based on the credit worthiness of the new and existing counterparties, including ComEd and Ameren. Additionally, due to the possibility of rate freeze legislation in Illinois affecting both ComEd and Ameren, Generation may be subject to the risk of default and, in the event of a bankruptcy filing by ComEd or Ameren, a risk that the bankruptcy may result in rejection of contracts for the purchase of electricity. A default by ComEd or Ameren on contracts for purchase of electricity, or a rejection of those contracts in a bankruptcy proceeding, could result in a disruption in the wholesale power markets. For additional information on the Illinois auction, the proposed legislation and the various regulatory proceedings, see Note 4 of the Combined Notes to Consolidated Financial Statements.

Generation manages counterparty credit risk through established policies, including counterparty credit limits, and in some cases, requiring deposits or letters of credit to be posted by certain counterparties. Generation's counterparty credit limits are based on a scoring model that considers a variety of factors, including leverage, liquidity, profitability, credit ratings and risk management capabilities. Generation has entered into payment netting agreements or enabling agreements that allow for payment netting with the majority of its large counterparties, which reduce Generation's exposure to counterparty risk by providing for the offset of amounts payable to the counterparty against amounts receivable from the counterparty. The credit department monitors current and forward credit exposure to counterparties and their affiliates, both on an individual and an aggregate basis.

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The following tables provide information on Generation's credit exposure, net of collateral, as of December 31, 2006 and 2005. The tables further delineate that exposure by credit rating of the counterparties and provide guidance on the concentration of credit risk to individual counterparties and an indication of the maturity of a company's credit risk by credit rating of the counterparties. The figures in the tables below do not include sales to Generation's affiliates or exposure through RTOs and Independent System Operators (ISOs) which are discussed below.

Rating as of December 31, 2006 ^(a)	Total Exposure Before Credit Collateral	Credit Collateral	Net Exposure	Number Of Counterparties Greater than 10% of Net Exposure	Net Exposure Of Counterparties Greater than 10% of Net Exposure
Investment grade	\$ 1,005	\$ 268	\$ 737	1	\$ 95
Non-investment grade	53	9	44	—	—
No external ratings					
Internally rated—investment grade	10	1	9	—	—
Internally rated—non-investment grade	4	3	1	—	—
Total	\$ 1,072	\$ 281	\$ 791	1	\$ 95

(a) This table does not include accounts receivable exposure.

Rating as of December 31, 2005 ^(a)	Total Exposure Before Credit Collateral	Credit Collateral	Net Exposure	Number Of Counterparties Greater than 10% of Net Exposure	Net Exposure Of Counterparties Greater than 10% of Net Exposure
Investment grade	\$ 472	\$ 53	\$ 419	2	\$ 147
Non-investment grade	60	11	49	—	—
No external ratings					
Internally rated—investment grade	41	—	41	—	—
Internally rated—non-investment grade	38	—	38	—	—
Total	\$ 611	\$ 64	\$ 547	2	\$ 147

(a) This table does not include accounts receivable exposure.

Rating as of December 31, 2006 ^(a)	Maturity of Credit Risk Exposure			Total Exposure Before Credit Collateral
	Less than 2 Years	2-5 Years	Exposure Greater than 5 Years	
Investment grade	\$944	\$ 61	\$ —	\$ 1,005
Non-investment grade	40	13	—	53
No external ratings				
Internally rated—investment grade	10	—	—	10
Internally rated—non-investment grade	3	1	—	4
Total	\$997	\$ 75	\$ —	\$ 1,072

(a) This table does not include accounts receivable exposure.

Collateral. As part of the normal course of business, Generation routinely enters into physical or financially settled contracts for the purchase and sale of capacity, energy, fuels and emissions allowances. These contracts either contain express provisions or otherwise permit Generation and its counterparties to demand adequate assurance of future performance when there are reasonable

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grounds for doing so. In accordance with the contracts and applicable law, if Generation is downgraded by a credit rating agency, especially if such downgrade is to a level below investment grade, it is possible that a counterparty would attempt to rely on such a downgrade as a basis for making a demand for adequate assurance of future performance. Depending on Generation's net position with a counterparty, the demand could be for the posting of collateral. In the absence of expressly agreed-to provisions that specify the collateral that must be provided, the obligation to supply the collateral requested will be a function of the facts and circumstances of the situation at the time of the demand. If Generation can reasonably claim that it is willing and financially able to perform its obligations, it may be possible to successfully argue that no collateral should be posted or that only an amount equal to two or three months of future payments should be sufficient.

Generation sells output through bilateral contracts. Generation's sales to counterparties other than ComEd and PECO will increase due to the expiration of the PPA with ComEd at the end of 2006. The bilateral contracts are subject to credit risk, which relates to the ability of counterparties to meet their contractual payment obligations. Any failure to collect these payments from counterparties could have a material impact on Exelon's and Generation's results of operations, cash flows and financial position. As market prices rise above contracted price levels, Generation is required to post collateral with purchasers; as market prices fall below contracted price levels, counterparties are required to post collateral with Generation. Under the Illinois auction rules and the supplier forward contracts that Generation entered into with ComEd and Ameren, beginning in 2007, collateral postings will be one-sided from Generation only. That is, if market prices fall below ComEd's or Ameren's contracted price levels, neither ComEd nor Ameren is required to post collateral; however, if market prices rise above contracted price levels with ComEd or Ameren, Generation may be required to post collateral. See Note 4 of the Combined Notes to the Consolidated Financial Statements for further information on contracted clearing prices related to the ComEd and Ameren auctions.

As of December 31, 2006, Generation had \$26 million of collateral deposit payments being held by counterparties and Generation was holding \$273 million of collateral deposits received from counterparties.

RTOs and ISOs. Generation participates in the following established, real-time energy markets that are administered by: PJM, ISO-NE, New York ISO, MISO, Southwest Power Pool, Inc. and the Electric Reliability Council of Texas. In these areas, power is traded through bilateral agreements between buyers and sellers and on the spot markets that are operated by the RTOs or ISOs, as applicable. In areas where there is no spot market, electricity is purchased and sold solely through bilateral agreements. For sales into the spot markets administered by an RTO or ISO, the RTO or ISO maintains financial assurance policies that are established and enforced by those administrators. The credit policies of the RTOs and ISOs may under certain circumstances require that losses arising from the default of one member on spot market transactions be shared by the remaining participants. Non-performance or non-payment by a major counterparty could result in a material adverse impact on Generation's financial condition, results of operations or net cash flows.

ComEd and PECO

Credit risk for ComEd and PECO is managed by credit and collection policies which are consistent with state regulatory requirements. ComEd and PECO are each currently obligated to provide service to all electric customers within their respective franchised territories. ComEd and PECO record a provision for uncollectible accounts, based upon historical experience and third-party studies, to provide for the potential loss from nonpayment by these customers. ComEd is currently unable to predict the impact of the reverse-auction power prices, effective in January 2007, on its provision for uncollectible accounts. ComEd will monitor nonpayment from customers and will make any necessary adjustments to the provision for uncollectible accounts. PECO has experienced an increase in its provision for uncollectible accounts in 2006 as compared to 2005 as a result of higher average

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accounts receivable balances in 2006 resulting from increased revenues, changes in PAPUC-approved regulations related to customer payment terms and an increase in the number of low-income customers participating in customer assistance programs, which allow for the forgiveness of certain receivables. PECO's provision for uncollectible accounts will continue to be affected by changes in prices as well as changes in PAPUC regulations. For the year ended December 31, 2006, ComEd's ten largest customers represented approximately 3.5% of its electric revenues and PECO's ten largest customers represented approximately 5.9% of its retail electric and gas revenues.

Under Pennsylvania's Competition Act, licensed entities, including competitive electric generation suppliers, may act as agents to provide a single bill and provide associated billing and collection services to retail customers located in PECO's retail electric service territory. Currently, there are no third parties providing billing of PECO's charges to customers or advanced metering; however, if this occurs, PECO would be subject to credit risk related to the ability of the third parties to collect such receivables from the customers.

Exelon

Exelon's consolidated balance sheets included a \$529 million net investment in direct financing leases as of December 31, 2006. The investment in direct financing leases represents future minimum lease payments due at the end of the thirty-year lives of the leases of \$1.5 billion, less unearned income of \$963 million. The future minimum lease payments are supported by collateral and credit enhancement measures including letters of credit, surety bonds and credit swaps issued by high credit quality financial institutions. Management regularly evaluates the credit worthiness of Exelon's counterparties to these direct financing leases.

Interest-Rate Risk (Exelon, Generation, ComEd and PECO)

Variable Rate Debt. The Registrants use a combination of fixed-rate and variable-rate debt to reduce interest-rate exposure. The Registrants may also use interest-rate swaps when deemed appropriate to adjust exposure based upon market conditions. Additionally, the Registrants may use forward-starting interest-rate swaps and treasury rate locks to lock in interest-rate levels in anticipation of future financings. These strategies are employed to achieve a lower cost of capital. At December 31, 2006, the Registrants did not have any material fair-value or cash-flow interest-rate hedges outstanding. As of December 31, 2006, a hypothetical 10% increase in the interest rates associated with variable-rate debt would result in a \$4 million, \$2 million, \$1 million and \$1 million decrease in Exelon's, Generation's, ComEd's and PECO's, respectively, pre-tax earnings.

Fair-Value Hedges. During 2006, ComEd settled its interest-rate swaps designated as fair-value hedges in the aggregate notional amount of \$240 million for a cash payment of approximately \$1 million.

Cash-Flow Hedges. In 2005, ComEd settled its interest-rate swaps designated as cash-flow hedges in the aggregate notional amount of \$325 million due to the underlying transaction for which these interest-rate swaps were entered into was no longer probable of occurring. As a result, Exelon and ComEd recognized a pre-tax loss of \$15 million which was included in other, net within the Consolidated Statements of Operations and within Cash Flows From Investing Activities on the Consolidated Statements of Cash Flows. In addition, during 2005, Exelon settled interest-rate swaps in the aggregate notional amount of \$1.5 billion and recorded pre-tax losses of \$39 million which will be recorded as additional interest expense over the remaining life of the related debt.

Equity Price Risk (Exelon and Generation)

Exelon and Generation maintain trust funds, as required by the NRC, to fund certain costs of decommissioning Generation's nuclear plants. As of December 31, 2006, Generation's

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decommissioning trust funds are reflected at fair value on its Consolidated Balance Sheets. The mix of securities in the trust funds is designed to provide returns to be used to fund decommissioning and to compensate Generation for inflationary increases in decommissioning costs; however, the equity securities in the trust funds are exposed to price fluctuations in equity markets, and the value of fixed-rate, fixed-income securities are exposed to changes in interest rates. Generation actively monitors the investment performance of the trust funds and periodically reviews asset allocation in accordance with Generation's nuclear decommissioning trust fund investment policy. A hypothetical 10% increase in interest rates and decrease in equity prices would result in a \$460 million reduction in the fair value of the trust assets.

Exelon and Generation maintain trust assets associated with defined benefit pension and other postretirement benefits. See Defined Benefit Pension and Other Postretirement Benefits in the Critical Accounting Estimates section for information regarding the pension and other postretirement benefit trust assets.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

Generation

Executive Overview

A discussion of items pertinent to Generation's executive overview is set forth under "EXELON CORPORATION—Executive Overview" of this Report.

Results of Operation

Year Ended December 31, 2006 Compared To Year Ended December 31, 2005

A discussion of Generation's results of operations for 2006 compared to 2005 is set forth under "Results of Operations—Generation" in "EXELON CORPORATION—Results of Operations" of this Report.

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

A discussion of Generation's results of operations for 2005 compared to 2004 is set forth under "Results of Operations—Generation" in "EXELON CORPORATION—Results of Operations" of this Report.

Liquidity and Capital Resources

Generation's business is capital intensive and requires considerable capital resources. Generation's capital resources are primarily provided by internally generated cash flows from operations and, to the extent necessary, external financing, including the issuance of commercial paper, participation in the intercompany money pool or capital contributions from Exelon. Generation's access to external financing at reasonable terms is dependent on its credit ratings and general business conditions, as well as that of the utility industry in general. If these conditions deteriorate to where Generation no longer has access to the capital markets at reasonable terms, Generation has access to a revolving credit facility that Generation currently utilizes to support its commercial paper program. See the "Credit Issues" section of "Liquidity and Capital Resources" for further discussion.

Capital resources are used primarily to fund Generation's capital requirements, including construction, retirement of debt, the payment of distributions to Exelon, contributions to Exelon's pension plans and investments in new and existing ventures. Future acquisitions could require external financing or borrowings or capital contributions from Exelon.

Cash Flows from Operating Activities

A discussion of items pertinent to Generation's cash flows from operating activities is set forth under "Cash Flows from Operating Activities" in "EXELON CORPORATION—Liquidity and Capital Resources" of this Report.

Cash Flows from Investing Activities

A discussion of items pertinent to Generation's cash flows from investing activities is set forth under "Cash Flows from Investing Activities" in "EXELON CORPORATION—Liquidity and Capital Resources" of this Report.

Table of Contents**Cash Flows from Financing Activities**

A discussion of items pertinent to Generation's cash flows from financing activities is set forth under "Cash Flows from Financing Activities" in "EXELON CORPORATION—Liquidity and Capital Resources" of this Report.

Credit Issues

A discussion of credit issues pertinent to Generation is set forth under "Credit Issues" in "EXELON CORPORATION—Liquidity and Capital Resources" of this Report.

Contractual Obligations and Off-Balance Sheet Obligations

A discussion of Generation's contractual obligations, commercial commitments and off-balance sheet obligations is set forth under "Contractual Obligations and Off-Balance Sheet Obligations" in "EXELON CORPORATION—Liquidity and Capital Resources" of this Report.

Critical Accounting Policies and Estimates

See Exelon, Generation, ComEd and PECO—Critical Accounting Policies and Estimates above for a discussion of Generation's critical accounting policies and estimates.

New Accounting Pronouncements

See Note 1 of the Combined Notes to Consolidated Financial Statements for information regarding new accounting pronouncements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**Generation**

Generation is exposed to market risks associated with commodity price, credit, interest rates and equity price. These risks are described above under "Quantitative and Qualitative Disclosures about Market Risk—Exelon."

Table of Contents**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION****ComEd****Executive Overview**

A discussion of items pertinent to ComEd's executive overview is set forth under "EXELON CORPORATION—Executive Overview" of this Report.

Results of Operations***Year Ended December 31, 2006 Compared to Year Ended December 31, 2005***

A discussion of ComEd's results of operations for 2006 compared 2005 is set forth under "Results of Operations—ComEd" in "EXELON CORPORATION—Results of Operations" of this Report.

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

A discussion of ComEd's results of operations for 2005 compared to 2004 is set forth under "Results of Operations—ComEd" in "EXELON CORPORATION—Results of Operations" of this Report.

Liquidity and Capital Resources

ComEd's business is capital intensive and requires considerable capital resources. ComEd's capital resources are primarily provided by internally generated cash flows from operations and, to the extent necessary, external financing, including the issuance of commercial paper, or capital contributions from Exelon. ComEd's access to external financing at reasonable terms is dependent on its credit ratings and general business conditions, as well as that of the utility industry in general. If these conditions deteriorate to where ComEd no longer has access to the capital markets at reasonable terms, ComEd has access to a revolving credit facility that ComEd currently utilizes to support its commercial paper program. See the "Credit Issues" section of "Liquidity and Capital Resources" for further discussion.

Capital resources are used primarily to fund ComEd's capital requirements, including construction, retirement of debt, the payment of dividends and contributions to Exelon's pension plans. ComEd did not pay a dividend during 2006.

Cash Flows from Operating Activities

A discussion of items pertinent to ComEd's cash flows from operating activities is set forth under "Cash Flows from Operating Activities" in "EXELON CORPORATION—Liquidity and Capital Resources" of this Report.

Cash Flows from Investing Activities

A discussion of items pertinent to ComEd's cash flows from investing activities is set forth under "Cash Flows from Investing Activities" in "EXELON CORPORATION—Liquidity and Capital Resources" of this Report.

Cash Flows from Financing Activities

A discussion of items pertinent to ComEd's cash flows from financing activities is set forth under "Cash Flows from Financing Activities" in "EXELON CORPORATION—Liquidity and Capital Resources" of this Report.

Table of Contents**Credit Issues**

A discussion of credit issues pertinent to ComEd is set forth under "Credit Issues" in "EXELON CORPORATION—Liquidity and Capital Resources" of this Report

Contractual Obligations and Off-Balance Sheet Obligations

A discussion of ComEd's contractual obligations, commercial commitments and off-balance sheet obligations is set forth under "Contractual Obligations and Off-Balance Sheet Obligations" in "EXELON CORPORATION—Liquidity and Capital Resources" of this Report.

Critical Accounting Policies and Estimates

See Exelon, Generation, ComEd and PECO—Critical Accounting Policies and Estimates above for a discussion of ComEd's critical accounting policies and estimates.

New Accounting Pronouncements

See Note 1 of the Combined Notes to Consolidated Financial Statements for information regarding new accounting pronouncements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**ComEd**

ComEd is exposed to market risks associated with commodity price, credit and interest rates. These risks are described above under "Quantitative and Qualitative Disclosures about Market Risk—Exelon."

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

PECO

Executive Overview

A discussion of items pertinent to PECO's executive overview is set forth under "EXELON CORPORATION—Executive Overview" of this Report.

Results of Operations

Year Ended December 31, 2006 Compared To Year Ended December 31, 2005

A discussion of PECO's results of operations for 2006 compared to 2005 is set forth under "Results of Operations—PECO" in "EXELON CORPORATION—Results of Operations" of this Report.

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

A discussion of PECO's results of operations for 2005 compared to 2004 is set forth under "Results of Operations—PECO" in "EXELON CORPORATION—Results of Operations" of this Report.

Liquidity and Capital Resources

PECO's business is capital intensive and requires considerable capital resources. PECO's capital resources are primarily provided by internally generated cash flows from operations and, to the extent necessary, external financing, including the issuance of commercial paper, participation in the intercompany money pool or capital contributions from Exelon. PECO's access to external financing at reasonable terms is dependent on its credit ratings and general business conditions, as well as that of the utility industry in general. If these conditions deteriorate to where PECO no longer has access to the capital markets at reasonable terms, PECO has access to a revolving credit facility that PECO currently utilizes to support its commercial paper program. See the "Credit Issues" section of "Liquidity and Capital Resources" for further discussion.

Capital resources are used primarily to fund PECO's capital requirements, including construction, retirement of debt, the payment of dividends and contributions to Exelon's pension plans.

Cash Flows from Operating Activities

A discussion of items pertinent to PECO's cash flows from operating activities is set forth under "Cash Flows from Operating Activities" in "EXELON CORPORATION—Liquidity and Capital Resources" of this Report.

Cash Flows from Investing Activities

A discussion of items pertinent to PECO's cash flows from investing activities is set forth under "Cash Flows from Investing Activities" in "EXELON CORPORATION—Liquidity and Capital Resources" of this Report.

Cash Flows from Financing Activities

A discussion of items pertinent to PECO's cash flows from financing activities is set forth under "Cash Flows from Financing Activities" in "EXELON CORPORATION—Liquidity and Capital Resources" of this Report.

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A discussion of credit issues pertinent to PECO is set forth under "Credit Issues" in "EXELON CORPORATION—Liquidity and Capital Resources" of this Report.

Contractual Obligations and Off-Balance Sheet Obligations

A discussion of PECO's contractual obligations and off-balance sheet obligations is set forth under "Contractual Obligations, Commercial Commitments and Off-Balance Sheet Obligations" in "EXELON CORPORATION—Liquidity and Capital Resources" of this Report.

Critical Accounting Policies and Estimates

See Exelon, Generation, ComEd and PECO—Critical Accounting Policies and Estimates above for a discussion of PECO's critical accounting policies and estimates.

New Accounting Pronouncements

See Note 1 of the Combined Notes to Consolidated Financial Statements for information regarding new accounting pronouncements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**PECO**

PECO is exposed to market risks associated with credit and interest rates. These risks are described above under "Quantitative and Qualitative Disclosures about Market Risk—Exelon."

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Management's Report on Internal Control Over Financial Reporting

The management of Exelon Corporation (Exelon) is responsible for establishing and maintaining adequate internal control over financial reporting. Exelon's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Exelon's management conducted an assessment of the effectiveness of Exelon's internal control over financial reporting as of December 31, 2006. In making this assessment, management used the criteria in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, Exelon's management concluded that, as of December 31, 2006, Exelon's internal control over financial reporting was effective.

Management's assessment of the effectiveness of Exelon's internal control over financial reporting as of December 31, 2006 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears on the next page of this Annual Report on Form 10-K.

February 13, 2007

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To The Shareholders and Board of Directors of Exelon Corporation:

We have completed integrated audits of Exelon Corporation's consolidated financial statements and of its internal control over financial reporting as of December 31, 2006, in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements and financial statement schedule

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1)(i) present fairly, in all material respects, the financial position of Exelon Corporation and its subsidiaries at December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(1)(ii) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the consolidated financial statements, Exelon Corporation changed its method of accounting for conditional asset retirement obligations as of December 31, 2005, its method of accounting for stock-based compensation as of January 1, 2006, and its method of accounting for its defined benefit pension and other postretirement plans as of December 31, 2006.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 8, that the Company maintained effective internal control over financial reporting as of December 31, 2006 based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control—Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial

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reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP
Chicago, Illinois
February 13, 2007

Table of Contents**Report of Independent Registered Public Accounting Firm**

To the Member and Board of Directors of Exelon Generation Company, LLC

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(2)(i) present fairly, in all material respects, the financial position of Exelon Generation Company, LLC and its subsidiaries (Generation) at December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2)(ii) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and the financial statement schedule are the responsibility of Generation's management. Our responsibility is to express an opinion on these financial statements and the financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the consolidated financial statements, Generation changed its method of accounting for conditional asset retirement obligations as of December 31, 2005, and its method of accounting for stock-based compensation as of January 1, 2006.

PricewaterhouseCoopers LLP
Chicago, Illinois
February 13, 2007