1999 Sale of Fossil Generating Assets (Exelon and ComEd)

Exelon, through its ComEd subsidiary, 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. As of December 31, 2006 and 2005, deferred tax liabilities related to the fossil plant sale are reflected in Exelon's Consolidated Balance Sheets with the majority allocated to ComEd and the remainder to Generation. Exelon's ability to continue to defer all or a portion of this liability depends on whether its treatment of the sales proceeds as having been received in connection with an involuntary conversion is proper pursuant to applicable law. Exelon's ability to continue to defer the remainder of this liability may depend in part on whether its tax characterization of a sale leaseback transaction into which ComEd entered in connection with the fossil plant sale is proper pursuant to applicable law. The Federal tax returns and related tax return disclosures covering the period of the 1999 sale are currently under IRS audit. The IRS has indicated its position that the ComEd sale leaseback transaction is substantially similar to a leasing transaction, a sale-in, lease-out (SILO), the IRS is treating as a "listed transaction" pursuant to guidance it issued in 2005. A listed transaction is one which the IRS considers to be a potentially abusive tax shelter. As a result of the IRS characterization of the lease transaction as a listed transaction, it is likely to vigorously challenge the transaction and has sought to obtain information not normally requested in audits. Exelon disagrees with the IRS' characterization of its sale leaseback as a SILO and believes its position is correct and will aggressively defend that position upon audit and any subsequent appeals or litigation.

In November 2006, ComEd received from the IRS a notice of proposed adjustment disallowing the deferral of gain associated with its position that proceeds from the fossil plant sales resulted from an "involuntary conversion." ComEd plans to protest this adjustment following receipt of the final IRS audit report, which is expected in late 2007.

A successful IRS challenge to ComEd's positions would accelerate future income tax payments and increase interest expense related to the deferred tax gain that becomes currently payable. As of December 31, 2006, Exelon's potential cash outflow, including tax and interest (after tax), could be as much as $960 million. If the deferral were successfully challenged by the IRS, it could negatively impact Exelon's results of operations by as much as $166 million (after tax) related to interest expense. Exelon's management believes a reserve for interest has been appropriately recorded in accordance with FASB Statement No. 5, "Accounting for Contingencies" (SFAS No. 5); however, the ultimate outcome of such matters could result in unfavorable or favorable adjustments to the results of operations, and such adjustments could be material. Final resolution of this matter is not anticipated for several years.

Pennsylvania Tax Law (Exelon and Generation)

On July 12, 2006, the Governor of Pennsylvania approved a law which increases the threshold for the usage of net operating losses for Pennsylvania corporate net income taxes. Under the new law, previously limited Pennsylvania net operating losses will be available to offset future taxable income, primarily at Generation. As a result, Exelon recorded an approximate $10 million tax benefit to income taxes in 2006.

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13. Asset Retirement Obligations (Exelon, Generation, ComEd and PECO)

Nuclear Decommissioning and Spent Fuel Storage (Exelon and Generation)

Exelon, Generation and AmerGen have a legal obligation to decommission nuclear power plants following the expiration of their operating licenses. Generation currently recovers costs for decommissioning nuclear generating stations, previously owned by PECO, through regulated rates collected by PECO from PECO customers. Through 2006, Generation recovered costs for decommissioning nuclear generating stations, previously owned by ComEd, through regulated rates collected from ComEd customers. Under a December 2000 ICC order issued to ComEd, amended February 2001 (ICC order), amounts for decommissioning are no longer permitted to be collected from ComEd customers subsequent to 2006. AmerGen trust funds were originally funded through collections from customers prior to the acquisition of the sites. Neither Exelon nor Generation are permitted to collect any amounts from customers for the decommissioning of the AmerGen sites. The amounts recovered from customers are deposited into decommissioning trust funds that have been established as required by law. These trust funds have been funded through prior and current collections from customers. The trust funds established for a particular plant may not be used to fund the decommissioning obligation of any other nuclear plant. Exelon and Generation believe that these funds, along with future collections from customers for decommissioning, will ultimately be sufficient to satisfy all required decommissioning–related activities.

The following table summarizes the most significant assets and liabilities associated with nuclear decommissioning included in Exelon's and Generation's Consolidated Balance Sheets as of December 31, 2006 and 2005:

December 31, 2006	Exelon	Generation
Property, plant and equipment (asset retirement cost)	$ 275	$ 275
Nuclear decommissioning trust funds	6,415	6,415
Regulatory liability	(1,911)	N/A
Asset retirement obligations	(3,533)	(3,533)
Long–term payables to affiliates	N/A	(1,911)
Other comprehensive income, net	(167)	(167)

December 31, 2005	Exelon	Generation
Property, plant and equipment (asset retirement cost)	$ 685	$ 685
Nuclear decommissioning trust funds	5,585	5,585
Regulatory liability	(1,503)	N/A
Asset retirement obligations	(3,921)	(3,921)
Long–term payables to affiliates	N/A	(1,503)
Other comprehensive income, net	(76)	(76)

Nuclear Decommissioning Asset Retirement Obligations (ARO) (Exelon, Generation, ComEd and PECO)

Generation assumed the responsibility for decommissioning the former ComEd and former PECO nuclear units as a result of a corporate restructuring effective January 1, 2001 in which Exelon separated its generation and other competitive businesses from its regulated energy delivery business at ComEd and PECO.

AmerGen assumed responsibility for decommissioning the Clinton, Oyster Creek and Three Mile Island (TMI) units upon the original purchase of each unit in 1999, 1999 and 2000, respectively.

Generation will begin decommissioning activities for each plant once that plant ceases operations. Generation currently makes decommissioning payments for its retired units; however, those amounts are not considered significant when compared to the total obligation.

As of December 31, 2006 and 2005, Exelon and Generation recorded nuclear decommissioning obligations totaling $3.5 billion and $3.9 billion, respectively, which were determined in accordance with SFAS No. 143. See Note 1—Significant Accounting Policies for information regarding the application of SFAS No. 143.

Nuclear Decommissioning Trust Funds and Customer Collections

The trust funds that have been established to satisfy Exelon's and Generation's nuclear decommissioning obligations were originally funded with amounts collected by customers. In certain circumstances, these trust funds will continue to be funded by future collections from customers.

The trusts associated with the former ComEd units and the former PECO units have been funded with amounts collected from the ComEd and PECO customers, respectively. Any funds remaining in these trusts after decommissioning has been completed are required to be refunded to ComEd's or PECO's customers as appropriate. However, if there are insufficient funds in the trusts associated with the former ComEd units to pay for decommissioning costs, Generation is required to fund that shortfall. Any potential shortfall is determined on a plant-by-plant basis, since the trust funds established for any particular plant may not be used to fund the decommissioning obligations of any other plant.

If there are insufficient funds in the trusts associated with the former PECO units, PECO is allowed to collect additional amounts from the PECO customers, subject to certain limitations, as prescribed by an order from the PAPUC. Generally, PECO will not be allowed to collect amounts associated with the first $50 million of any shortfall of trust funds compared to decommissioning obligations, as well as 5% of any additional shortfalls. This initial $50 million and up to 5% of any additional shortfalls will be borne by Generation as required by the corporate restructuring in 2001. Exelon and Generation expect total decommissioning costs to exceed this threshold and expects to be held responsible for the entire $50 million, which is being recognized over the remaining life of the assets.

AmerGen is financially responsible for the decommissioning of the AmerGen plants and retains any funds remaining in the trusts after decommissioning of those plants has been completed. Any shortfall of funds necessary for decommissioning is required to be funded by AmerGen. AmerGen does not currently collect any amounts from customers, nor is there any mechanism by which Generation can seek to collect additional amounts from customers in order to pay the decommissioning costs of the AmerGen units.

Through 2006, ComEd was permitted to recover up to $73 million annually from customers through regulated rates to pay for decommissioning costs. The amounts recovered from customers were remitted to Generation and deposited into the trust accounts to fund the future decommissioning costs. ComEd collected and remitted to Generation a total of $66 million and $68 million, respectively, for the years ended December 31, 2006 and 2005. ComEd is not permitted to collect any amounts after 2006 to pay for decommissioning costs based on the ICC order. Based on the provisions of the ICC order and NRC regulations, Generation is financially responsible for the decommissioning obligations related to the plants formerly owned by ComEd.

PECO currently recovers in revenues funds for decommissioning the former PECO nuclear plants through regulated rates. The amounts recovered from customers are remitted to Generation and deposited into the trust accounts to fund the future decommissioning costs. In both 2006 and 2005, PECO collected and remitted to Generation $33 million. Every five years, the PAPUC reviews the annual amount that PECO is allowed to collect from customers. As part of that review, the PAPUC will decide whether the amount PECO collects from its customers continues to be sufficient to allow for the decommissioning of the former PECO nuclear units. Based on this review, the PAPUC may adjust PECO's collection upward or downward. Any shortfall of funding resulting from this process would be funded by Generation, as described above.

As of December 31, 2006 and 2005, nuclear decommissioning trust funds totaled $6.4 billion and $5.6 billion, respectively. See Note 9—Fair Value of Financial Assets and Liabilities for more information regarding the nuclear decommissioning trust funds as of December 31, 2006 and 2005.

Accounting Implications of the Agreements with ComEd and PECO

Impact on the Statements of Operations

As discussed above, the ComEd and PECO customers are entitled to a refund of any excess, as determined on a plant-by-plant basis, of trust funds that remain after the completion of decommissioning activities. Because the funds held in trust currently exceed the total estimated decommissioning obligation, Generation does not recognize in the statement of operations the net impacts of decommissioning the former ComEd and former PECO units. However, should the decommissioning obligations associated with the former ComEd units exceed the related decommissioning assets, Generation will no longer maintain a noncurrent affiliate payable related to ComEd's corresponding regulatory liability, but rather reflect the net impacts of decommissioning activities related to these plants in the statements of operations.

Decommissioning impacts, including the accretion of the decommissioning obligation (which is included in operating and maintenance expense in Generation's statements of operations) and the income of the trust funds (net of applicable taxes) associated with the former ComEd and former PECO units, are offset within Generation's statements of operations with an equal adjustment to the noncurrent payables to affiliates at Generation and an adjustment to the regulatory liabilities at Exelon. Likewise, ComEd and PECO have recorded equal noncurrent affiliate receivables from Generation and corresponding regulatory liabilities. The decommissioning of the AmerGen units are reflected in the statements of operations, as there are no regulatory agreements associated with these units.

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Impact on the Statements of Other Comprehensive Income

Generation does not reflect any net activity within the statement of other comprehensive income related to the unrealized gains for the trust funds established to fund the decommissioning liabilities of the former PECO units as these unrealized gains are not anticipated to ultimately be included in the statement of operations as a result of the current accounting discussed above. Unrealized gains (after applicable taxes) related to the former ComEd units are also offset within Generation's statement of other comprehensive income. The gross unrealized gains in the trust funds of the former ComEd and PECO units are tax–effected at the applicable tax rates, so that the associated deferred tax liabilities can be appropriately calculated and recorded.

The net unrealized gains associated with AmerGen are included in the statement of other comprehensive income, since the accounting treatment described above does not apply to AmerGen.

Impact on the Balance Sheet

The decommissioning liabilities associated with the former ComEd, former PECO and AmerGen units are reflected as an ARO in the long–term liability section of Generation's balance sheet. AROs represent legal obligations associated with the retirement of tangible long–lived assets. Changes in the ARO resulting from revisions to the timing or amount of future undiscounted cash flows are generally recognized through a corresponding increase or decrease to the carrying value of that plant. This adjustment is reflected in property, plant and equipment as an asset retirement cost (ARC), and is amortized on a straight-line basis over the life of that plant. The noncurrent affiliate payables from Generation to ComEd and PECO represent the difference between the decommissioning–related assets and decommissioning–related liabilities, which are required to be refunded to ComEd's or PECO's customers as appropriate. ComEd and PECO have recorded corresponding noncurrent affiliate receivables from Generation and corresponding regulatory liabilities to the applicable customers.

At December 31, 2006 and 2005, ComEd recorded a regulatory liability for the amount of decommissioning–related assets in excess of the ARO totaling $1.8 billion and $1.4 billion, respectively. At December 31, 2006 and 2005, PECO recorded a regulatory liability for the amount of decommissioning–related assets in excess of the ARO totaling $151 million and $68 million, respectively.

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The following table provides a roll forward of the nuclear decommissioning ARO reflected on Exelon's and Generation's Consolidated Balance Sheets, from January 1, 2005 to December 31, 2006:

	Exelon	Generation
Asset retirement obligation at January 1, 2005[(a)]	$3,981	$ 3,980
Net decrease resulting from updates to estimated future cash flows	(281)	(281)
Accretion expense	243	243
Liability reclassified and disposed[(b)]	(8)	(7)
Payments to decommission retired plants	(14)	(14)
Asset retirement obligation at December 31, 2005[(a)]	3,921	3,921
Net decrease resulting from updates to estimated future cash flows	(604)	(604)
Accretion expense	230	230
Payments to decommission retired plants	(14)	(14)
Asset retirement obligation at December 31, 2006	$3,533	$ 3,533

(a) Includes amounts not related to nuclear decommissioning.
(b) Represents the reclassification of $(5) million and $(4) million for Exelon and Generation, respectively, primarily related to fossil and hydroelectric generating facilities and $(3) million related to liabilities disposed as a result of the sale of Sithe on January 31, 2005.

2006 and 2005 ARO Updates

During the second quarter of 2006, Generation recorded a net decrease in the ARO of approximately $604 million and pre-tax income of $149 million resulting from revisions to estimated future nuclear decommissioning cash flows, primarily due to the following:

- Revised management assumptions concerning an increased likelihood of successful nuclear license renewal efforts due to an increasingly favorable environment for nuclear power and, therefore, an increased likelihood of operating the nuclear plants through a full license extension period; and

- A change in management's expectation of when the U.S. Department of Energy (DOE) will establish a repository for and begin accepting spent nuclear fuel.

The impact of the above items was to effectively push the estimated future nuclear decommissioning cash flows further into the future and, therefore, reduce the present value of the ARO. This decrease in the ARO resulted in the following corresponding impacts:

- A decrease in Generation's ARC, which is included in property, plant and equipment in Exelon's and Generation's Consolidated Balance Sheets, of approximately $393 million;

- An increase in Generation's noncurrent payable to ComEd and PECO, which is included in noncurrent payable to affiliates in Generation's Consolidated Balance Sheets, of approximately $62 million;

- An increase in ComEd's and PECO's intercompany receivables from Generation, which are included in noncurrent receivables from affiliates in ComEd's and PECO's Consolidated

Balance Sheets, of approximately $36 million and $26 million, respectively, offset by equivalent increases in ComEd's and PECO's regulatory liabilities (these changes are also reflected in regulatory liabilities in Exelon's Consolidated Balance Sheet); and

- The recognition of other operating income totaling $149 million (pre-tax), which is included in operating and maintenance expense in Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income, representing the reduction in the ARO in excess of the existing ARC balance for the AmerGen units.

The net decrease in the ARO for the former ComEd units, the former PECO units and the AmerGen units was approximately $219 million, $183 million and $202 million, respectively. As of December 31, 2006, the ARO balances for the former ComEd, the former PECO and the AmerGen units totaled approximately $2,172 million, $912 million and $449 million, respectively.

During the second quarter of 2005, Generation recorded a $281 million net decrease to the ARO resulting from revisions to estimated future nuclear decommissioning cash flows. This update also resulted in a corresponding decrease to the ARC of approximately $251 million, included in property, plant and equipment. The balance of the decrease to the ARO related primarily to the retired units, which have no remaining useful life and, likewise, no existing ARC to offset. The decrease related to these retired units totaled approximately $30 million and was recorded as a credit to income. However, since there was no impact to net income for the decommissioning of the former ComEd and PECO units, the $30 million credit to income was equally offset with a charge to operating income and an adjustment to the intercompany payable to ComEd and PECO of approximately $21 million and $9 million, respectively, at Generation, and an adjustment to the regulatory liabilities at Exelon, ComEd and PECO of $30 million, $21 million and $9 million, respectively. Both the credit to income and the offsetting charge to operating income are included in operating and maintenance expense in Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income.

The net decrease to the ARO resulted primarily from a year-over-year decline in the cost escalation factors used to estimate future undiscounted costs, which was partially offset by an increase resulting from updated decommissioning cost studies received for two nuclear stations. Both the updated escalation factors and the updated cost estimates were provided by independent third-party appraisers. Cost studies are generally updated every three to five years in accordance with NRC regulations and industry practice. The net decrease in the ARO for the former ComEd units, the former PECO units and the AmerGen units resulting from revisions to estimated cash flows during 2005 was $207 million, $40 million and $34 million, respectively. As of December 31, 2005, the ARO balances for the former ComEd, the former PECO and the AmerGen units totaled approximately $2,267 million, $1,041 million and $613 million, respectively.

Spent Nuclear Fuel

Under the Nuclear Waste Policy Act of 1982 (NWPA), the U.S. Department of Energy (DOE) is responsible for the development of a repository for the disposal of spent nuclear fuel (SNF) and high-level radioactive waste. As required by the NWPA, Generation is a party to contracts with the DOE (Standard Contracts) to provide for disposal of SNF from its nuclear generating stations. In accordance with the NWPA and the Standard Contracts, Generation pays the DOE one mill ($.001) per kilowatt-hour of net nuclear generation for the cost of nuclear fuel long-term disposal. This fee may be adjusted prospectively in order to ensure full cost recovery. The NWPA and the Standard Contracts required the DOE to begin taking possession of SNF generated by nuclear generating units by no later than January 31, 1998. The DOE, however, failed to meet that deadline and its performance will be delayed significantly. The DOE's current estimate for opening a SNF facility is 2017. This extended delay in SNF acceptance by the DOE has led to Generation's adoption of dry cask storage at its Dresden, Quad Cities, Oyster Creek and Peach Bottom stations and its consideration of dry cask storage at other stations.

The Standard Contracts with the DOE also required the payment to the DOE of a one-time fee applicable to nuclear generation through April 6, 1983. The fee related to the former PECO units has been paid. Pursuant to the Standard Contracts, ComEd previously elected to defer payment of the one-time fee of $277 million for its units (which are now part of Generation), with interest to the date of payment, until just prior to the first delivery of SNF to the DOE. As of December 31, 2006, the unfunded liability for the one-time fee with interest was $950 million. Interest accrues at the 13-week Treasury Rate. The 13-week Treasury Rate in effect, for calculation of the interest accrual at December 31, 2006, was 5.108%. The liabilities for spent nuclear fuel disposal costs, including the one-time fee, were transferred to Generation as part of the 2001 corporate restructuring. The outstanding one-time fee obligation for the Oyster Creek and TMI units remains with the former owners. Clinton has no outstanding obligation.

In July 1998, ComEd filed a complaint against the United States Government (Government) in the United States Court of Federal Claims (Court) seeking to recover damages caused by the DOE's failure to honor its contractual obligation to begin disposing of SNF in January 1998.

In August 2004, Generation and the U.S. Department of Justice, in close consultation with the DOE, reached a settlement under which the government will reimburse Generation for costs associated with storage of spent fuel at Generation's nuclear stations pending DOE's fulfillment of its obligations. Under the agreement, in the third quarter of 2004, Generation received $80 million ($53 million after considering amounts due to co-owners of certain stations) in gross reimbursements for storage costs through September 30, 2003. During the fourth quarter of 2005, Generation received a cash reimbursement of $58.5 million, ($35 million after considering amounts due to co-owners of certain nuclear stations) for costs incurred between October 1, 2003 to June 30, 2005. The $58.5 million reimbursement included a reimbursement of $14.4 million for costs incurred before August 2000 by First Energy Corporation, the prior owner of Oyster Creek Station. During the fourth quarter of 2006, Generation received a cash reimbursement of $24.4 million, ($19.5 million after considering amounts due to co-owners of certain nuclear stations) for costs incurred between July 1, 2005 and June 30, 2006. As of December 31, 2006, the amount of spent fuel storage costs for which reimbursement will be requested from the DOE under the settlement agreement is $21 million, which is recorded within accounts receivable, other. This amount is comprised of $10 million, which has been recorded as a reduction to operating and maintenance expense, and $9 million, which has been recorded as a reduction to capital expenditures. The remaining $2 million represents amounts owed to the co-owners of the Peach Bottom and Quad Cities generating facilities. In all cases, annual reimbursements will be made only after costs are incurred and only for costs resulting from DOE delays in accepting the fuel.

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Non–Nuclear AROs (Exelon, Generation, ComEd, and PECO)

As of December 31, 2005, the Registrants adopted FIN 47, which clarified that a legal obligation associated with the retirement of a long–lived asset whose timing and/or method of settlement are conditional on a future event is within the scope of SFAS No. 143. Under FIN 47, Exelon is required to record liabilities associated with its conditional AROs at their estimated fair values if those fair values can be reasonably estimated.

The following table presents the activity of the non–nuclear AROs reflected on the Registrants' Consolidated Balance Sheets from January 1, 2006 to December 31, 2006:

	Exelon	Generation	ComEd	PECO
Non–nuclear AROs at January 1, 2006	$ 236	$ 65	$ 151	$ 20
Accretion (a)	13	4	7	1
Settlements	(2)	—	(2)	—
Non–nuclear AROs at December 31, 2006	$ 247	$ 69	$ 156	$ 21

(a) For ComEd and PECO, the majority of the accretion is recorded as an increase to a regulatory asset due to the associated regulations.

Determination of Conditional AROs

The adoption of FIN 47 required the Registrants to update their existing inventories, originally created for the adoption of SFAS No. 143, and to determine which, if any, of the conditional AROs could be reasonably estimated. The significant conditional AROs identified by ComEd and PECO included abatement and disposal of equipment and buildings contaminated with asbestos and Polychlorinated Biphenyls (PCBs). The significant conditional AROs identified by Generation included plant closure costs associated with its fossil and hydroelectric generating stations, including asbestos abatement, removal of certain storage tanks and other decommissioning–related activities.

The ability to reasonably estimate a conditional ARO was a matter of management judgment, based upon management's ability to estimate a settlement date or range of settlement dates, a method or potential method of settlement and probabilities associated with the potential dates and methods of settlement of its conditional AROs. In determining whether their conditional AROs could be reasonably estimated, management considered the Registrant's past practices, industry practices, management's intent and the estimated economic lives of the assets. The management of the Registrants concluded that all significant conditional AROs could be reasonably estimated.

The Registrants were required to measure the conditional AROs at fair value using the methodology prescribed by FIN 47. The transition provisions of FIN 47 required the Registrants to apply this measurement back to the historical periods in which the conditional AROs were incurred, resulting in a remeasurement of these obligations at the latter of the date that the related assets were placed into service or acquired or the date that the applicable law or environmental regulation became effective. The fair values of the conditional AROs were then estimated using a probability–weighted, discounted cash flow model with multiple scenarios, if applicable. The present value of future estimated

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cash flows was calculated using credit-adjusted, risk-free rates in order to determine the fair value of the conditional AROs at the time of adoption of FIN 47.

Conditional AROs of $231 million, $61 million, $150 million, and $20 million were recorded as of December 31, 2005 for Exelon, Generation, ComEd, and PECO, respectively. Changes in management's assumptions regarding settlement dates, settlement methods or assigned probabilities could have had a material effect on the liabilities recorded as well as the associated cumulative effect of a change in accounting principle and associated regulatory assets recorded.

Effect of Adopting FIN 47

FIN 47 required that the Registrants recognize the following amounts within its financial statements upon the adoption of FIN 47: (i) a liability for any existing conditional AROs adjusted for cumulative accretion to December 31, 2005; (ii) an ARC capitalized as an increase to the carrying amount of the associated long-lived assets; and (iii) cumulative depreciation on the ARC. The transition guidance in FIN 47 required that its adoption be effected through a cumulative change in accounting principle measured as the difference between the amounts recognized in the financial statements prior to the adoption of FIN 47 for conditional AROs and the amounts recognized as of December 31, 2005 pursuant to FIN 47. Exelon and ComEd had previously recognized $39 million as removal costs within regulatory liabilities associated with conditional AROs that were reclassified to a conditional ARO liability upon the adoption of FIN 47.

After considering the transitional guidance included in FIN 47, Exelon, Generation, ComEd, and PECO recorded charges of $42 million (net of income taxes of $27 million), $30 million (net of income taxes of $19 million), $9 million (net of income taxes of $6 million), and $3 million (net of income taxes of $2 million), respectively, as cumulative effects of a change in accounting principle in connection with its adoption. In addition, due to the application of SFAS No. 71, which is further described in Note 1—Significant Accounting Policies, Exelon, ComEd and PECO recorded regulatory assets of $104 million, $91 million and $13 million, respectively, associated with the adoption of FIN 47.

The following table presents the line items within the Registrants' Consolidated Statements of Operations for the year ended December 31, 2005 and the Consolidated Balance Sheets at December 31, 2005 that were affected by the adoption of FIN 47:

	Exelon	Generation	ComEd	PECO
Consolidated statements of operations line item:				
Cumulative effect of a change in accounting principle (net of income taxes of $(27), $(19), $(6), $(2))[(a)]	$ (42)	$ (30)	$ (9)	$ (3)
Consolidated balance sheets line items[(b)] increase (decrease):				
Property, plant and equipment, net[(c)]	$ 19	$ 12	$ 5	$ 2
Regulatory assets	104	—	91	13
Deferred income taxes (noncurrent liability)[(d)]	(27)	(19)	(6)	(2)
Asset retirement obligations[(e)]	231	61	150	20
Regulatory liabilities	(39)	—	(39)	—

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(a) Represents the difference between the conditional ARO, net ARC and regulatory assets and liabilities recorded upon adoption, net of income taxes.
(b) For Exelon, Generation, ComEd and PECO, represents capitalized ARC of $52 million, $22 million, $25 million and $5 million, respectively, as an increase to the carrying amount of the associated long-lived assets, net of accumulated depreciation of $33 million, $10 million, $20 million and $3 million, respectively, on the ARC.
(c) Represents an increase to regulatory assets pursuant to SFAS No. 71 for amounts expected to be recovered from customers.
(d) Represents a liability for existing conditional AROs adjusted for cumulative accretion to December 31, 2005.
(e) Represents removal costs within regulatory liabilities at ComEd that were reclassified to the asset retirement obligations liability.

See Note 1—Significant Accounting Policies for net income and earnings per common share for 2005 and 2004, adjusted as if FIN 47 had been applied effective during the entirety of those years.

Accounting Methodology Under FIN 47

The liabilities associated with conditional AROs will be adjusted on an ongoing basis due to the passage of time, new laws and regulations and revisions to either the timing or amount of the original estimates of undiscounted cash flows. These adjustments could have a significant impact on Exelon's, Generation's, ComEd's and PECO's Consolidated Statements of Operations and Consolidated Balance Sheets, assuming the provisions of SFAS No. 71 continue to apply.

The liabilities recorded related to the conditional AROs of Exelon are being accreted to their full estimated settlement amounts through the estimated ultimate settlement dates. For Generation, this accretion charge is recorded as an operating and maintenance expense within the Consolidated Statements of Operations. For ComEd and PECO, most of this accretion charge is recorded as an increase to their regulatory assets due to the application of SFAS No. 71.

The net ARC of Exelon is being depreciated over the remaining lives of the related long-lived assets. For Generation, this charge is recorded as depreciation and amortization expense within the Consolidated Statements of Operations. For ComEd and PECO, most of this depreciation charge is recorded as an increase to their regulatory assets due to the application of SFAS No. 71.

14. Retirement Benefits (Exelon, Generation, ComEd and PECO)

Defined Benefit Pension and Other Postretirement Benefits—Consolidated Plans

Exelon

Exelon sponsors defined benefit pension plans and postretirement benefit plans for essentially all Generation, ComEd, PECO and BSC employees, except for those employees of Generation's wholly owned subsidiary, AmerGen, who participate in the separate AmerGen-sponsored defined benefit pension plan and postretirement benefit plan. Substantially all Exelon non-union employees and electing union employees hired on or after January 1, 2001 participate in Exelon-sponsored cash balance pension plans. Substantially all Exelon non-union employees hired prior to January 1, 2001 were offered a choice to remain in Exelon's traditional pension plan or transfer to a cash balance pension plan for management employees. In 2005, AmerGen offered its employees a choice to remain in their traditional benefit formula or convert to a cash balance formula.

Exelon's traditional and cash balance pension plans and AmerGen's cash balance pension plan are intended to be tax–qualified defined benefit plans, and Exelon submitted applications to the IRS for rulings on the tax–qualification of the form of its plans for non–union and electing union employees. On June 1, 2004, the IRS issued a favorable ruling on the union cash balance plan. Exelon has not yet received a ruling with respect to its non–union plan, and AmerGen has not yet submitted an application with respect to its cash balance formula, due to the IRS temporary moratorium on issuing any rulings to plans that were involved in a "conversion" from a traditional to a cash balance formula. In December 2006, the IRS issued a notice announcing that the moratorium on consideration of determination letters for cash balance plans would be lifted in 2007.

The costs of providing benefits under these plans are dependent on historical information such as employee age, length of service and level of compensation and the actual rate of return on plan assets. Also, Exelon and AmerGen utilize assumptions about the future, including the expected rate of return on plan assets, the discount rate applied to benefit obligations, the incidence of mortality, the remaining service period, rate of compensation increases and the anticipated rate of increase in health care costs, in order to measure the plan obligations and costs to be recognized related to these plans. The impact of changes in these factors on pension and other postretirement benefit obligations is generally recognized over the expected remaining service life of the employees rather than immediately recognized in the income statement. Exelon and AmerGen use a December 31 measurement date for their plans.

Funding is based upon actuarially determined contributions that take into account the amount deductible for income tax purposes and the minimum contribution required under ERISA, as amended. The funded status of the pension and other postretirement benefit obligations refers to the difference between plan assets and estimated obligations of the plan. The funded status may change over time due to several factors, including contribution levels, assumed discount rates and actual long–term rates of return on plan assets. Changes in these factors could impact the funded status of these obligations. Exelon made discretionary aggregate contributions of approximately $2 billion to its traditional and cash balance pension plans in 2005. The 2005 contributions were initially funded through borrowings under a short–term loan agreement, which were subsequently refinanced with long–term senior notes, as further described in Note 11—Debt and Credit Agreements.

In accordance with SFAS No. 158, which became effective in the fourth quarter of 2006, Exelon and Generation are required to recognize the overfunded or underfunded status of their defined benefit pension and other postretirement plans as an asset or liability on their balance sheets as of December 31, 2006. The impacts of adopting SFAS No. 158 to Exelon's and Generation's Consolidated Balance Sheets is described in more detail below.

In 2006, President Bush signed into law the Pension Protection Act of 2006 (the Act), which will affect the manner in which many companies, including Exelon and Generation, administer their pension plans. This legislation will require companies to, among other things, increase the amount by which they fund their pension plans, pay higher premiums to the Pension Benefit Guaranty Corporation if they sponsor defined benefit plans, amend plan documents and provide additional plan disclosures in regulatory filings and to plan participants. This legislation will be effective as of January 1, 2008. Exelon and Generation do not anticipate that the Act will have a material effect on their liquidity and capital resources. Absent changes in plan design as a result of the Act, the Act is not expected to

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materially impact Exelon's and Generation's results of operations. Exelon and Generation are currently assessing the impact the Act may have on their plan design, if any.

The following tables provide a rollforward of the changes in the benefit obligations and plan assets for the most recent two years for all plans combined:

	Pension Benefits		Other Postretirement Benefits	
	2006	2005	2006	2005
Change in benefit obligation:				
Net benefit obligation at beginning of year	$10,247	$ 9,775	$3,297	$ 2,988
Service cost	157	144	99	89
Interest cost	562	546	183	175
Plan participants' contributions	—	—	22	22
Plan amendments	—	5	—	(17)
Actuarial loss (gain)	7	351	(95)	239
Curtailments/settlements	3	—	—	—
Special accounting costs	3	—	—	—
Gross benefits paid	(583)	(574)	(184)	(199)
Federal subsidy on benefits paid	—	—	8	—
Net benefit obligation at end of year	$10,396	$10,247	$3,330	$ 3,297
Change in plan assets:				
Fair value of plan assets at beginning of year	$ 9,060	$ 7,014	$1,341	$ 1,246
Actual return on plan assets	1,145	612	168	58
Employer contributions	23	2,008	165	214
Plan participants' contributions	—	—	22	22
Gross benefits paid	(583)	(574)	(184)	(199)
Fair value of plan assets at end of year	$ 9,645	$ 9,060	$1,512	$ 1,341

The following table provides a reconciliation of benefit obligations, plan assets and funded status of the plans as of December 31, 2005 for all plans combined. (In accordance with SFAS No. 158, Exelon and Generation recognized the underfunded status of its defined benefit postretirement plans as a liability on their balance sheets as of December 31, 2006.)

	Pension Benefits	Other Postretirement Benefits
Fair value of plan assets at December 31, 2005	$ 9,060	$ 1,341
Net benefit obligations at December 31, 2005	10,247	3,297
Funded status (plan assets less plan obligations)	(1,187)	(1,956)
Amounts not recognized		
Net actuarial loss	3,339	1,245
Prior service cost (credit)	159	(370)
Net transition obligation	—	67
Net amount recognized	$ 2,311	$ (1,014)

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The following table provides a reconciliation of the amounts recognized in Exelon's Consolidated Balance Sheets as of December 31, 2005 for all plans combined:

	Pension Benefits	Other Postretirement Benefits
Prepaid benefit cost	$ 2,358	$ —
Accrued benefit cost	(47)	(1,014)
Additional minimum liability	(2,202)	—
Intangible asset	34	—
Accumulated other comprehensive loss	2,168	—
Net amount recognized	$ 2,311	$ (1,014)

The following table presents the incremental effects of applying SFAS No. 158, in connection with SFAS No. 71, as well as the change to the additional minimum liability (AML) as a result of an annual actuarial valuation associated with the benefit plans on Exelon's Consolidated Balance Sheet as of December 31, 2006 for all plans combined:

	Before Application of SFAS No. 158 Without AML Adjustment	AML Adjustment (a)	SFAS No. 158 Adjustments	After Application of SFAS No. 158
Regulatory assets	$ 4,428	$ —	$ 1,380(b)	$ 5,808
Pension asset	352	1,596	(1,948)	—
Other deferred debits and other assets	688	92	(126)(c)	654
Total deferred debits and other assets	15,558	1,688	(694)	16,552
Other current liabilities	1,076	—	8	1,084
Total current liabilities	5,787	—	8	5,795
Pension obligations	297	(124)	574	747
Non–pension postretirement benefit obligations	1,039	—	778	1,817
Deferred income taxes and unamortized investment tax credits	5,523	674	(773)	5,424
Other deferred credits and other liabilities	762	—	20(d)	782
Total deferred credits and other liabilities	15,404	550	599	16,553
Accumulated other comprehensive loss	(973)	1,138	(1,302)(b)	(1,137)
Total shareholders' equity	10,137	1,138	(1,302)	9,973

(a) The AML was significantly less at December 31, 2006 as compared to December 31, 2005 as Exelon's most significant pension plan was funded on an accumulated benefit obligation (ABO) basis at December 31, 2006 and thus an AML was not required.
(b) After the adoption of SFAS No. 158 and before applying the provisions of SFAS No. 71, Exelon had an accumulated OCI balance of $2.4 billion attributable to its pension and other postretirement benefit obligations. Exelon subsequently recorded

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a regulatory asset of $1.4 billion and an offsetting reduction on an after-tax basis of AOCI of $866 million representing a reasonable approximation of the actuarial losses, prior service costs and transition obligations of Exelon's pension and other postretirement benefit plans that are probable of recovery through rates by Exelon's regulated utilities in future periods.

(c) Represents the write-off of the pension intangible asset as required by SFAS No. 158.

(d) Represents the unfunded obligation related to Exelon's deferred compensation unit plan.

The following table provides the components of Exelon's accumulated other comprehensive loss and regulatory assets that have not been recognized as components of periodic benefit cost as of December 31, 2006 for all plans combined:

	Pension Benefits	Other Postretirement Benefits
Transition asset	$ —	$ 30
Prior service cost (credit)	139	(149)
Actuarial loss	1,887	502
Total	$ 2,026	$ 383

As of December 31, 2006, $15 million and $92 million of the prior service cost and actuarial loss, respectively, related to pension benefits currently in accumulated other comprehensive income will be amortized as components of periodic benefit cost in 2007. As of December 31, 2006, $5 million, $(30) million and $34 million of the transition obligation, prior service gain and actuarial loss, respectively, related to other postretirement benefits currently in accumulated other comprehensive income will be amortized as components of periodic benefit cost in 2007. As of December 31, 2006, $1 million and $56 million of the prior service cost and actuarial loss, respectively, related to pension benefits currently in regulatory assets will be amortized as components of periodic benefit cost in 2007. As of December 31, 2006, $4 million, $(27) million and $33 million of the transition obligation, prior service gain and actuarial loss, respectively, related to other postretirement benefits currently in regulatory assets will be amortized as components of periodic benefit cost in 2007.

The ABO for all defined benefit pension plans was $9,502 million and $9,234 million at December 31, 2006 and 2005, respectively. On an ABO basis, the plans were funded at 102% at December 31, 2006 compared to 98% at December 31, 2005. On a projected benefit obligation (PBO) basis, the plans were funded at 93% at December 31, 2006 compared to 88% at December 31, 2005.

The following table provides the PBO, ABO, and fair value of plan assets for all pension plans with an ABO in excess of plan assets.

	December 31, 2006	December 31, 2005
Projected benefit obligation	$ 1,241	$ 9,457
Accumulated benefit obligation	1,193	8,463
Fair value of plan assets	1,020	8,196

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The following table provides the PBO, ABO and fair value of all pension plans with a PBO in excess of plan assets.

	December 31,	
	2006	2005
Projected benefit obligation	$ 10,396	$ 9,457
Accumulated benefit obligation	9,502	8,463
Fair value of plan assets	9,645	8,196

The following table provides the components of the net periodic benefit costs for the years ended December 31, 2006, 2005 and 2004 for all plans combined. The table reflects an annualized reduction in 2006, 2005 and 2004 net periodic postretirement benefit cost of approximately $40 million, $40 million and $33 million, respectively, related to a Federal subsidy provided under the Prescription Drug Act. This subsidy has been accounted for under FSP FAS 106-2, as described in Note 1—Significant Accounting Policies. A portion of the net periodic benefit cost is capitalized within Exelon's Consolidated Balance Sheets.

	Pension Benefits			Other Postretirement Benefits		
	2006	2005	2004	2006	2005	2004
Service cost	$ 157	$ 144	$ 128	$ 99	$ 89	$ 78
Interest cost	562	546	545	183	175	163
Expected return on assets [(a)]	(817)	(767)	(611)	(105)	(98)	(90)
Amortization of:						
Transition obligation (asset)	—	(4)	(4)	9	9	10
Prior service cost (credit)	16	16	15	(91)	(91)	(81)
Actuarial loss	149	121	73	87	81	44
Curtailment/settlement charges	6	—	22	—	—	2
Special accounting costs	3	—	—	—	—	16 [(b)]
Net periodic benefit cost	$ 76	$ 56	$ 168	$ 182	$165	$142
Other additional information:						
Increase (decrease) in other comprehensive loss (net of tax)	$1,138	$ 10	$(392)	$ —	$—	$—

(a) The increase in expected return on pension assets during 2006 and 2005 compared to 2004 was primarily attributable to discretionary pension contributions of $2 billion made during the first quarter of 2005.
(b) Represents special health and welfare severance benefits offered to terminated employees. These costs were recorded pursuant to SFAS No. 112. Prior service cost is amortized on a straight-line basis over the average remaining service period of employees expected to receive benefits under the plans.

In 2004, the additional minimum pension liability was increased by $606 million and Exelon's shareholders' equity decreased by $392 million (net of income taxes) as a result of an annual actuarial valuation associated with Exelon's and AmerGen's pension plans. In 2005, the additional minimum pension liability was reduced by $150 million and shareholders' equity increased by $10 million (net of income taxes) primarily as a result of an annual actuarial valuation associated with Exelon's and

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AmerGen's pension plans. In 2006, the additional minimum pension liability was reduced by $1.7 billion and shareholders' equity increased by $1.1 billion primarily as a result of an annual actuarial valuation associated with Exelon's and AmerGen's pension plans prior to the recording of SFAS No. 158.

The following weighted average assumptions were used to determine the benefit obligations for all the plans at December 31, 2006, 2005 and 2004:

	Pension Benefits			Other Postretirement Benefits		
	2006 (a)	2005	2004	2006(a)	2005	2004
Discount rate	5.90%	5.60%	5.75%	5.85%	5.60%	5.75%
Rate of compensation increase	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Health care cost trend on covered charges	N/A	N/A	N/A	9.00% decreasing to ultimate trend of 5.0% in 2012	8.00% decreasing to ultimate trend of 5.0% in 2010	9.00% decreasing to ultimate trend of 5.0% in 2010

(a) Assumptions used to determine year-end 2006 benefit obligations will be the assumptions used to estimate the expected costs of benefits in 2007.

The following weighted average assumptions were used to determine the net periodic benefit costs for all the plans for the years ended December 31 2006, 2005 and 2004:

	Pension Benefits			Other Postretirement Benefits		
	2006	2005	2004	2006	2005	2004
Discount rate	5.60%	5.75%	6.25%	5.60%	5.75%	6.25%
Expected return on plan assets	9.00%	9.00%	9.00%	8.15%(a)	8.30%(a)	8.33–8.35%(a)
Rate of compensation increase	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Health care cost trend on covered charges	N/A	N/A	N/A	8.00% decreasing to ultimate trend of 5.0% in 2010	9.00% decreasing to ultimate trend of 5.0% in 2010	10.00% decreasing to ultimate trend of 4.5% in 2011

(a) Not applicable for the AmerGen-sponsored other postretirement benefits plan.

In managing its pension and postretirement plan assets, Exelon and AmerGen utilize a diversified, strategic asset allocation to efficiently and prudently generate investment returns that will meet the objectives of the investment trusts that hold the plan assets. Asset / Liability studies that incorporate specific plan objectives as well as assumptions regarding long-term capital market returns and volatilities generate the specific asset allocations for the trusts. In general, Exelon's and AmerGen's investment strategy reflects the belief that over the long term, equities are expected to outperform fixed-income investments. The long-term nature of the trusts make them well suited to bear the risk of

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added volatility associated with equity securities, and, accordingly, the asset allocations of the trusts usually reflect a higher allocation to equities as compared to fixed–income securities. Non–U.S. equity securities are used to diversify some of the volatility of the U.S. equity market while providing comparable long–term returns. Alternative asset classes, such as private equity and real estate, may be utilized for additional diversification and return potential when appropriate. In the pension trusts, Exelon generally maintains approximately 10% of its plan assets in alternative asset classes. Exelon's and AmerGen's investment guidelines limit exposure to investments in more volatile sectors.

Exelon generally maintains approximately 60% of its plan assets in equity securities and 40% of its plan assets in fixed–income securities. On a quarterly basis, Exelon reviews the actual asset allocations and follows a rebalancing procedure in order to remain within an allowable range of these targeted percentages.

In selecting the expected rate of return on plan assets, Exelon considers historical returns for the types of investments that its plans hold. Historical returns and volatilities are modeled to determine asset allocations that best meet the objectives of the asset / liability studies. These asset allocations, when viewed over a long–term historical view of the capital markets, yield an expected return on assets in excess of 8%.

Exelon's and AmerGen's pension plan weighted average asset allocations at December 31, 2006 and 2005 and target allocation for 2006 were as follows:

Asset Category	Target Allocation at December 31, 2006	Percentage of Plan Assets at December 31, 2006	2005
Equity securities	60–65%	62%	61%
Debt securities	35–40	34	35
Real estate	0–5	4	4
Total		100%	100%

Exelon's other postretirement benefit plan weighted average asset allocations at December 31, 2006 and 2005 and target allocation for 2006 were as follows:

Asset Category	Target Allocation at December 31, 2006	Percentage of Plan Assets at December 31, 2006	2005
Equity securities	60–65%	63%	63%
Debt securities	35–40	35	35
Real estate	—	2	2
Total		100%	100%

Exelon's and AmerGen's defined benefit pension plans and postretirement benefit plans do not directly hold shares of Exelon common stock.

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Assumed health care cost trend rates have a significant effect on the costs reported for the health care plans. A one percentage point change in assumed health care cost trend rates would have the following effects:

Effect of a one percentage point increase in assumed health care cost trend	
on total service and interest cost components	$ 45
on postretirement benefit obligation	418
Effect of a one percentage point decrease in assumed health care cost trend	
on total service and interest cost components	(37)
on postretirement benefit obligation	(345)

Estimated future benefit payments to participants in all of the pension plans and postretirement benefit plans as of December 31, 2006 were:

	Pension Benefits	Other Postretirement Benefits (a)
2007	$ 567	$ 167
2008	569	175
2009	569	182
2010	577	189
2011	590	196
2012 through 2016	3,202	1,071
Total estimated future benefits payments through 2016	$ 6,074	$ 1,980

(a) Estimated future benefit payments do not reflect an anticipated Federal subsidy provided through the Prescription Drug Act. The Federal subsidies to be received by Exelon in the years 2007, 2008, 2009, 2010, 2011 and from 2012 through 2016 are estimated to be $8 million, $9 million, $9 million, $10 million, $11 million and $71 million, respectively.

Exelon, Generation, ComEd and PECO

The prepaid pension asset, pension obligation and non-pension postretirement benefits obligation on Generation's, ComEd's and PECO's Consolidated Balance Sheets reflect their obligations from and to their plan sponsor. Employee-related assets and liabilities, including both pension and SFAS No. 106 postretirement liabilities, were allocated by Exelon to its subsidiaries based on the number of active employees as of January 1, 2001 as part of Exelon's corporate restructuring. Exelon allocates the components of pension cost to the participating employers based upon several factors, including the measures of active employee participation in each participating unit.

The following approximate amounts were included in capital and operating and maintenance expense, excluding curtailment/settlement costs and special termination benefits costs, during 2006, 2005 and 2004, respectively, for Generation's, ComEd's, PECO's and Exelon Corporate's allocated portion of the Exelon-sponsored and AmerGen-sponsored pension and postretirement benefit plans:

	Generation (a)	ComEd (a)	PECO (a)	Exelon Corporate (a)(b)
2006	$ 114	$ 72	$ 30	$ 33
2005	97	63	30	32
2004	126	86	32	26

(a) The 2006, 2005 and 2004 amounts reflect an annualized reduction in net periodic postretirement benefit cost of $17 million, $15 million and $12 million, respectively, for Generation, $13 million, $13 million and $11 million, respectively, for ComEd, $6 million, $7 million and $7 million, respectively, for PECO, and $4 million, $5 million and $3 million, respectively, for Exelon related to a Federal subsidy provided under the Prescription Drug Act. This subsidy has been accounted for under FSP FAS 106-2, as described in Note 1—Significant Accounting Policies.

(b) Represents amounts billed to Exelon's subsidiaries through intercompany allocations.

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The following table provides net contributions made by Generation, ComEd and PECO to the Exelon–sponsored and AmerGen–sponsored pension and other postretirement benefit plans:

	2006	2005	2004
Generation	$78	$962	$220
ComEd	47	865	244
PECO	32	189	14

Exelon expects to contribute $208 million to the benefit plans in 2007, of which Generation, ComEd and PECO expect to contribute $98 million, $50 million and $38 million, respectively.

Of Generation's total 2005 contributions, $844 million was made in the first quarter and was primarily funded by a capital contribution from Exelon. Of ComEd's and PECO's total 2005 contributions, $803 million and $109 million, respectively, were made in the first quarter and were fully funded by a capital contribution from Exelon.

Pension and Other Postretirement Benefits—AmerGen Plans (Generation)

Investment policies and strategies and key assumptions used to determine benefit obligations and net periodic benefit costs for the AmerGen–sponsored defined benefit pension plans and postretirement benefit plans are the same as those for the Exelon–sponsored plans, as presented above.

The following tables provide a rollforward of the changes in the benefit obligations and plan assets for the most recent two years for the AmerGen–sponsored plans:

	Pension Benefits		Other Postretirement Benefits	
	2006	2005	2006	2005
Change in benefit obligation:				
Net benefit obligation at beginning of year	$107	$ 90	$ 82	$ 94
Service cost	12	10	9	8
Interest cost	7	5	5	4
Plan amendments	—	5	—	(17)
Actuarial (gain)	(1)	(1)	(4)	(6)
Gross benefits paid	(4)	(2)	—	(1)
Net benefit obligation at end of year	$121	$ 107	$ 92	$ 82
Change in plan assets:				
Fair value of plan assets at beginning of year	$ 70	$ 53	$—	$—
Actual return on plan assets	7	3	—	—
Employer contributions	11	16	—	1
Gross benefits paid	(4)	(2)	—	(1)
Fair value of plan assets at end of year	$ 84	$ 70	$—	$—

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At December 31, 2005, Generation's balance sheet included a liability of $14 million and $99 million related to the pension obligation and other postretirement benefit obligation, respectively. The following table provides a reconciliation of benefit obligations, plan assets and funded status of the plans as of December 31, 2005 for the AmerGen-sponsored plans (In accordance with SFAS No. 158, Generation recognized the underfunded status of AmerGen's defined benefit postretirement plans as a liability on its balance sheet as of December 31, 2006.):

	Pension Benefits	Other Postretirement Benefits
Fair value of plan assets at December 31, 2005	$ 70	$ —
Net benefit obligations at December 31, 2005	107	82
Funded status (plan assets less plan obligations)	(37)	(82)
Amounts not recognized		
Net actuarial loss (gain)	17	(2)
Prior service cost (credit)	6	(15)
Net amount recognized	$ (14)	$ (99)

The following table presents the incremental effects of applying SFAS No. 158 as well as the change to the AML as a result of an annual actuarial valuation associated with the AmerGen defined benefit pension plans and postretirement benefit plans on Generation's Consolidated Balance Sheet as of December 31, 2006:

	Before Application of SFAS No. 158 Without AML Adjustment	AML Adjustment	SFAS No. 158 Adjustments	After Application of SFAS No. 158
Other deferred debits and other assets (a)	$ 265	$ 6	$ (6)	$ 265
Total deferred debits and other assets	7,962	6	(6)	7,962
Other current liabilities	361	—	1	362
Total current liabilities	2,913	—	1	2,914
Pension obligations	16	6	15	37
Non-pension postretirement benefit obligations	558	—	(20)	538
Deferred income taxes and unamortized investment tax credits	1,384	—	(1)	1,383
Total deferred credits and other liabilities	8,736	6	(6)	8,736
Accumulated other comprehensive loss	414	—	(1)	413
Total shareholders' equity	5,481	—	(1)	5,480

(a) Represents the write-off of the pension intangible asset as required by SFAS No. 158.

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The following table provides the components of accumulated other comprehensive loss that have not been recognized as components of periodic benefit cost as of December 31, 2006 for the AmerGen-sponsored plans:

	Pension Benefits	Other Postretirement Benefits
Prior service cost (credit)	$ 6	$ (13)
Actuarial loss (gain)	15	(6)
Total	$ 21	$ (19)

As of December 31, 2006, $1 million of the prior service cost related to pension benefits will be amortized as components of periodic benefit cost in 2007. As of December 31, 2006, $2 million of the prior service credit related to other postretirement benefits will be amortized as components of periodic benefit cost in 2007.

The ABO for the AmerGen-sponsored defined benefit pension plans was $105 million and $95 million at December 31, 2006 and 2005, respectively. On an ABO basis, the plan was funded at 80% at December 31, 2006 compared to 74% at December 31, 2005. On a PBO basis, the plans were funded at 69% at December 31, 2006 compared to 65% at December 31, 2005.

The following table provides the components of the net periodic benefit costs for the years ended December 31, 2006, 2005 and 2004 for the AmerGen-sponsored plans. A portion of the net periodic benefit cost is capitalized within the Consolidated Balance Sheets.

	Pension Benefits			Other Postretirement Benefits		
	2006	2005	2004	2006	2005	2004
Service cost	$11	$10	$ 10	$ 9	$ 8	$ 6
Interest cost	6	5	5	5	4	5
Expected return on assets	(6)	(7)	(4)	—	—	—
Amortization of prior service cost	1	1	—	(2)	(2)	—
Net periodic benefit cost	$12	$ 9	$ 11	$ 12	$ 10	$ 11

AmerGen's pension plan weighted average asset allocations at December 31, 2006 and 2005 and target allocation at December 31, 2006 were as follows:

Asset Category	Target Allocation at December 31, 2006	Percentage of Plan Assets at December 31, 2006	2005
Equity securities	65%	69%	67%
Debt securities	35	31	33
Real estate	—	—	—
Total	100%	100%	100%

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Assumed health care cost trend rates have a significant effect on the costs reported for the health care plan. A one percentage point change in assumed health care cost trend rates would have the following effects:

Effect of a one percentage point increase in assumed health care cost trend	
on total service and interest cost components	$ 3
on postretirement benefit obligation	17
Effect of a one percentage point decrease in assumed health care cost trend	
on total service and interest cost components	(2)
on postretirement benefit obligation	(14)

Estimated future benefit payments to participants in the AmerGen-sponsored pension plan and postretirement benefit plan as of December 31, 2006 were:

	Pension Benefits	Other Postretirement Benefits (a)
2007	$ 4	$ 1
2008	5	1
2009	5	2
2010	6	2
2011	6	3
2012 through 2016	48	29
Total estimated future benefits payments through 2016	$ 74	$ 38

(a) Estimated future benefit payments do not reflect an anticipated Federal subsidy provided through the Prescription Drug Act. The Federal subsidies to be received by the sponsor are not material, with total subsidies to be received through 2016 being under $1 million.

Generation expects to contribute $24 million to the AmerGen benefit plans in 2007.

401(k) Savings Plan (Exelon, Generation, ComEd and PECO)

Exelon, Generation, ComEd and PECO participate in a 401(k) savings plan sponsored by Exelon. The plan allows employees to contribute a portion of their pre-tax income in accordance with specified guidelines. Exelon, Generation, ComEd and PECO match a percentage of the employee contribution up to certain limits. The cost of matching contributions to the savings plan totaled the following:

For the Years Ended	Exelon	Generation	ComEd	PECO
2006	$ 60	$ 30	$ 17	$ 6
2005	58	28	17	6
2004	57	27	16	6

15. Preferred Securities (Exelon, ComEd and PECO)

At December 31, 2006 and 2005, Exelon was authorized to issue up to 100,000,000 shares of preferred stock, none of which was outstanding.

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

Preferred and Preference Stock of Subsidiaries

At December 31, 2006 and 2005, ComEd prior preferred stock and ComEd cumulative preference stock consisted of 850,000 shares and 6,810,451 shares authorized, respectively, none of which was outstanding.

At December 31, 2006 and 2005, cumulative preferred stock of PECO, no par value, consisted of 15,000,000 shares authorized and the outstanding amounts set forth below. Shares of preferred stock have full voting rights, including the right to cumulate votes in the election of directors.

	Redemption Price[(a)]	December 31, 2006	2005	2006	2005
		Shares Outstanding		Dollar Amount	
Series (without mandatory redemption)					
$4.68 (Series D)	$ 104.00	150,000	150,000	$ 15	$ 15
$4.40 (Series C)	112.50	274,720	274,720	27	27
$4.30 (Series B)	102.00	150,000	150,000	15	15
$3.80 (Series A)	106.00	300,000	300,000	30	30
Total preferred stock		874,720	874,720	$ 87	$ 87

(a) Redeemable, at the option of PECO, at the indicated dollar amounts per share, plus accrued dividends.

16. Common Stock (Exelon, ComEd and PECO)

At December 31, 2006 and 2005, Exelon's common stock without par value consisted of 2,000,000,000 shares authorized and 669,863,391 and 666,369,787 shares outstanding, respectively. At December 31, 2006 and 2005, ComEd's common stock with a $12.50 par value consisted of 250,000,000 shares authorized and 127,016,519 shares outstanding. At December 31, 2006 and 2005, PECO's common stock without par value consisted of 500,000,000 shares authorized and 170,478,507 shares outstanding.

At December 31, 2006 and 2005, ComEd had 75,486 and 75,720 warrants, respectively, outstanding to purchase ComEd common stock. The warrants entitle the holders to convert such warrants into common stock of ComEd at a conversion rate of one share of common stock for three warrants. At December 31, 2006 and 2005, 25,162 and 25,240, respectively, shares of common stock were reserved for the conversion of warrants.

Stock Split

On January 27, 2004, the Board of Directors of Exelon approved a 2–for–1 stock split of Exelon's common stock. The distribution date was May 5, 2004. The share and per–share amounts have been adjusted for all periods presented to reflect the stock split.

Share Repurchases

Repurchased shares are held as treasury shares and recorded at cost.

Share Repurchase Program. In April 2004, Exelon's Board of Directors approved a discretionary share repurchase program that allows Exelon to repurchase shares of its common stock on a periodic basis in the open market. The share repurchase program is intended to mitigate, in part, the dilutive effect of shares issued under Exelon's employee stock option plan and Exelon's Employee Stock Purchase Plan (ESPP). The aggregate value of the shares of common stock repurchased pursuant to the program cannot exceed the economic benefit received after January 1, 2004 due to stock option exercises and share purchases pursuant to Exelon's ESPP. The economic benefit consists of the direct cash proceeds from purchases of stock and the tax benefits associated with exercises of stock options. The share repurchase program has no specified limit on the number of shares that may be repurchased and no specified termination date. Any shares repurchased are held as treasury shares unless cancelled or reissued at the discretion of Exelon's management. As of December 31, 2006, 12 million shares of common stock have been purchased under the share repurchase program for $615 million. During 2006 and 2005, 3.2 million shares and 6.8 million shares, respectively, of common stock were purchased under the share repurchase program for $186 million and $354 million, respectively.

Other Share Repurchases. During both 2005 and 2004, Exelon repurchased 0.2 million shares of common stock from a retired executive for $8 million and $7 million, respectively.

Undistributed Losses of Equity Method Investments

Exelon, Generation, ComEd and PECO had undistributed losses of equity method investments of $391 million, $16 million, $52 million and $51 million, respectively, at December 31, 2006 and $276 million, $7 million, $38 million and $41 million, respectively, at December 31, 2005. See Note 19—Supplemental Financial Information for further detail on the Registrants' equity method investments.

Stock-Based Compensation Plans

Exelon maintains LTIPs for certain full-time salaried employees. See Note 1—Significant Accounting Policies—SFAS No. 123-R for further information.

Exelon Corporation and Subsidiary Companies
Exelon Generation Company, LLC and Subsidiary Companies
Commonwealth Edison Company and Subsidiary Companies
PECO Energy Company and Subsidiary Companies

Combined Notes to Consolidated Financial Statements—(Continued)
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17. Earnings Per Share (Exelon)

Diluted earnings per share are calculated by dividing net income by the weighted average number of shares of common stock outstanding, including shares to be issued upon exercise of stock options outstanding under Exelon's stock option plans considered to be common stock equivalents. The following table sets forth the computation of basic and diluted earnings per share and shows the effect of these stock options on the weighted average number of shares outstanding used in calculating diluted earnings per share:

	2006	2005	2004
Income from continuing operations	$1,590	$951	$1,870
Income (loss) from discontinued operations	2	14	(29)
Income before cumulative effect of changes in accounting principles	1,592	965	1,841
Cumulative effect of changes in accounting principles	—	(42)	23
Net income	$1,592	$923	$1,864
Average common shares outstanding—basic	670	669	661
Assumed exercise of stock-based awards	6	7	8
Average common shares outstanding—diluted	676	676	669

The number of stock-based awards not included in the calculation of diluted common shares outstanding due to their antidilutive effect was 3 million for 2006. There were no stock options excluded for 2005 and 2004.

18. Commitments and Contingencies (Exelon, Generation, ComEd and PECO)

Nuclear Insurance

The Price–Anderson Act limits the liability of nuclear reactor owners for claims that could arise from a single incident. As of December 31, 2006, the current limit was $10.76 billion and is subject to change to account for the effects of inflation and changes in the number of licensed reactors. As required by the Price–Anderson Act, Generation carries the maximum available amount of nuclear liability insurance (currently $300 million for each operating site) and the remaining $10.46 billion is provided through mandatory participation in a financial protection pool. Under the Price–Anderson Act, all nuclear reactor licensees can be assessed a maximum charge per reactor per incident. The maximum assessment for each nuclear operator per reactor per incident (including a 5% surcharge) is $100.6 million, payable at no more than $15 million per reactor per incident per year. This assessment is subject to inflation and state premium taxes. In addition, the United States Congress could impose revenue–raising measures on the nuclear industry to pay claims.

In addition, the U.S. Congress could impose revenue–raising measures on the nuclear industry to pay claims. The Price–Anderson Act was extended to December 31, 2025 under the Energy Policy Act.

Generation is a member of an industry mutual insurance company, Nuclear Electric Insurance Limited (NEIL), which provides property damage, decontamination and premature decommissioning insurance for each station for losses resulting from damage to its nuclear plants. In the event of an accident, insurance proceeds must first be used for reactor stabilization and site decontamination. If the decision is made to decommission the facility, a portion of the insurance proceeds will be allocated to a fund, which Generation is required by the NRC to maintain, to provide for decommissioning the facility. Generation is unable to predict the timing of the availability of insurance proceeds to Generation and the amount of such proceeds that would be available. Under the terms of the various insurance agreements, Generation could be assessed up to $173 million for losses incurred at any plant insured by the insurance companies. In the event that one or more acts of terrorism cause accidental property damage within a twelve–month period from the first accidental property damage under one or more policies for all insured plants, the maximum recovery for all losses by all insureds will be an aggregate of $3.2 billion plus such additional amounts as the insurer may recover for all such losses from reinsurance, indemnity and any other source, applicable to such losses. The $3.2 billion maximum recovery limit is not applicable, however, in the event of a "certified act of terrorism" as defined in the Terrorism Risk Insurance Act of 2002, as extended, as a result of government indemnity. Generally, a "certified act of terrorism" is defined in the Terrorism Risk Insurance Act to be any act, certified by the U.S. government, to be an act of terrorism committed on behalf of a foreign person or interest.

Additionally, NEIL provides replacement power cost insurance in the event of a major accidental outage at a nuclear station. The premium for this coverage is subject to assessment for adverse loss experience. Generation's maximum share of any assessment is $46 million per year. Recovery under this insurance for terrorist acts is subject to the $3.2 billion aggregate limit and secondary to the property insurance described above. This limit would also not apply in cases of certified acts of terrorism under the Terrorism Risk Insurance Act, as extended, as described above.

In addition, Generation participates in the Master Worker Program, which provides coverage for worker tort claims filed for bodily injury caused by a nuclear energy accident. This program was modified, effective January 1, 1998, to provide coverage to all workers whose "nuclear–related employment" began on or after the commencement date of reactor operations. Generation will not be liable for a retrospective assessment under this new policy; however, in the event losses incurred under the small number of policies in the old program exceed accumulated reserves, a maximum retroactive assessment of up to $50 million could apply.

For its insured losses, Exelon 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's financial condition, results of operations and liquidity.

Energy Commitments

Generation's wholesale operations include the physical delivery and marketing of power obtained through its generation capacity, and long–, intermediate– and short–term contracts. Generation maintains a net positive supply of energy and capacity, through ownership of generation assets and power purchase and lease agreements, to protect it from the potential operational failure of one of its owned or contracted power generating units. Generation has also contracted for access to additional generation through bilateral long–term PPAs. These agreements are firm commitments related to

Exelon Corporation and Subsidiary Companies
Exelon Generation Company, LLC and Subsidiary Companies
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power generation of specific generation plants and/or are dispatchable in nature. Generation enters into power purchase agreements with the objective of obtaining low-cost energy supply sources to meet its physical delivery obligations to its customers. Generation has also purchased firm transmission rights to ensure that it has reliable transmission capacity to physically move its power supplies to meet customer delivery needs. The primary intent and business objective for the use of its capital assets and contracts is to provide Generation with physical power supply to enable it to deliver energy to meet customer needs. Generation primarily uses financial contracts in its wholesale marketing activities for hedging purposes. Generation also uses financial contracts to manage the risk surrounding trading for profit activities.

Generation has entered into bilateral long-term contractual obligations for sales of energy to load-serving entities, including electric utilities, municipalities, electric cooperatives and retail load aggregators. Generation also enters into contractual obligations to deliver energy to wholesale market participants who primarily focus on the resale of energy products for delivery. Generation provides delivery of its energy to these customers through rights for firm transmission.

At December 31, 2006, Generation had long-term commitments, relating to the purchase from and sale to unaffiliated utilities and others of energy, capacity and transmission rights as indicated in the following tables:

	Net Capacity Purchases (a)	Power Only Sales	Power Only Purchases	Transmission Rights Purchases(b)
2007	$ 468	$ 5,401	$ 1,499	$ 6
2008	425	1,900	475	—
2009	398	647	194	—
2010	417	100	194	—
2011	417	—	106	—
Thereafter	2,960	—	249	—
Total	$ 5,085	$ 8,048	$ 2,717	$ 6

(a) 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.
(b) Transmission rights purchases include estimated commitments in 2007 for additional transmission rights that will be required to fulfill firm sales contracts.

Starting in 2007, as a result of the first reverse-auction competitive bidding process, ComEd will procure substantially all of its supply under supplier forward contracts with various suppliers. See Note 4—Regulatory Issues for further information.

PECO has a long-term PPA with Generation under which PECO obtains substantially all of its electric supply from Generation through 2010. The price for this electricity is essentially equal to the energy revenues earned from customers as specified by PECO's 1998 settlement of its restructuring case mandated by the Competition Act. Subsequent to 2010, PECO expects to procure all of its supply from market sources, which could include Generation.