Summary:

Commonwealth Edison Co.

Credit Rating: BBB/Stable/A-2

Rationale

The ratings on Commonwealth Edison Co. (ComEd) reflect the consolidated credit profile of parent Exelon Corp. Exelon's other considerable subsidiaries include regulated PECO Energy Co. and unregulated Exelon Generation Co. LLC. In general, ComEd's ratings are limited to the lower of Exelon's consolidated rating or ComEd's stand-alone credit quality. The ratings also reflect ComEd's excellent business risk profile and Exelon's significant financial risk profile. As of Dec. 31, 2010, Chicago-based Exelon had about $12.7 billion in total debt outstanding. Based on the combination of future earnings, cash flow, and capital expenditures, Standard & Poor's Ratings Services currently views ComEd as accounting for about 15% of Exelon.

The excellent business risk profile reflects ComEd's lower risk transmission and distribution operations. ComEd serves about 3.8 million electric customers in the city of Chicago and surrounding area. Additionally, ComEd maintains electric transmission lines that comprise about 23% of its total rate base. The company's distribution rates are regulated by the Illinois Commerce Commission and the transmission rates are regulated by the Federal Energy Regulatory Commission. Overall, we view the distribution and transmission businesses as lower risk than the generation businesses often included in many fully integrated electric utilities.

Fundamental to ComEd's excellent business risk profile is its ability to effectively manage its regulatory risks. This includes the recent Illinois Appellate Court ruling that determined that accumulated depreciation should reduce post test-year plant additions and the elimination of the smart meter rider. The ruling is yet another reminder of the evolving multiple strategies that ComEd must consistently employ to effectively manage its regulatory risk. In 2010, the company filed for a $396 million rate increase and the staff most recently recommended a rate increase of $116 million. A commission's order is likely by June 2010. ComEd's investment-grade corporate credit rating assumes that the company will be able to navigate its present challenges while maintaining its credit quality.

The significant financial risk profile reflects Exelon's strong financial measures of adjusted funds from operation (FFO) to debt at about 33% that we expect will continue to be impacted by the ongoing weakness in the energy power markets. ComEd's stand-alone financial measures have steadied over the past two years, partially reflecting its 2008 rate increase. In 2010, the company was able to benefit from warmer-than-expected weather, the recovery of uncollectible costs through a rider, and increased deferred taxes.

For the 12 months ended Dec. 31, 2010, ComEd's adjusted FFO to debt was 20.5% or higher than the 19.9% at the end of 2009, adjusted debt to EBITDA improved to 4.0x from 4.4x at year-end 2009, and adjusted debt to total capital was about 49% or worse than the 47% at year-end 2009. We expect the financial measures to remain steady over the intermediate term as increased rates and bonus depreciation are offset by increased pension contribution and some of the 2010 one-time benefits (i.e., weather and the uncollectible rider).

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Recovery analysis

We assign recovery ratings to First Mortgage Bonds (FMBs) issued by investment-grade U.S. utilities, which can result in issue ratings being notched above a utility's corporate credit rating (CCR) depending on the CCR category and the extent of the collateral coverage. The investment-grade FMB recovery methodology is based on the ample historical record of nearly 100% recovery for secured bondholders in utility bankruptcies and our view that the factors that supported those recoveries (limited size of the creditor class and the durable value of utility rate-based assets during and after a reorganization given the essential service provided and the high replacement cost) will persist in the future. Under our notching criteria, we consider the limitations of FMB issuance under the utility's indenture relative to the value of the collateral pledged to bondholders, management's stated intentions on future FMB issuance, as well as the regulatory limitations on bond issuance when assigning issue ratings to utility FMBs. FMB ratings can exceed a utility's CCR by up to one notch in the 'A' category, two notches in the 'BBB' category, and three notches in speculative-grade categories.

ComEd's FMBs benefit from a first-priority lien on substantially all of the utility's real property owned or subsequently acquired. Collateral coverage of 1.5x supports a recovery rating of '1+' and an issue rating two notches above the CCR.

Short-term credit factors

The short-term rating on ComEd is 'A-2' and its liquidity is strong under Standard & Poor's corporate liquidity methodology, which categorizes liquidity in five standard descriptors (exceptional, strong, adequate, less than adequate, and weak). Strong liquidity supports ComEd's 'BBB' corporate credit rating. Projected sources of liquidity, mainly operating cash flow and available bank lines, exceed projected uses, necessary capital expenditures, debt maturities, and common dividends by more than 1.5x. ComEd's ability to absorb high-impact, low-probability events with limited need for refinancing, its flexibility to lower capital spending, its well-established bank relationships, its general high standing in the credit markets, and prudent risk management further support our description of liquidity as strong.

As of Dec. 31, 2010, ComEd had cash and cash equivalents of $50 million and a $1 billion revolving credit facility, of which $804 million was available after reducing for outstanding commercial paper. The credit facility expires in March 2013 and ComEd must minimally maintain cash from operations to interest expense of 2x and as of year-end, it was in compliance with this financial covenant.

We expect ComEd to have negative discretionary cash flow over near and intermediate term primarily due to its large annual capital expenditures of approximately $1 billion. In addition, the company has material long-term maturities of, successively, $347 million, $450 million, and $252 for 2011-2013. We expect that the company will meet these cash shortfalls with increasing debt issuances.

Outlook

The stable rating outlook reflects Standard & Poor's baseline forecast that ComEd's FFO to debt will consistently exceed 15% over the near-to-intermediate term. Fundamental to our forecast is the outcome of the company's rate case filing, the timing and the potential cash outflow from ComEd's outstanding tax issues with the IRS, and a gradual slow economic recovery. Because ComEd's credit rating is limited to the lower of its stand-alone credit rating or parent Exelon's credit rating, a ComEd upgrade would require an upgrade at Exelon concurrent with ComEd stand-alone credit quality reflecting the higher rating. A downgrade is currently less likely, although it

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would occur if we downgraded Exelon.

Related Criteria And Research

- Criteria Methodology: Business Risk/Financial Risk Matrix Expanded, May 27, 2009.
- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008.
- Changes To Collateral Coverage Requirements For '1+' Recovery Ratings On U.S. Utility First Mortgage Bonds, Sept. 6, 2007.

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April 12, 2011

Summary:
Exelon Corp.

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Summary:
Exelon Corp.

Credit Rating: BBB/Stable/A-2

Rationale

Our 'BBB' corporate credit rating on Exelon Corp. reflects its consolidated business risk profile, which we view as strong. (We categorize business profiles from excellent to vulnerable.) Exelon's business profile reflects the higher-risk operations of unregulated electricity supply affiliate Exelon Generation LLC (ExGen) and the excellent business risk profiles of its two regulated delivery businesses, Commonwealth Edison Co. (ComEd) and PECO Energy Co. (PECO).

ExGen, which accounts for about 70% of the consolidated enterprise by cash flow and capital spending, has long-term exposure to market risk and meaningful exposure to nuclear assets (17,000 megawatts [MW] across 19 units). Partially offsetting the enterprise's risks are the solid operating performance of ExGen's low-cost nuclear power plants and the relative stability of PECO and ComEd's regulated cash flows. Legislative risk has abated for ComEd after it worked out a settlement with the Illinois Commerce Commission for supply procurement through mid-2013, while uncertainty about the shape and form of deregulated markets for PECO has abated after four successful request-for-proposal (RFP) supply procurements.

Chicago-based Exelon distributes electricity to about 5.4 million customers in Illinois and Pennsylvania, and natural gas to 485,000 customers in the Philadelphia metro area through ComEd and PECO. The company also engages in unregulated energy generation, wholesale power marketing, and energy delivery through its ExGen subsidiary. As of Dec. 31, 2010, Exelon had about $12.4 billion of balance-sheet debt (excluding securitization debt). We also impute about $5.9 billion of off-balance-sheet debt on the books for computing financial ratios, pertaining mostly to unfunded pension and other post-employment benefits obligations ($3.5 billion) and power purchase agreements (PPA; $1.6 billion).

The expected tightening of reserve margins in the PJM Interconnection electricity market has not materialized because of the economic slowdown following the credit crisis. Some lower demand has already resulted in lower reliability pricing model (RPM) prices (rest of regional transmission organization price) as well as auctions/RFPs of neighboring utilities (FirstEnergy, Allegheny). A bigger concern for Exelon's unregulated portfolio is higher shale gas production that has led to significantly lower natural gas prices. Up until the end of 2009, that impact was largely in the spot and prompt (next year) prices. However, in the first quarter of 2010, the natural gas markets' fully factored in the short- to near-term expectations of shale gas in the forward strip, and the forward curve collapsed. For instance, the 2013 forward Henry Hub forward price now trades at about $5.30 per million British thermal units (mmBtu) after trading at $7.50 per mmBtu in June 2009. We note that while Exelon has a long position on market heat rates and carbon and other emissions, the company is double leveraged to an economic recovery. We believe an energy-light economic recovery, or falling demand in a double-dip recession, would harm Exelon more severely than its peers because of its significant base-load generation. We, however, note that the far end of the forward gas curve (post-2015) has recovered somewhat likely due to expectations of coal plant retirements, and also because of the nuclear incident in Japan, which has put upward pressure on liquefied natural gas demand. It is unclear whether

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that uplift will continue.

However, despite the longer-term decrease in expected load growth, the economic recovery has caused robust industrial growth in ComEd and PECO's service territory, and heat rates in the spot market are improving. In particular, because prices have remained relatively stable for Powder River Basin and Northern Appalachian coal, and load is recovering, the NiHub and PJM West electricity markets' off-peak power prices have increased. The Environmental Protection Agency's electric power agenda covering air, water, and waste during the next two years is a busy one, including secondary nitrogen oxide and sulfur dioxide compliance standards, mercury, once-through cooling, dry ash, and carbon compliance. Despite a massive build-out of capacity resources over the past decade, the recently promulgated draft Clean Air Transportation Rules can cause significant retirements of existing U.S. coal plants. Given the current rule-making process that requires typical compliance at the end of a three-year period, companies will likely feel the full impact of these rules in 2014-2015. We believe that the May 2011 RPM auction results for 2014-2015 would be one important indicator of reserve margin outlooks.

Risks to the capacity markets include a recently passed bill in New Jersey to subsidize up to 2,000 MW of new power capacity. If implemented, we believe such out-of-market, long-term capacity agreements will hurt capacity prices for PSEG's existing generation in the short to medium term, but may not lower long-term capacity prices. Because the 2,000 MW identified by the Board of Public Utilities are not expected on-line before 2015, we do not expect the new subsidy to affect the 2011 RPM auction, allowing the Federal Energy Regulatory Commission to review the complaint that a group of PJM power providers filed. However, the planning parameters for the 2011 auction, released in February, indicate that capacity prices in the eastern PJM could decline because of expectations of lower net demand, higher demand growth, and lower transmission constraints despite a net increase in cost of new entry.

Requirement contracts in Exelon's markets for various volumes and periods have also ensured that a high percentage of ExGen's near-term margins through 2012 is locked in, which we view favorably. We view ExGen's hedging policies and practices as consistent and sophisticated, which benefit credit quality. Hedging not only protects ExGen's generation from steep price declines, it provides the company time to adjust its cost structure or its capital structure, should prices remain depressed.

However, hedging activities insulate, but do not isolate, power merchants from commodity price effects. The high-price hedges that have thus far insulated Exelon from the economic turmoil will start rolling off during the next 12 months, exposing it to the power markets. Although most of ExGen's gross margin is under contract for 2010 and 2011, which leaves little commodity exposure, the company continues to face a backwardated EBITDA as the hedge percentage rolls off in later years. Consequently, our analysis focuses on ExGen's exposure to commodity prices in the outer years. For instance, by early 2009, ExGen had hedged about 30% of its expected Mid-Atlantic 2011 production at an effective average realized energy price of about $71 per megawatt hour (MWh). This hedged level was higher at just above 90% by December 2010, but the effective average realized price had declined to $57.00 per MWh because of lower power prices.

Similarly, ExGen's estimate of margin at risk (represented by gross margin at the 95th and 5th percentile--i.e. assuming an approximate two standard deviation upward/downward move in power prices imposed on the unhedged generation) declined to about $7.1 billion by December 2010 at the 95th percentile from about $8.9 billion in early 2009. Importantly, from a credit perspective, ExGen successfully controlled the downside risk and tightened its gross margin distribution estimate for 2011 at the 5th percentile to $6.8 billion by year-end 2010 from

$5.8 billion at the beginning of 2009. The company's estimate of gross margin at the 50th percentile (i.e., expected gross margin) has remained fairly stable between 2009 and 2011 despite significant movements in the forward strip, which we view favorably. Still, there are limits to what a price-taking base-load fleet of power plants, such as ExGen's, can do to mitigate the effects of a long-term decline in prices. The 2012 Mid-Atlantic hedged prices are at average realized energy price of $50.50 per MWh and the 5th percentile gross margin has declined to $5.4 billion--about $1 billion lower compared with the corresponding expectation for 2011 gross margin at the end of second-quarter 2009.

ExGen owns one of the lowest-cost generation fleets, dispatching almost 17,000 MW of nuclear generation at the lowest end of the supply stack. We expect that the events at Fukushima Daiichi will raise costs associated with nuclear safety, especially relating to the spent fuel pool for ExGen's nuclear operations. It remains unclear how high cost increases will go and how much of those costs the company can recover in market prices.

We view Exelon's stand-alone financial risk profile as significant. Exelon ended 2009 with adjusted funds from operations (FFO) to total debt of about 28.5%. The company ended 2010 at about 33% because of benefits from bonus depreciation. While we expect the company to achieve a similar level of financials in 2011, we expect these ratios to go down from 2012 as the highly priced hedges fall away. Even so, consolidated cash flow metrics should remain stable at 25% to 26.5% through 2013 as the company hedges a significant proportion of generation. We view this as adequate given that the two utilities' low-risk business profile offsets the lower cash flow they generate.

Similarly, ExGen's cash flow protection, as reflected by the ratio of FFO to debt, was about 40.5% in 2010. We expect the measure to improve to about 41% as most of the 2011 generation is hedged and because PECO's load goes to market prices, some of which Exgen's fleet will service at the significantly higher supply price. However, we expect 2012 and 2013 adjusted FFO to debt to decline to 30% to 33% due to the decline in power prices at which generation in these years will be hedged. We consider adjusted FFO to debt measures at about 30% for ExGen as adequate for the rating.

Exelon has material off-balance-sheet obligations. These obligations represent roughly one-third of total adjusted debt, which excludes customer transition charge-related securitization debt. After adjusting for ExGen's tolling contracts and the consolidated entity's unfunded pension and post-retirement benefit obligations, we consider Exelon's capital structure as significant. However, about 60% of the company's total adjusted debt is at its utility operating companies: 42% at ComEd and 19% at PECO.

As of Dec. 31, 2010, Exelon's adjusted debt to total capital was about 58%. Given the current business mix, which highly depends on the volatile generation business, we consider leverage to be high. Still, because the book value of ExGen's nuclear assets are materially undervalued, we would characterize book value debt to capital as a somewhat weak indicator of financial risk. Also, excluding debt at the utilities and after imputing all debt relating to purchased power agreements and unfunded pensions and post-retirement obligations, Exelon's stand-alone merchant business of adjusted owned and contracted kilowatts (kW) remains modest at about $275 per kW and under $500 per kW when we include only base-load kW. We believe this is well below the replacement value of base load nuclear units.

Short-term credit factors

The short-term rating on Exelon and affiliates is 'A-2'. Standard & Poor's views Exelon and ExGen's liquidity as strong, in light of expected debt maturities and available credit facilities. We estimate that Exelon and ExGen's sources of cash during the next 12 to 24 months to exceed its uses by about 1.9x and 1.6x, respectively. We expect sources over uses for both companies to remain positive even if EBITDA declines by 50%. In addition, because of

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the company's solid relationships with banks and high conversion of FFO to discretionary cash flow, we believe Exelon can absorb low probability/high impact shocks.

Exelon has sufficient alternative sources of liquidity to cover current liquidity needs, including ongoing capital requirements and margin requirements at ExGen, moderate capital spending, and upcoming debt maturities, which are marginal at about $639 million in 2010. The next large maturities are in 2015 for Exelon and 2014 for ExGen.

As of Dec. 31, 2010, Exelon, ExGen, ComEd, and PECO had $7.36 billion of credit lines, of which about $418 million is drawn or posted for letter of credits. In March 2011, Exelon closed on three five-year credit facilities aggregating $6.4 billion. The company also executed a $300 million letter of credit facility agreement at ExGen. This represents the refinancing of the $6.35 billion facility maturing 2012 at Peco, ExGen, and at the Exelon parent level. In March 2010, ComEd replaced its $952 million credit facility with a three-year $1 billion unsecured revolving credit facility that expires March 25, 2013.

Outlook

The outlook is stable. Exelon's financial measures are strong for its rating, reflected in adjusted FFO to debt at about 37% (excluding utilities) for 2009 and about 28% (consolidated). Yet, the outlook on the company and its affiliates reflects our conclusion that the continuing weakness in power merchant markets could affect the company's financial performance in the medium term. In 2010, we expect consolidated FFO to debt at about 25% and unregulated FFO to debt to decline to about 34%, which still comfortably meets requirements at the rated level. Some factors that could influence the financials are the unresolved issues related to outstanding claims of the IRS and unfunded pension obligations. Despite strong financial metrics, an upgrade is presently constrained by uncertainty about the economic recovery and impact of shale gas on forward power prices, especially in 2013. We could lower the ratings if the forward gas strip weakens such that ExGen's adjusted FFO to debt falls materially below 30% and if consolidated FFO to debt falls below 22% to 23%.

Related Criteria And Research

Criteria Methodology: Business Risk/Financial Risk Matrix Expanded, May 27, 2009

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April 28, 2011

Research Update:

Ratings Are Affirmed On Exelon Companies On News It Will Merge With Constellation; Constellation Is On CW Positive

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Research Update:

Ratings Are Affirmed On Exelon Companies On News It Will Merge With Constellation; Constellation Is On CW Positive

Overview

- Chicago-based diversified energy company Exelon Corp. to merge with Baltimore-based Constellation Energy Group Inc. in a stock-for-stock transaction.
- We have affirmed our 'BBB' corporate credit ratings on Exelon Corp. and its subsidiaries Commonwealth Edison Co., PECO Energy Co., and Exelon Generation Co. LLC. Our outlook on the ratings remains stable.
- We have placed our ratings on Constellation, including the 'BBB-' corporate credit rating, on CreditWatch with positive implications.
- We have affirmed our ratings on Constellation's subsidiary Baltimore Gas & Electric Co. at 'BBB+'.

Rating Action

On April 28, 2011, Standard & Poor's Ratings Services affirmed its 'BBB' corporate credit rating on Chicago-based diversified energy company Exelon Corp. At the same time, we affirmed our corporate credit ratings on Exelon's utility subsidiaries, Commonwealth Edison Co. (ComEd) and PECO Energy Co., and its unregulated supply company, Exelon Generation Co. LLC (ExGen). Our ratings outlook on the Exelon group of companies is stable. We have also placed our corporate credit ratings on Constellation Energy Group Inc. on CreditWatch with positive implications. At the same time, we have affirmed our ratings on Baltimore Gas & Electric Co. (BGE), a subsidiary of Constellation, at 'BBB+'. Our outlook on BGE's rating is stable. (Watch the related CreditMatters TV segment titled, "The Exelon Corp. - Constellation Energy Group Merger Agreement: What's Behind Standard & Poor's Rating Actions," dated April 29, 2011.)

Our rating actions follow Exelon's announcement that it has agreed to merge with Constellation in a stock-for-stock transaction. Exelon expects to use net proceeds (after tax) from the divestiture of about 2,650 megawatts (MW) of generation assets to offset future incremental debt funding as well as to fund growth projects. The transaction will require the approval of the Federal Energy Regulatory Commission, the Nuclear Regulatory Commission, the Department of Justice, and the regulatory commissions of Maryland, New York, and Texas, and possibly others.

We note that when the acquiring company is rated higher than the acquiree we often place our ratings of the acquiring company on CreditWatch with negative implications to subsume unanticipated developments and to reflect, among other

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things, the uncertainty inherent during regulatory reviews. In this case as well, we see the potential for concessions to ratepayers, though we cannot define their scale or nature at this time. However, we have affirmed the ratings on Exelon because we believe there is a high likelihood that we will assign the combined company a 'BBB' corporate credit rating when we assess the final plan. We also base our outlook affirmation on the company's demonstrated willingness to walk away from acquisitions when concessions imperiled the ratings of the merged entity.

Rationale

Exelon distributes electricity to about 5.4 million customers in Illinois and Pennsylvania, and natural gas to 485,000 customers in the Philadelphia metro area through ComEd and PECO. Through its ExGen subsidiary, the company also engages in unregulated energy generation, wholesale power marketing, and energy delivery.

Constellation's operations aggregate 30,000 MW and 350 billion cubic feet (bcf) of natural gas, and the company serves about 26,000 retail, commercial, and industrial customers, as well as 64 utility and cooperative wholesale customers. In addition, Constellation's generation group operates approximately 12,000 MW of owned generation, mostly in the Mid-Atlantic region.

As of Dec. 31, 2010, Exelon had about $12.4 billion of balance-sheet debt (excluding securitization debt). We also impute about $5.9 billion of off-balance-sheet debt for computing financial ratios. These off-balance-sheet obligations pertain mostly to unfunded pension and other postemployment benefits obligations ($3.5 billion) and power purchase agreements (PPA; $1.6 billion). In January 2011, Exelon funded $2.1 billion of its pension plans, which will significantly reduce the unfunded pension debt we impute for the financial ratios as of March 31, 2011. As of Dec. 31, 2010, Constellation (excluding BGE) had about $4.15 billion of debt. About $1.7 billion of this is off-balance-sheet imputed debt.

We view Exelon's business strategy as an important determinant of the company's credit profile. In recent years, Exelon has implemented a strategy of internal growth through reinvesting in existing businesses and investing in new technologies. There is also a bias toward longer-term contracted businesses. Management's business strategy appears to be three pronged: expanding the company's clean generation portfolio through its nuclear uprate program, enlarging alternative energy investments through wind development projects (and potentially solar projects), and in the medium term investing in new technologies such as electric vehicles and the smart grid. While the utilities primarily focus on growing rate base and earning a reasonable return, they are also playing a role in competitive markets by investing in transmission. Yet, Exelon has indicated that its core power strategy does not preclude the potential for acquisitions, especially in assets that can potentially reduce the company's exposure to natural gas and offset the

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business risk profile of its wholesale generation business. With nuclear generation accounting for nearly 140 terawatt hours (TWh) of the company's 150 TWh total generation in 2010, Exelon is the most exposed of its peers to a decline in natural gas prices, which would drive down its margins.

In our opinion, acquisition of retail power operations is consistent with Exelon's strategy because these operations offer a natural hedge against natural gas exposure. This is because when power prices are high, capital charges for retail operations are high and cut into gross margins. Yet customers are less inclined to lock in power prices at these levels. As a result, in this scenario, we expect fixed-price sales to fall, reducing total capital requirements and lifting average margins on the existing retail volumes. Thus, although the profitability of the retail business declines when power prices are high, profitability of the wholesale generation business improves, and the opposite occurs when power prices decline.

From a credit perspective, we view the transaction favorably. Exelon's strategy with its proposed merger with Constellation is premised on several benefits:

- The complementary nature of retail operations and wholesale generation. Exelon has generation in the regions serviced by the Midwest Independent Transmission System Operator (MISO) system, the Pennsylvania, Jersey, Maryland Power Pool (PJM), and the Electric Reliability Council of Texas (ERCOT), while Constellation has significant retail load in these locations but is short generation;
- A broadened nuclear footprint; and
- Generation and load diversity across six different regions.

Based on our evaluation of cash flows, we consider about two-thirds of the pro forma company as unregulated under management's base case. The unregulated proportion declines to about 60% under our base case because of lower cash flow in a lower commodity price environment. Under both management's and our base cases, we would assign the consolidated pro forma company a blended business risk profile of strong. (For more on our assessment of business risk, see "Business Risk/Financial Risk Matrix Expanded," published May 27, 2009.) Also, because the business risk profiles of the unregulated supply businesses and the regulated utilities are different, we assessed the pro forma company's financial measures on a consolidated as well as on an ex-utilities basis (i.e. after deconsolidating the utilities). We did this to assess the credit profile of the riskier unregulated business on a "pure-play" basis.

Under our consolidated base case (we assume lower gas prices and market heat rates that result in power prices roughly 10% lower than the current forwards), we expect adjusted funds from operations (FFO) to total debt to decline to about 26.0% in 2012 and then to hover at 24.0% to 25.0% through 2015. We expect free operating cash flow to debt to remain positive at about 2.5% to 3.5% from 2012 to 2015. However, we expect discretionary cash flow (after dividends) to become negative at about $1.0 billion through this period largely because of capital spending by the utilities. Similarly, we expect total debt to total capital to decline below 50% and debt to EBITDA to hover

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around 3.5x. These ratios are consistent with Standard & Poor's 'BBB' guideposts for a financial risk profile we assess as significant.

Our assessment of the financial metrics for the ex-utilities case reveals the volatility in the unregulated business. For instance, we expect adjusted FFO to debt to decline to 31.5% in 2012 before rising modestly to 34.0% in 2013 as capacity prices firm up in that year. Subsequently, we expect adjusted FFO to debt to decline because a larger proportion of the pro forma company's economic generation is unhedged in these years and subject to our lower power price assumptions. Yet we expect FFO to debt to stay marginally above 30.0% through 2015. These ratios remain appropriate for the significant financial risk profile at 'BBB'. Also, despite the decline in financial measures, our expectation is that free operating cash flow to debt in the ex-utilities case will remain positive (except in 2012), which we view favorably.

It is also favorable, in our view, that upcoming debt maturities are spaced out. Almost 75% of 2012-2016 maturities consist of regulated utility debt.

Liquidity

Exelon has sufficient alternative sources of liquidity to cover current needs, which include ongoing capital requirements and margin requirements at ExGen, moderate capital spending, and upcoming debt maturities. The next large maturities are in 2015 for Exelon and 2014 for ExGen. Constellation has a similar maturity profile, with the next major maturity ($550 million) due only in June 2015.

As of Dec. 31, 2010, Exelon, ExGen, ComEd, and PECO had $7.36 billion of credit lines, of which about $418 million was drawn or posted for letters of credit. In March 2011, Exelon closed on three five-year credit facilities aggregating $6.4 billion and executed a $300 million letter-of-credit facility agreement at ExGen. These transactions represent the refinancing of the $6.35 billion facility maturing 2012 at PECO, ExGen, and Exelon Corp. In March 2010, ComEd replaced its $952 million credit facility with a three-year $1 billion unsecured revolving credit facility that expires March 25, 2013.

For the pro forma company, liquidity needs will decrease because generation will be matched to competitive retail sales. Exelon and Constellation (excluding the utilities) currently have $10.3 billion of credit facilities and other liquidity lines. Management has indicated that they expect matching Exelon's generation position with Constellation's load will reduce the combined company's liquidity needs by almost $3.0 billion.

Outlook

The outlook for our ratings on the Exelon group of companies is stable. While the pro forma company's financial measures may improve as natural gas prices respond to coal asset retirements, we consider this an upside case and would raise the ratings of the pro forma company only after it has achieved FFO to

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debt of 30% or higher. From a practical point of view, this could happen by year-end 2013. That said, we believe there are risks that higher natural gas production from shale plays, a delay in coal plant retirements, or a significant increase in the cost of nuclear generation could in the long term prevent cash flow from meeting our expectations. We also believe that an energy-light economic recovery or falling demand in a double-dip recession could harm the pro forma company more than its peers because of its significant base load generation. We would lower the ratings should FFO to debt decline to less than 22.0%. We also note that the pro forma electric load will increase to 166 TWh from 60 TWh. While the merger offers scale opportunities, we will focus on the aggressiveness of Exelon's growth, which they must match with commensurate liquidity.

We have placed our ratings on Constellation on CreditWatch with positive implications because we expect to raise those ratings to 'BBB' at closing. BGE is ring-fenced from the operations of parent Constellation. The ring-fenced structure insulates BGE's credit from that of Constellation (and, by extension, that of the pro forma company), allowing up to a three-notch separation. The one-notch differential we expect between the pro forma company and BGE reflects the utility's stand-alone credit quality.

Related Criteria And Research

- Business Risk/Financial Risk Matrix Expanded, May 27, 2009

Ratings List

Ratings Affirmed

Exelon Corp.	
PECO Energy Co.	
Exelon Generation Co. LLC	
Commonwealth Edison Co.	
Corporate Credit Rating	BBB/Stable/A-2
Exelon Corp.	
Senior Unsecured (3 issues)	BBB-
Commercial Paper (1 issue)	A-2
Commonwealth Edison Co.	
Senior Secured (26 issues)	A-
Recovery Rating	1+
Senior Unsecured (2 issues)	BBB
Preferred Stock (1 issue)	BB+
Commercial Paper (1 issue)	A-2
Exelon Generation Co. LLC	
Senior Unsecured (7 issues)	BBB
Commercial Paper (1 issue)	A-2

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PECO Energy Capital Trust III	
Preferred Stock (1 issue)	BB+
PECO Energy Co.	
Senior Secured (15 issues)	A-
Recovery Rating	1+
Preferred Stock (4 issues)	BB+
Commercial Paper (2 issues)	A-2
Peco Energy Capital Trust IV	
Preferred Stock (1 issue)	BB+
Philadelphia Electric Co.	
Senior Secured (6 issues)	A-
Baltimore Gas & Electric Co.	
Corporate Credit Rating	BBB+/Stable/A-2
Senior Unsecured (9 issues)	BBB+
Preference Stock (6 issues)	BBB-
Commercial Paper (1 issue)	A-2
BGE Capital Trust II	
Preferred Stock (1 issue)	BBB-

CreditWatch Action

	To	From
Constellation Energy Group Inc.		
Corporate Credit Rating	BBB-/Watch Pos/A-3	BBB-/Stable/A-3
Senior Unsecured (3 issues)	BBB-/Watch Pos	BBB-
Junior Subordinated (1 issue)	BB/Watch Pos	BB
Commercial Paper (1 issue)	A-3/Watch Pos	A-3

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

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April 28, 2011

Credit FAQ:

Credit Implications Of The Merger Agreement Between Exelon Corp. And Constellation Energy Group Inc.

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Frequently Asked Questions

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Credit FAQ:

Credit Implications Of The Merger Agreement Between Exelon Corp. And Constellation Energy Group Inc.

On April 28, 2011, Standard & Poor's Ratings Services affirmed its 'BBB' corporate credit rating on Chicago-based diversified energy company Exelon Corp. after Exelon announced that it had agreed to merge with Baltimore-based Constellation Energy Group Inc. in a stock-for-stock transaction. At the same time, we affirmed the corporate credit ratings on Exelon's utility subsidiaries Commonwealth Edison Co. (ComEd) and PECO Energy Co. and its unregulated supply company Exelon Generation Co. LLC (ExGen). Our ratings outlook on the Exelon companies is stable. At the same time, we placed our corporate credit ratings of Constellation on CreditWatch with positive implications. We have also affirmed our ratings on its subsidiary of Baltimore Gas & Electric Co. (BGE) at 'BBB+'. The outlook on BGE's ratings is stable.

(Watch the related CreditMatters TV segment titled, "The Exelon Corp. - Constellation Energy Group Merger Agreement: What's Behind Standard & Poor's Rating Actions," dated April 29, 2011.)

Below, we answer some frequently asked questions about the credit implications for the pro forma entity. (For additional information on these rating actions, see the research update published April 28, 2011.)

Frequently Asked Questions

How does Standard & Poor's view Exelon's business risk profile?

Based on our evaluation of cash flows, we consider about two-thirds of Exelon as unregulated. On a blended basis, we assess Exelon's current business risk profile as "strong". (For more on our assessment of business risk, see "Business Risk/Financial Risk Matrix Expanded," published May 27, 2009.)

We base our assessment of ExGen's unregulated wholesale supply business risk profile on a number of factors (market diversification, competitiveness, break-even cost structure, etc.), but the profile is dominated by the price-taking nature of its generation business. Consequently, we see the potential for high volatility of cash flow despite elaborate hedging strategies. Still, cost structures of diversified base load generators are often competitive enough to allow a reasonable return even under depressed marginal fuel prices. As a result, we assign a strong business risk profile to diversified merchant generators, such as ExGen, that have the ability to dispatch along the supply curve. According to our business risk categories, most diversified base-load merchant generators are either at the lower end of the "strong" range or the higher end of the "satisfactory" range. In contrast, we almost uniformly assign regulated utilities an excellent business risk profile, given their rate-regulated nature and franchise service territories.

ExGen is facing the same challenges that most unregulated companies are currently facing. An abundance of gas inventory, caused by a decline in load and higher production of shale gas, is pressuring power prices--and net revenues. Yet the front end of the forward curve is not that meaningful because companies are usually highly hedged for the near to medium term. For power companies, the back end of the price curve is more relevant to EBITDA, especially because unlike coal or natural gas, whose pricing and inventory are affected by events in the present,

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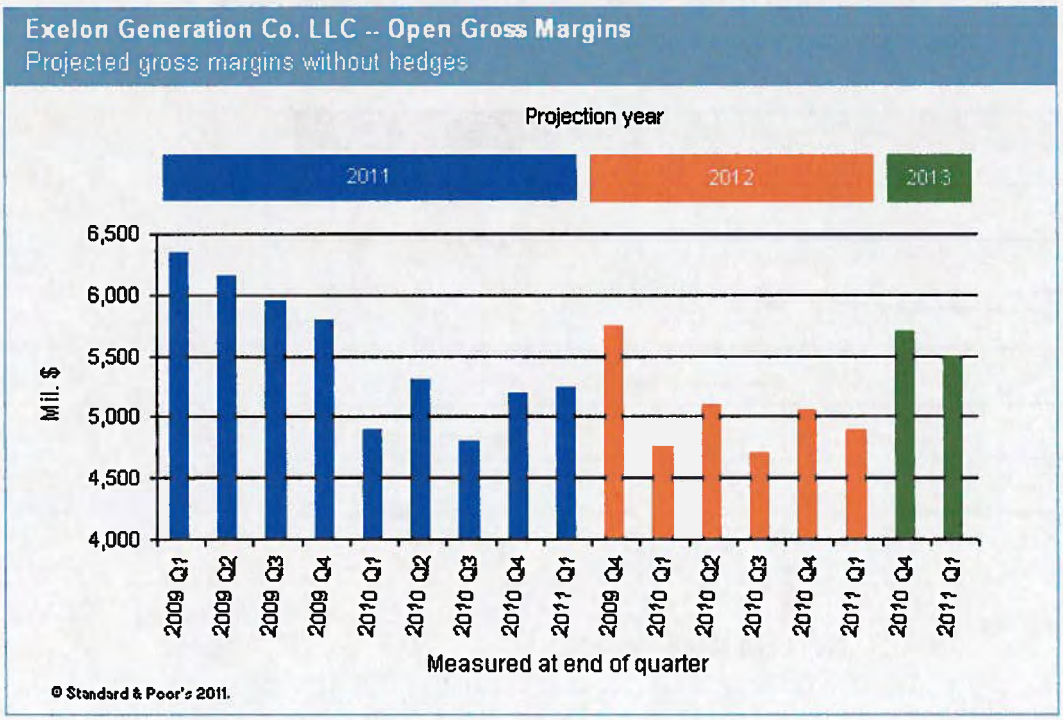
power is non-storable.

Chart 1



While ExGen has hedged its near-term generation in well-priced legacy contracts, the plunge in natural gas prices results in lower open gross margins from its nuclear assets. As chart 2 shows, the difference between hedged margins and open gross margins has widened. Also, ExGen's expected gross margin has declined by almost $1.0 billion between 2011 and 2012 (see chart 3).

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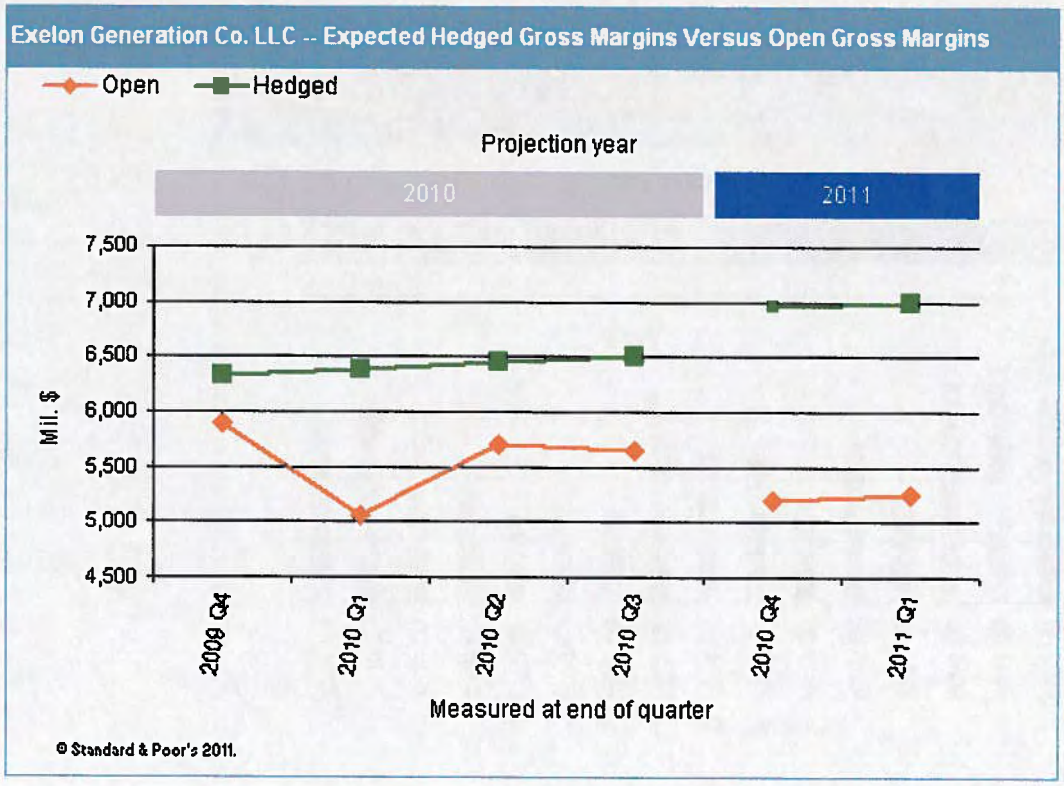
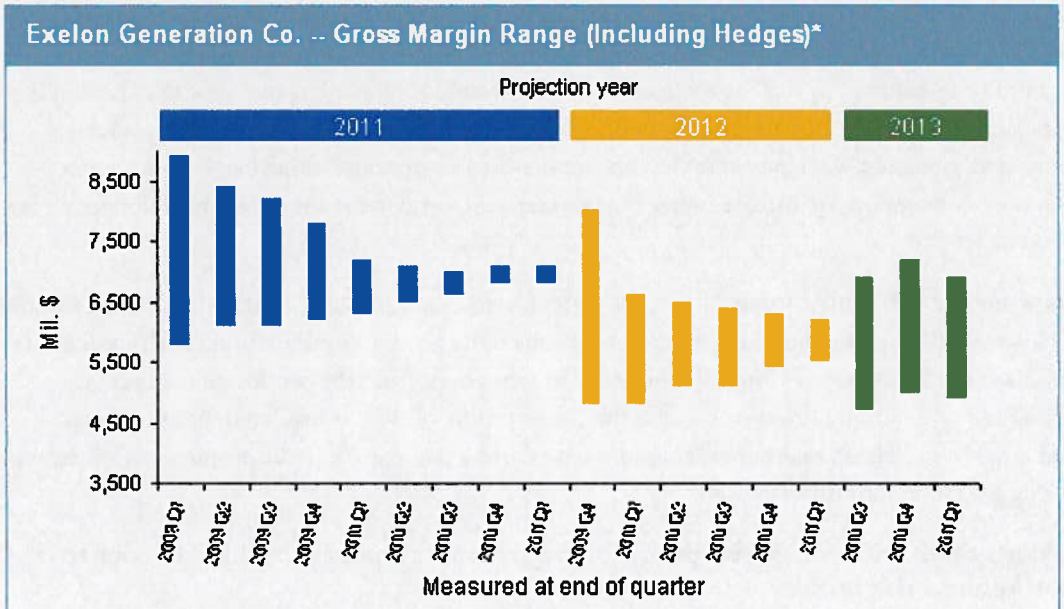
Chart 2



We also believe an energy-light economic recovery or falling demand in a double-dip recession could harm ExGen more than its peers because of its significant base load generation, though we recognize that the company's cost structure is among the most competitive in the industry. Chart 3 below shows the pressure on Exelon's margin, should commodity prices face further downward pressure. (The 5% stress signifies a two-standard-deviation drop from current power price levels.)

Chart 3



*The top of the range represents the 95% case; the bottom is 5% stress. The 95% case is a two-standard-deviation rise in power prices, and the 5% stress is a two-standard-deviation decline from current forward power prices.
© Standard & Poor's 2011. Source: Exelon Generation Co.'s quarterly disclosures.

Is acquiring Constellation consistent with Exelon's business strategy?

In our view, it is. The premise of Exelon's strategy in the merger is a combination of diversification benefits, most notably:

- Increased nuclear capacity, with five additional units;
- Diversification of generation and load across six different regions; and
- Additional retail operations to complement wholesale generation.

We view Exelon's business strategy as an important determinant of its credit profile. In recent years, Exelon has implemented a strategy of internal growth through reinvesting in existing businesses and investing in new technologies. There is also a bias toward longer-term contracted businesses. Management's business strategy appears to be three pronged: expanding the company's clean generation portfolio through its nuclear uprate program, enlarging alternative energy investments through wind development projects, and investing in the medium term in new technologies such as electric vehicles and the smart grid. While the utilities primarily focus on increasing rate base and earning a reasonable return, they are also playing a role in competitive markets by investing in transmission.

Still, Exelon has indicated that its core power strategy does not preclude acquisitions, especially in assets that can offset the business risk profile of its wholesale generation business and reduce the company's exposure to natural gas. It is important to note that even though nuclear generation accounted for nearly 140 terawatt hours (TWh) of ExGen's 150 TWh total generation in 2010, natural gas--the marginal fuel for power generation in most regions--determines the economics of Exelon's generation fleet. Constellation's large retail operations offer a natural hedge against the natural gas exposure and thus fit well with Exelon's business strategy.

What methodology does Standard & Poor's use for rating the pro forma company?

We consider the ratings on Exelon and ExGen to be inextricably linked because we regard ExGen as a core and primary subsidiary of Exelon. We consolidate utility subsidiaries when we assess credit quality, given the absence of any meaningful structural (ring-fencing) or regulatory insulation. A measure of this link is our view that Exelon is likely to provide financial support to its affiliate utilities in Illinois and Pennsylvania in the event of any adverse regulatory or legislative developments. We could rate the subsidiaries on a more stand-alone basis if we were to determine that Exelon may not support an affiliate under a stress scenario, or that the subsidiary is no longer a core holding.

For the pro forma company, we will similarly consolidate the unregulated operations of Constellation with Exelon's existing operations. However, BGE is ring-fenced from the operations of its parent, Constellation. The ring-fenced structure insulates BGE's credit from that of Constellation (and, by extension, from the pro forma company), allowing up to a three-notch separation. However, because the credit profile of BGE is insulated, but not isolated, from the effects of the larger unregulated operations, should the pro forma company's credit profile deteriorate, we would consider lowering BGE's credit ratings as well.

Does Standard & Poor's think the business risk profile of the pro forma company will be superior to Exelon's stand-alone business risk profile?

We feel the transaction is favorable to the business risk profile. Yet it could be a double-edged sword.

While the merger has diversification benefits (region, counterparty, fuel type, etc.), its main benefit is expanding the retail power business to match load to generation. For instance, Exelon has generation in the Midwest Independent Transmission System Operator (MISO) system, the Pennsylvania, Jersey, Maryland Power Pool (PJM), and the Electric Reliability Council of Texas (ERCOT), while Constellation has significant retail load in these locations but is short generation. We note that capital charges for the retail power business--including the cost of working capital, credit facilities, contingent collateral, as well as the cost of equity required to cover risk capital requirements--increase roughly in proportion to commodity prices. When power prices are high, capital charges are high and cut into retail gross margins. Yet customers are less inclined to lock in prices at these levels. As a result, in this scenario, we expect fixed-price retail sales to fall, reducing total capital requirements and lifting average margins on the existing retail volumes. Thus, although the profitability of the retail business declines when prices are high, profitability of the wholesale generation business improves. The opposite occurs when power prices decline. (See "U.S. Merchant Power Credit Update: Low Natural Gas Prices And A Slate Of New Regulations Are Creating Uncertainty," published April 18, 2011.)

Yet the aggressiveness of Exelon's growth could impair the company's business risk profile. We note that the pro forma electric load will increase to 166 TWh from 60 TWh. While the merger offers scale opportunities, we will focus on Exelon's growth, which the company must match with commensurate liquidity.

Is Standard & Poor's concerned about Exelon's management strategy?

Standard & Poor's remains focused on the future structure and dynamics of Exelon's senior management as the time approaches for John Rowe, the long-time chairman and CEO, to retire. The company has advised us that Chris Crane, the CEO-designate with operational responsibilities, and Mayo Shattuck, the executive chairman-designate, who has stewardship over governance issues, will share executive responsibilities; still, we feel that this division may cause dispersion of authority, particularly as it pertains to the origination of corporate strategy.

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How does Standard & Poor's view the pro forma company's financial risk profile?

We expect to assign the pro forma company a financial risk profile of significant.

Based on our evaluation of cash flows, we consider about two-thirds of the pro forma company as unregulated under management's base case. The unregulated proportion declines to about 60% under our base case because of lower cash flow in a lower-commodity-price environment. Also, because the business risk profiles of the unregulated supply businesses and the regulated utilities are different, we assessed the financial measures we expect for the pro forma company on a consolidated as well as on an ex-utilities basis (i.e., after deconsolidating the utilities). We did this to assess the credit profile of the riskier unregulated business on a "pure-play" basis.

Exelon's base case financials have somewhat optimistic assumptions on capacity prices, natural gas prices, and heat rates, in our opinion, because the company factors a natural gas price response into its assumptions as coal-fired units start retiring because of increasingly stringent environmental regulations. Because our focus is on bondholder protection, we tend to focus on what can go wrong instead of what can go right--i.e., we view financial forecasts in terms of writing a put option instead of assessing a company's prospects as an equity call option. As a result, we focus on our base case rather than on management's. However, we note that around-the-clock power prices we assumed are about 10% to 15% lower across the forward curve than current market prices.

Under our consolidated base case, we expect adjusted funds from operations (FFO) to total debt to decline to about 26% in 2012 and then hover at 24% to 25% through 2015. According to our estimates, free operating cash flow to debt should remain positive at about 2.5% to 3.5% from 2012 to 2015. However, we expect discretionary cash flow (after dividends) to become negative at about $1.0 billion through this period largely because of capital spending by the utilities. Similarly, we expect total debt to total capital to decline below 50% and debt to EBITDA to hover around 3.5x. These financial ratios are consistent with our 'BBB' guideposts for a financial risk profile we assess as significant.

Our assessment of the financial metrics for the ex-utilities case reveals the volatility in the unregulated business. For instance, we expect adjusted FFO to debt to decline to 31.5% in 2012 before rising modestly to 34.0% in 2013, when capacity prices will firm up. Subsequently, we expect adjusted FFO to debt to decline because a larger proportion of the economic generation is unhedged in these years and is subject to our lower power price assumptions. Yet we expect FFO to debt to stay marginally above 30.0% through 2015. These ratios remain appropriate for our assessment of a significant financial risk profile at 'BBB'. Also, despite the decline in financial measures, free operating cash flow to debt in the ex-utilities analysis remains positive (except in 2012), which we view favorably. It is also favorable, in our view, that upcoming debt maturities are spaced out. Almost 75% of 2012-2016 maturities for the pro forma company consist of regulated utility debt.

Why has Standard and Poor's placed Constellation's ratings on CreditWatch yet affirmed the stable outlook on Exelon?

When the acquiring company is rated higher than the acquiree, we often place our ratings of the acquiring company on CreditWatch with negative implications to subsume unanticipated developments and to reflect, among other things, the uncertainty inherent during regulatory reviews. In the current transaction as well, we see the potential for concessions to ratepayers, though at this time we cannot define their scale or nature. Still, we have affirmed the ratings on Exelon because we believe there is a high likelihood that we will assign the combined company a 'BBB' corporate credit rating when we assess the final plan. We also base our affirmation on the company's demonstrated willingness to walk away from acquisitions when concessions imperiled the ratings of the merged entity.

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