MOODY'S
INVESTORS SERVICE

ANALYSIS

Answers to Investors' Most Pressing Questions about the Exelon – CEG merger

United States

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This Analysis provides an in-depth discussion of credit rating(s) for Exelon Corporation and should be read in conjunction with Moody's most recent Credit Opinion and rating information available on the Exelon Corporation and Constellation Energy Group, Inc. pages on Moody's website.

Introduction

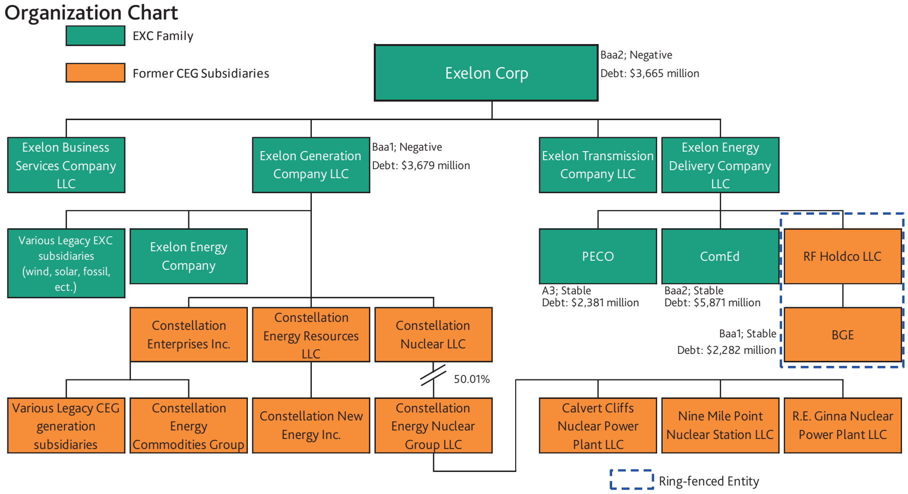
On March 12th, Exelon Corporation (EXC) and Constellation Energy Group, Inc. (CEG) completed their merger, creating one of the largest unregulated power companies in North America. The merger resulted in a downgrade for the long-term ratings of EXC (senior unsecured to Baa2 from Baa1) and its primary subsidiary, Exelon Generation Company, LLC (ExGen: senior unsecured to Baa1 from A3). Obligations of CEG assumed by EXC were upgraded one notch including $1.8 billion of senior unsecured notes (to Baa2 from Baa3) and $450 million of Series A junior subordinated debentures (to Baa3 from Ba1). The rating outlook for both EXC and ExGen following these ratings actions is negative.

We address investors' most frequently asked questions in this report. Key observations include:

- The merger benefits are substantial, particularly from the perspectives of economies of scale, commercial profile and liquidity. Still, the transaction, in our opinion, increases the potential for earnings and cash flow volatility given the size of the new company's unregulated footprint.
- Of particular concern in the current weak power market is the manner in which the expected negative free cash flow will be financed in light of EXC's current common dividend and capital investment program.
- Given the associated integration process, and the fact that EXC's generation is largely hedged for at least the next 12 months, we anticipate that any future rating action might occur sometime during 2013. But EXC, like many of its investment grade peers, has a certain degree of financial flexibility that can be used to protect the rating. We also believe that maintaining an investment grade rating remains an important consideration for management and EXC's board.
- From a quantitative perspective, should the consolidated credit profile decline such that cash flow to debt is below 25%, retained cash flow to debt is below 15%, and cash flow interest coverage approaches 5.5x, the rating could be downgraded.

EXHIBIT 1

Organization Chart



Sources: 2011 Annual 10K SEC Filings
*Note: Debt numbers only reflect Moody's rated debt as of year-end 2011 and do not include Moody's Standard Adjustments.

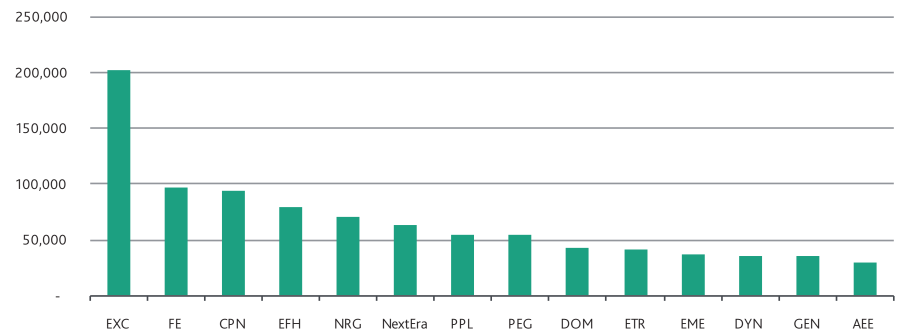
Q.1 Given the downgrade and negative outlook, Moody's appears to view the merger unfavorably from a credit perspective. Is this correct?

A. No. The merger itself is not viewed unfavorably. We believe that the combination makes strategic sense given the economies of scale required to successfully operate a large unregulated commodity business. Moreover, we recognize the benefits of linking a company that is long generation supply with a company that is long generation demand (i.e., customer load) as well as the considerable reduction in liquidity requirements associated with matching the respective supply and demand power requirements. We note that the transaction should help EXC secure somewhat better and more sustainable margins for its electric output given the stickiness of customer load, and we acknowledge that the merger enables EXC to gain access to end-use customers within the retail supply chain at a much faster pace and in a more efficient way than it otherwise could have achieved from building that retail platform internally.

Nevertheless, from a credit perspective, we believe that the combination will be exposed to greater earnings and cash flow volatility due to the large unregulated business platform whose financial performance will be influenced by market-determined commodity pricing levels. In our opinion, the transaction increases the likelihood that the unregulated power business will provide the majority of future growth opportunities for EXC, given the company's position as the largest unregulated generation company in terms of production, and the largest retail energy supplier in North America. Exhibit 2 provides a comparison of several unregulated power companies' generation output for 2011, including the merged EXC. We note the dominant position of EXC relative to this peer group, producing twice as many GigaWatt hours (GWh) as its closest peer. And while the fragmented nature of the retail supply business makes peer comparison difficult, the merged company will remain the largest retail energy supplier in North America.

EXHIBIT 2

2011 Unregulated Electric Generation (GWh)



Source: SEC Filings (10K) and SNL Financial LC

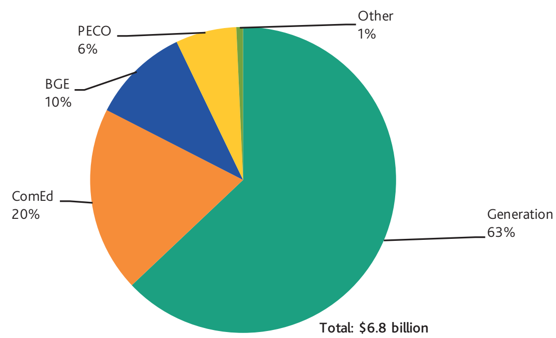
With that backdrop, we believe it will be very difficult for EXC in the future to easily transform the company's mix of regulated and unregulated businesses into one that is materially more balanced, given the sheer size of its unregulated footprint. Overall, we view the merged company as embracing a higher risk tolerance than existed in the past at EXC given the commodity platform that accompanies this transaction. For that reason, we believe the merged company's credit metrics may need to be stronger than similarly rated peers while maintaining access to ample sources of liquidity for ongoing working capital and collateral requirements.

Q.2 What is the primary reason that EXC and ExGen's ratings have a negative outlook?

A. The primary reason for the negative outlook is the reasonably high probability that EXC will generate material negative free cash flow for the next several years, a change from recent historical results, due to the current outlook for power prices coupled with the sizeable capital requirements for growth investments and our expectation of continued maintenance of the common dividend. Based on SEC filings, EXC's consolidated capital budget for 2012 is expected to reach $6.8 billion, an increase of more than $1 billion over 2011 levels. Some of this incremental increase is due to planned investments associated with its nuclear fleet “up-rate” program which, if fully implemented, could add up to 1,300 megawatts (MWs) of incremental nuclear capacity by 2017 under the current schedule. While we understand that the capital investment program for nuclear “up-rates” can be postponed, we also view this investment opportunity as a cost-effective way to organically grow the generation business on a relatively low cost basis with no added environmental costs. We understand that decisions concerning “up-rate” investments will need to occur within the next 12-18 months, given the estimated remaining life of some of the plants. Exhibit 3 shows the breakdown of the company’s capital investment program for 2012 by business line.

EXHIBIT 3

2012 EXC Capital Expenditures



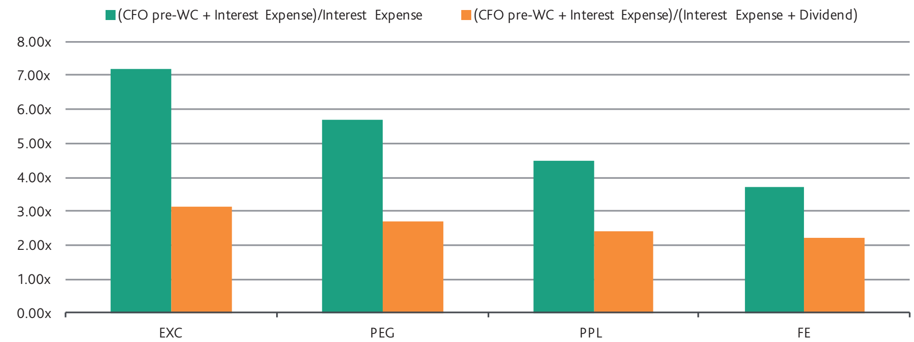
Source: SEC Filings (10-K)

In addition to the substantial capital investment program contemplated by EXC, the company has a very sizeable annual common dividend requirement of approximately $1.8 billion. Prior to the merger with CEG, EXC's common dividend approximated $1.4 billion, while CEG paid its shareholders approximately $196 million in annual dividends. The terms of the merger agreement have resulted in a more than doubling of the dividend being paid to former CEG shareholders thereby increasing EXC's annual dividend by approximately $400 million to $1.8 billion. While many of EXC's peers that own unregulated and regulated operations also pay a dividend, EXC's expected greater reliance on its unregulated operations for payment of the dividend is unique in this peer group. For example, FirstEnergy Corp. pays a common dividend that has been historically funded by its regulated companies, enabling unregulated subsidiary FirstEnergy Solutions Corp. to retain all of its earnings and use all of its cash flow to fulfill internal funding requirements. PPL Corporation, another peer, has drastically shrunk the relative importance of its unregulated platform through the 2010 and 2011 acquisitions of regulated utilities in Kentucky and in the United Kingdom. Public Service Enterprise Group, Inc., while somewhat reliant on their unregulated operations for dividends, has a far more modest capital investment program at its unregulated subsidiary and enjoys better margins due to the location of its generation, which should enable the unregulated power company to generate positive free cash flow in most years.

To better magnify this issue, Exhibit 4 compares the merged EXC with these three peers based on the average cash flow interest coverage ratio for the past three years and an adjusted cash flow interest coverage ratio which includes common dividend payments as part of debt service. We believe that the managements and the boards of directors of dividend paying companies place very high importance on maintaining the common dividend in both good times and bad, and only look to alter dividend policy when severe sustained negative events occur, with a dividend cut often being a last ditch effort to "save the company". We further believe that EXC's board and management are strongly committed to maintaining the current dividend and view such payments as akin to a mandatory obligation. Exhibit 4 highlights the size of EXC's dividend relative to this peer group. The green columns represent the average cash flow coverage of interest and lease expense for the past three years, while the orange columns represent the average cash flow coverage of interest, lease expense, and dividends over the same timeframe. The $1.8 billion dividend is used when calculating the ratio for EXC. While EXC produces the strongest coverage metrics in both scenarios within this peer group, the differential in the coverage ratio between EXC and its peers narrows substantially when the common dividend is considered and added to the equation as a fixed obligation.

EXHIBIT 4

Coverage Metrics



Source: Moody's Financial Metrics, includes Moody's Standard Adjustments

We further observe the greater reliance that EXC will have on its less predictable unregulated operations to meet the annual common dividend. We note that only two of the three regulated operations of EXC will be able to provide common dividends to the parent over the next several years as Baltimore Gas and Electric Company (BG&E: Baa1 senior unsecured stable) is precluded from paying a dividend through 2014 due to the terms of the settlement agreement with the Maryland Public Service Commission (MPSC). EXC's other two regulated subsidiaries, Commonwealth Edison Company (ComEd:Baa2 senior unsecured stable) and PECO Energy Company (PECO: A3 Issuer Rating stable), are expected to generate fairly predictable earnings which should result in their being able to pay a meaningful and steady stream of dividends to the parent each year. Exhibit 5 provides an illustrative example of the expected dividends from EXC's non-regulated operations based upon certain assumptions concerning dividends from ComEd and PECO. This example assumes that ComEd and PECO each pay 75% of their respective reported 2011 earnings in the form of dividends to EXC, resulting in the regulated operations collectively providing about $604 million of upstream dividends to EXC. The remaining $1.196 billion will need to be sourced from earnings derived from EXC's unregulated operations.

EXHIBIT 5

Illustrative Example of Dividend Payout

in millions	2012
Expected Common Dividend Payment	**1,800**
Commonwealth Edison*	312
PECO Energy*	292
Baltimore Gas and Electric	-
Dividend from Regulated Business	**604**
Remainder funded by Unregulated Business	**1,196**

*Assumes dividend payout to be 75% of 2011 earnings.

Source: SEC Filings (10K)

As a point of further comparison, we observe that during 2011 the EXC regulated utilities collectively paid $648 million in dividends to EXC, resulting in a system need of approximately $752 million funded in part by EXC's unregulated operations (based on EXC's $1.4 billion dividend prior to the merger). In light of the higher dividend requirement post merger and the lack of any contribution from BG&E through 2014, a substantially higher percentage of dividends will need to be funded from an expanded unregulated platform currently operating in a weakened margin environment, and in the absence of sufficient unregulated earnings and up-streamed dividends, we would expect EXC to borrow to fund the balance of its common dividend.

Q.3 In light of the negative rating outlook, how much time will Moody's give EXC before considering a further negative rating action?

A. Generally speaking, a negative rating outlook indicates that there is up to a 50% probability of a rating downgrade over the next 12 to 18 months. In light of the recently closed merger, the associated integration process, and the fact that EXC's generation is largely hedged for at least the next 12 months, we anticipate that any future rating action might occur sometime during 2013. One area we will seek to clarify is the degree of integration expected in the company's hedging and commercial strategy, after combining CEG's retail business with the firm's generation assets. We understand that this integration will enable EXC reduce its liquidity sources by at least $2.7 billion in the near-term.

For more information on EXC and ExGen's liquidity profile, please refer to the most recent Credit Opinion which can be found on moodys.com.

Q.4 Are there identifiable levers that EXC can execute to address Moody's rating concerns?

EXC, like many of its investment grade peers, has a certain degree of financial flexibility that can be used to protect the rating. We further believe that maintaining an investment grade rating remains an important consideration for both management and EXC's board. EXC's recent financial performance strongly positions the company in its current Baa rating category for unregulated power companies. At year-end 2011, Moody's calculates the ratio of EXC's cash flow to debt at 43%, retained cash flow to debt at 35%, free cash flow to debt at 8.0%, and cash flow coverage of interest expense at 8.5x. We understand that bonus depreciation contributed $850 million to cash flow in 2011 and is expected to augment 2012 cash flow by $300 million. If we calculate EXC's 2011 credit metrics adjusting for the $850 million in bonus depreciation, the ratio of EXC's cash flow to debt would be 38%, retained cash flow to debt 30%, free cash flow to debt 3%, and cash flow coverage of interest expense at 7.6x. Prospectively, financial results will weaken, particularly retained cash flow and free cash flow metrics due to margin compression, maintenance of the common dividend, and the sizeable capital investment program.

We expect 2012 funding requirements to be partially met by the expected cash proceeds from the sale of about 2,650 MW of CEG's coal-fired generation assets, a transaction required by the Federal Energy Regulatory Commission (FERC) to be completed within 180 days of merger close. Additionally, we expect cash on the merged EXC balance sheet to be freed up due to declining liquidity requirements following the merger. Offsetting these likely sources of cash during 2012 are one-time funding requirements including a $245 million payment to FERC settling past CEG claims, and EXC's funding of a distribution of $100 per BG&E residential customer that totals approximately $112 million.

We also anticipate merger savings to enhance earnings and cash flow particularly across the entire unregulated business platform. Moreover, we calculate that up to 30% of the merged company's $6.8 billion in capital investments relate to growth investments within the generation segment which are discretionary and have the potential to be delayed or pushed to subsequent years. Finally, we believe that other capital raising initiatives supportive of credit quality would be considered.

Q.5 From a quantitative perspective, are there specific ranges for certain key credit metrics that if reached would increase the probability of a rating downgrade?

After incorporating approximately $1.9 billion of tolling obligations onto the balance sheet, EXC's cash flow to debt could decline to approximately 25%, its retained cash flow to debt to the high-teens, and its cash flow interest cover ratio to less than 7.0x. To the extent that power prices end up being weaker than incorporated in this view, EXC 's metrics would suffer in the absence of any mitigating action.

The rating would likely be downgraded if EXC chooses to finance the majority of its expected negative free cash with substantial incremental debt, thereby permanently weakening credit metrics during this period of compressed margins. In addition, should the consolidated credit profile decline such that cash flow to debt is below 25%, retained cash flow to debt below 15%, and cash flow interest coverage approaching 5.5x, the rating could be downgraded.

Q.6 How does Moody's factor in EXC's ownership of three large regulated transmission and distribution subsidiaries when assessing EXC's rating?

Since EXC largely operates ComEd, PECO, and BG&E as standalone businesses from a liquidity, operational, and corporate governance perspective, Moody's primarily analyzes each on a standalone basis. Specifically, each of the three subsidiaries has its own standalone credit facility, none of the service territories are contiguous, and varying degrees of separateness provisions exist at each of the three utilities.

BG&E operates under the most stringent separateness provisions, recently enhanced by a precondition for the MPSC to approve the merger. As previously mentioned, dividends are prohibited through 2014 and restrictions of common dividends exist thereafter. Also, RF HoldCo LLC, a special purpose subsidiary formed in 2009 for the sole purpose of holding 100% of BG&E's common equity, continues to exist post merger. BG&E's charter and bylaws have been amended to require the unanimous vote of the BG&E board of directors (including its two independent directors) in order for BG&E to file a voluntary bankruptcy petition.

Both ComEd and, to a lesser extent, PECO, have separateness provisions around corporate governance but neither are as strict as those implemented at BG&E. For example, within the nine member ComEd board, there is one director other than the EXC Chairman that serves on both the ComEd and EXC board. In contrast, of the eight member PECO board, there are two directors, including the PECO Chairman, that only serve on the PECO board. All of the other six directors either currently or in the past have served on EXC's board.

EXHIBIT 6

Baltimore Gas and Electric

LT Issuer Rating: Baa2 Outlook: Stable

(in $ millions)	FY 2009	FY 2010	FY 2011
Revenue	$3,579	$3,462	$2,993
Total Assets	6,453	6,667	6,980
Total Debt	2,633	2,415	2,698
Total Equity	1,986	2,121	2,154
Cash From Operations	810	460	435
Capital Expenditures	373	552	581
Dividends	(313)	3	88
(CFO pre-wc + Int Exp) / Int Exp	5.16x	4.99x	3.92x
CFO pre-wc / Debt	28.9%	25.0%	16.3%
(CFO pre-wc - Dividend) / Debt	40.8%	24.9%	13.1%

Source: Moody's Financial Metrics, includes Moody's Standard Adjustments

On March 12th, Moody's upgraded the senior unsecured rating of BG&E to Baa1 from Baa2 due to its steady financial performance along with the implementation of the aforementioned separateness provisions which, among other things, will retain all company earnings through 2014 to help fund a large infrastructure investment program.

EXHIBIT 7

Commonwealth Edison

LT Issuer Rating: Baa1 Outlook: Stable

(in $ millions)	FY 2009	FY 2010	FY 2011
Revenue	$5,774	$6,204	$6,056
Total Assets	20,823	21,766	22,761
Total Debt	6,459	6,684	6,741
Total Equity	6,934	6,962	7,089
Cash From Operations	1,132	1,330	1,542
Capital Expenditures	868	975	1,040
Dividends	243	313	303
(CFO pre-wc + Int Exp) / Int Exp	4.02x	3.86x	5.20x
CFO pre-wc / Debt	19.8%	19.6%	25.3%
(CFO pre-wc - Dividend) / Debt	16.0%	14.9%	20.8%

Source: Moody's Financial Metrics, includes Moody's Standard Adjustments

On March 2nd, Moody's upgraded the ratings of ComEd, including its senior unsecured debt to Baa2 from Baa3 and its commercial paper rating to Prime-2, reflecting our expectation of continued strong financial performance aided in large part by the passage of the Energy Infrastructure Modernization Act, which should result in increased infrastructure investment, more timely cost recovery, and resilient credit metrics.

EXHIBIT 8
PECO Energy
LT Issuer Rating: A3 Outlook: Stable

(in $ millions)	FY 2009	FY 2010	FY 2011
Revenue	$5,311	$5,519	$3,720
Total Assets	9,406	9,171	9,324
Total Debt	3,598	3,106	2,741
Total Equity	2,698	3,016	3,071
Cash From Operations	1,219	1,213	1,033
Capital Expenditures	406	566	500
Dividends	319	231	355
(CFO pre-wc + Int Exp) / Int Exp	6.37x	6.14x	7.82x
CFO pre-wc / Debt	33.1%	36.8%	38.2%
(CFO pre-wc - Dividend) / Debt	24.2%	29.4%	25.3%

Source: Moody's Financial Metrics, includes Moody's Standard Adjustments

PECO's A3 Issuer Rating benefits from a credit supportive regulatory environment in Pennsylvania. For example, in February the state passed a law to allow for a distribution system improvement charge in rates, designed to recover capital project costs incurred to repair, improve or replace aging electric and natural gas distribution systems. The bill also includes a provision that allows utilities to use a fully projected future test year permitting the inclusion of projected capital costs in the rate base for assets that will be placed in service during the future test year.

Overall, we believe that material capital investment will be made by the three utilities to address their respective infrastructure needs, and this should provide predictable earnings and cash flow for EXC. In the end, however, EXC's rating is largely dictated by the financial performance of its competitive energy business. In the current weak power price environment, we anticipate that the earnings from the company's three regulated utilities will contribute about 35-40% of consolidated results, increasing over time thanks to the effects of their capital investment programs. Based on recent history, we estimate that during a strong commodity price environment, the three regulated utilities' contribution to earnings could represent about 20-25% of consolidated earnings.

For additional information on BG&E, ComEd, and PECO, please refer to the most recent Credit Opinion posted on moodys.com.

Q.7 EXC's unregulated power business primarily generates electricity from nuclear power. How does the company's ownership of nuclear generating plants affect EXC's rating?

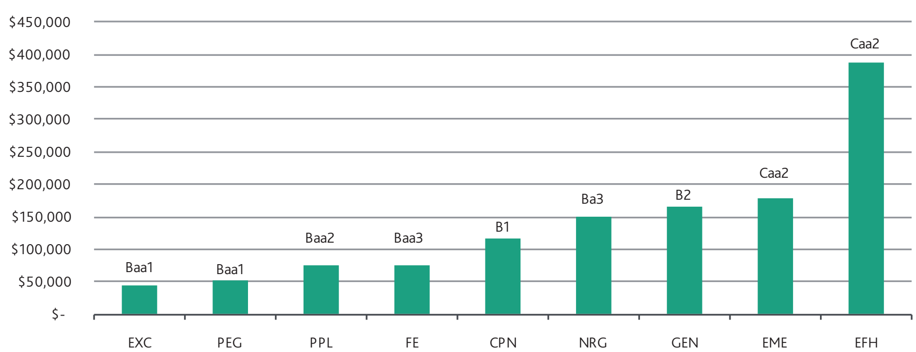
As the largest owner and operator of nuclear generation in the US, EXC has a very strong competitive position which is supported by its outstanding operating performance, particularly across its nuclear fleet. In all of the markets where it operates, EXC's plants are among the first plants to be dispatched, which we view as a positive rating factor for unregulated power companies. In the intermediate-term, we expect its competitive position to remain largely unchanged as environmental regulations cause certain coal-fired plants to shut-down lowering regional reserve margins. We believe that lower reserve margins should enhance future capacity revenues for all unregulated power companies but are less bullish on any appreciable energy margin expansion given the depressed outlook for natural gas prices and a still struggling economy in many parts of the country. Also, most of the coal-fired plants expected to shut down have historically operated at low capacity factors. Longer-term, the potential implications of environmental regulations should enhance EXC's cash flow and profitability as unlike several of its peers, any incremental environmental control related costs are likely to result in higher margins for EXC.

Notwithstanding this very strong competitive position that ownership of the nuclear fleet provides, we consider the company's fuel source concentration as a modest negative to the rating. We also recognize that incremental costs are likely to surface for all US nuclear operators, following the accident at Fukushima, but do not expect such costs to affect nuclear generation's inherently strong competitive position.

EXC's competitive position is further enhanced by the relatively low level of indebtedness that currently exists at the company. Exhibit 9 compares leverage among unregulated power companies based upon their level of indebtedness at 2011 relative to the company's generation output (GWh) this past year. Leverage at EXC's unregulated business continues to be the lowest among its unregulated power generation peers post merger, even after factoring in the sizeable amount of off-balance tolling commitments. As a company that operates a commodity business in up and down cycles, we believe that the sustainability of that business is highly dependent upon the level of indebtedness. This is especially the case for a company with high fuel source concentration in nuclear generating assets, where outages should they occur can be lengthy and expensive. In light of the anticipated negative free cash flow at EXC, the company's competitive position could become compromised should it choose to finance the majority of the negative free cash flow with incremental debt.

EXHIBIT 9

Debt/GWh



*Debt amounts and ratings refer to only the unregulated portion of each family.
Note: Includes Moody's Standard Adjustments except for Pension Adjustment. EXC reflects unregulated debt in the combined entity, including toll obligations.
Source: Moody's Financial Metrics and SNL Financial LC

Q.8 By merging with CEG, EXC is now the largest retail supplier. Does Moody's believe that the retail business adds to or reduces enterprise business risk?

A. Our assessment of the riskiness of the retail business depends in large part on whether the retail provider also owns or has contractual rights to generation resources backing up the retail load. To the extent that retail load is matched with owned or contracted generation, commodity and related margin risks can be largely mitigated particularly given the stickiness of certain types of end-use customers. Moreover, having two affiliates provide retail supply and electric generation services should substantially reduce liquidity requirements. By contrast, operating a retail business without access to generation resources is viewed as a very high risk business model posing liquidity, operational, and financial challenges.

That being said, we view the retail business as a subset of any commodity business where risks are often difficult to mitigate and at times, challenging to identify. Even the largest, well-capitalized firms with access to sophisticated risk mitigation tools and unquestioned liquidity cannot completely eliminate earnings and liquidity surprises that occur from time to time when operating a commodities business. Moreover, within the power space, while ready access to in-market generation to supply an adjacent retail platform can reduce operational and liquidity risk, it does not eliminate risk as demonstrated by the performance of several companies this past summer in Texas. Furthermore, while a retail arm can protect operating margins for some period, we anticipate that in the weak power price environment that exists today, competition from other retail providers will cause downward pressure on retail margins.

For EXC, we view the addition of a large retail platform as having the potential to reduce certain of the risks associated with operating a large commodity business. As mentioned, matching retail load with generation should reduce liquidity requirements across the system and should provide the organization with an intermediate-term source of contractual cash flow given the stickiness of customer load. One area of further analysis will be the degree to which the retail operation alters EXC's historical hedging strategy.

For more information concerning the debt securities of EXC, ExGen, or the CEG debt assumed by EXC at merger close, please refer to the press release dated March 12, 2012 as well as the EXC and ExGen Credit Opinions which can be found on www.moodys.com.

Appendix A (Methodology)

Moody's Rating Methodology: Power Companies
Exelon Corporation

Long Term Rating: Baa2

Outlook: Negative

			12/31/2009		12/31/2010		12/31/11		Forward Grid	
		Weight - Debt	Sub-Factor	Grid-Indicated Rating	Sub-Factor	Grid-Indicated Rating	Sub-Factor	Grid-Indicated Rating	Sub-Factor	Grid-Indicated Rating
MARKET ASSESSMENT, SCALE & COMPETITIVE POSITION	Market and Competitive Position	15.00%	A	A	A	A	A	A	A	A
	Geographic Diversity	5.00%	Baa	Baa	Baa	Baa	Baa	Baa	Baa	Baa
CASH FLOW PREDICTABILITY OF BUSINESS MODEL	Effectiveness of Hedging Strategy	10.00%	Ba	Ba	Ba	Ba	Ba	Ba	Ba	Ba
	Fuel Strategy and Mix	5.00%	Ba	Ba	Ba	Ba	Ba	Ba	Ba	Ba
	Capital Requirements and Operational Performance	5.00%	Baa	Baa	Baa	Baa	Baa	Baa	Baa	Baa
FINANCIAL POLICY	Financial Policy	10.00%	Baa	Baa	Baa	Baa	Ba	Ba	Ba	Ba
FINANCIAL STRENGTH METRICS	(CFO Pre-W/C + Interest) / Interest Expense (3 year Avg)	15.00%	6.78x	Baa	6.96x	Baa	7.47x	A	6.5 - 7.0x	Baa
	(CFO Pre-W/C) / Debt (3 year Avg)	20.00%	34.05%	Baa	34.83%	Baa	38.65%	A	23 - 30%	Baa
	RCF / Debt (3 year Avg)	7.50%	29.82%	A	31.39%	A	33.03%	A	15 - 20%	Baa
	FCF / Debt (3 year Avg)	7.50%	8.66%	Ba	9.40%	Ba	8.13%	Ba	(10) - (5)%	B
	Grid-Indicated Rating	100.00%	Baa2		Baa2		Baa2		Baa3	

All quantitative measures are based on 'As Adjusted' financial data and incorporate Moody's standard adjustments.

Source: Moody's Financial Metric, includes Moody's Standard Adjustments

Appendix B (Five Year Historical Financials)

Exelon Corporation

LT Issuer Rating: Baa2 Outlook: Negative

(in $ millions)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Revenue	$18,916	$18,859	$17,318	$18,644	$18,924
EBITDA	7,257	7,204	7,916	8,196	7,118
Net Property Plant & Equipment	24,825	26,295	27,891	30,589	33,169
Total Assets	46,258	48,253	49,955	52,888	55,691
Total Debt	15,367	17,971	17,052	17,131	16,279
Total Equity	10,235	11,145	12,707	13,658	14,452
Cash From Operations	4,480	6,611	6,363	5,880	6,746
Capital Expenditures	2,730	3,170	3,273	3,380	4,047
Dividends	1,186	1,341	1,391	1,395	1,399

Constellation Energy Group

(in $ millions)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Revenue	$21,193	$19,742	$15,599	$14,340	$13,758
EBITDA	2,097	(412)	1,042	1,718	1,274
Net Property Plant & Equipment	9,917	10,895	8,664	9,487	11,157
Total Assets	21,892	22,462	23,755	20,227	19,666
Total Debt	5,753	8,628	5,656	5,276	5,671
Total Equity	5,375	3,421	8,805	7,970	7,254
Cash From Operations	965	(487)	4,539	564	1,309
Capital Expenditures	1,295	1,909	1,467	1,037	1,128
Dividends	296	347	241	196	196

Source: Moody's Financial Metrics

*Standalone historicals with Moody's Standard Adjustments

Appendix C (Peer Comparison)

Revenue

(in $ millions)

Company Name	Rating	2007	2008	2009	2010	2011
Exelon Corporation	Baa2	$ 18,916	$ 18,859	$ 17,318	$ 18,644	$ 18,924
Constellation Energy Group Inc.	**	$ 21,193	$ 19,742	$ 15,599	$ 14,340	$ 13,758
Ameren Corporation	Baa3	$ 7,562	$ 7,839	$ 7,135	$ 7,638	$ 7,531
Dominion Resources Inc.	Baa2	$ 14,816	$ 16,290	$ 14,798	$ 15,197	$ 14,379
Entergy Corporation	Baa3	$ 11,484	$ 13,094	$ 10,746	$ 11,488	$ 11,229
FirstEnergy Corporation	Baa3	$ 12,802	$ 13,627	$ 12,973	$ 13,339	$ 16,258
NextEra Energy Inc.	Baa1	$ 15,263	$ 16,410	$ 15,643	$ 15,317	$ 15,341
PPL Corporation	Baa3	$ 6,498	$ 8,007	$ 7,449	$ 8,521	$ 12,737
Public Service Enterprise Group Inc.	Baa2	$ 12,677	$ 13,322	$ 12,406	$ 11,793	$ 11,079

** Debt assumed by Exelon

Total Debt

Company Name	Rating	2007	2008	2009	2010	2011
Exelon Corporation	Baa2	$ 15,367	$ 17,971	$ 17,052	$ 17,131	$ 16,279
Constellation Energy Group Inc.	**	$ 5,753	$ 8,628	$ 5,656	$ 5,276	$ 5,671
Ameren Corporation	Baa3	$ 8,067	$ 9,257	$ 9,167	$ 8,719	$ 8,275
Dominion Resources Inc.	Baa2	$ 17,647	$ 18,455	$ 19,406	$ 18,705	$ 22,074
Entergy Corporation	Baa3	$ 12,150	$ 13,979	$ 14,134	$ 13,845	$ 15,071
FirstEnergy Corporation	Baa3	$ 14,967	$ 17,477	$ 18,117	$ 18,463	$ 21,860
NextEra Energy Inc.	Baa1	$ 12,483	$ 16,251	$ 17,699	$ 20,135	$ 22,282
PPL Corporation	Baa3	$ 8,197	$ 9,943	$ 9,601	$ 15,022	$ 19,499
Public Service Enterprise Group Inc.	Baa2	$ 10,219	$ 10,409	$ 9,947	$ 9,871	$ 8,904

** Debt assumed by Exelon

(CFO Pre-W/C) / Debt

Company Name	Rating	2007	2008	2009	2010	2011
Exelon Corporation	Baa2	34.8%	31.5%	36.0%	37.1%	43.0%
Constellation Energy Group Inc.	**	21.4%	5.3%	41.6%	35.1%	36.7%
Ameren Corporation	Baa3	16.5%	14.8%	20.8%	21.2%	21.0%
Dominion Resources Inc.	Baa2	-0.6%	19.5%	17.1%	12.9%	16.0%
Entergy Corporation	Baa3	25.4%	18.5%	21.8%	31.9%	19.7%
FirstEnergy Corporation	Baa3	13.9%	16.0%	15.7%	16.4%	13.8%
NextEra Energy Inc.	Baa1	29.2%	20.6%	25.6%	17.6%	18.9%
PPL Corporation	Baa3	21.2%	16.4%	18.8%	18.5%	15.5%
Public Service Enterprise Group Inc.	Baa2	20.4%	22.1%	26.4%	31.7%	32.9%

** Debt assumed by Exelon

(CFO Pre-W/C + Interest) / Interest Expense

Company Name	Rating	2007	2008	2009	2010	2011
Exelon Corporation	Baa2	6.76x	6.85x	6.73x	7.30x	8.50x
Constellation Energy Group Inc.	**	4.30x	2.01x	5.62x	6.45x	8.24x
Ameren Corporation	Baa3	3.72x	3.60x	4.09x	4.19x	4.26x
Dominion Resources Inc.	Baa2	0.93x	4.68x	4.19x	3.39x	4.46x
Entergy Corporation	Baa3	5.22x	4.63x	5.14x	7.08x	5.47x
FirstEnergy Corporation	Baa3	3.36x	4.08x	3.54x	4.10x	3.62x
NextEra Energy Inc.	Baa1	6.15x	5.13x	6.30x	4.49x	4.83x
PPL Corporation	Baa3	3.95x	3.91x	4.52x	5.26x	4.00x
Public Service Enterprise Group Inc.	Baa2	3.64x	4.37x	4.92x	6.11x	6.24x

** Debt assumed by Exelon

Source: Moody's Financial Metric, includes Moody's Standard Adjustments

Moody's Related Research

Credit Opinions:

» Exelon Corporation

» Exelon Generation Company

» Commonwealth Edison Company

» PECO Energy Company

» Baltimore Gas & Electric Company

Rating Methodologies:

» Unregulated Utilities and Power Companies, August 2009 (118508)

» Regulated Electric and Gas Utilities, August 2009 (118481)

Industry Outlooks:

» US Regulated Electric and Gas Utilities: Stable Despite Rising Headline Rhetoric, January 2012 (137878)

» US Unregulated Power Companies: Hunkering Down in Hope for Better Prices, January 2012 (138140)

Special Comments:

» US Utility Pension Funding Levels Experience Modest Drop Despite Increased Asset Levels, January 2012 (139095)

» Decoupling and 21st Century Rate Making, November 2011 (136797)

» Credit Quality Emphasized More in Recent U.S. Utility M&A, November 2011 (136790)

» Wider Rating Differentials Seen for a Number of U.S. Utility and Parent Companies, October 2011 (136354)

» Investment-Grade, Unregulated Power: Not Immune to Rating Pressures, November 2010 (128985)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

» contacts continued from page 1

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STANDARD & POOR'S

Global Credit Portal®
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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 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 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 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 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

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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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

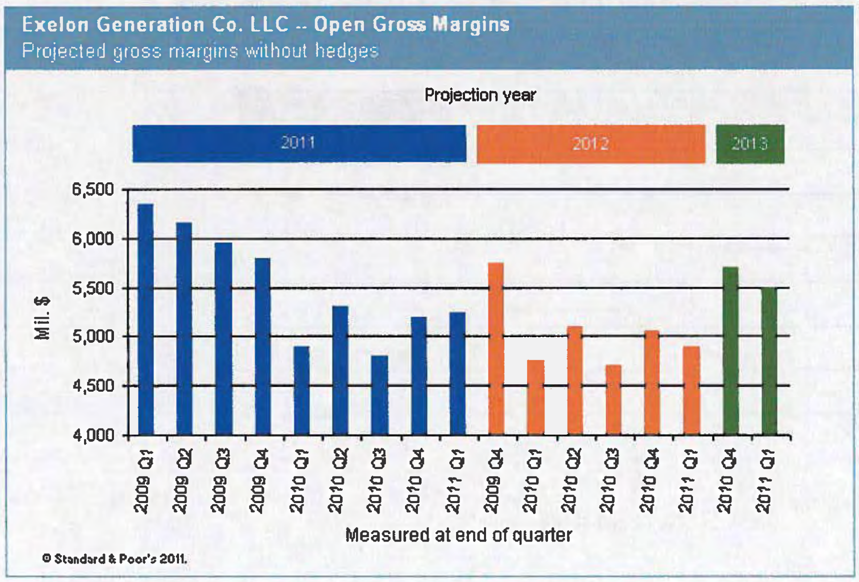
How does Standard & Poor's view Exelon's business risk profile?

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.

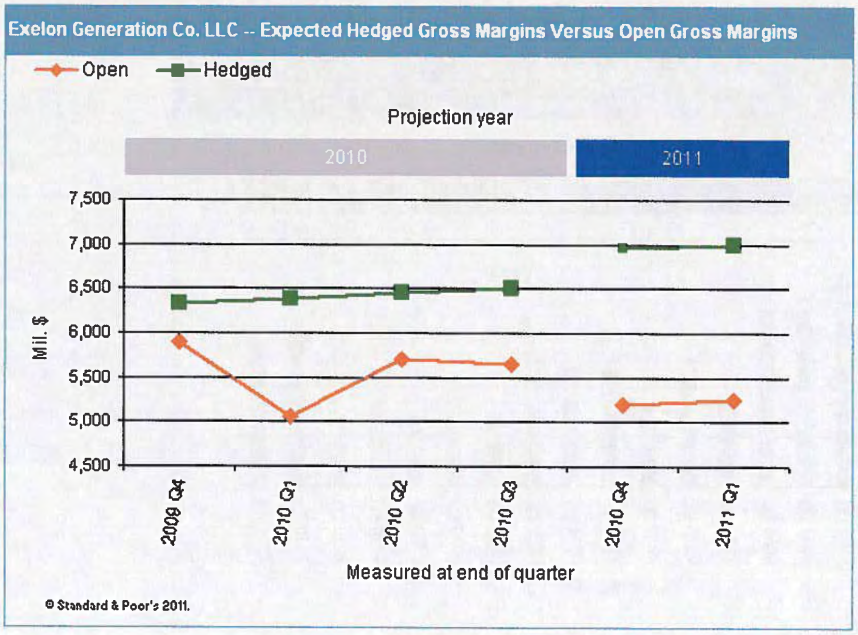
ExGen is facing the same challenges that most unregulated companies are currently facing. An abundance of gas inventory, caused by a decline in load and higher production of shale gas, is pressuring power prices--and net revenues. Yet the front end of the forward curve is not that meaningful because 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, 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).

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.)

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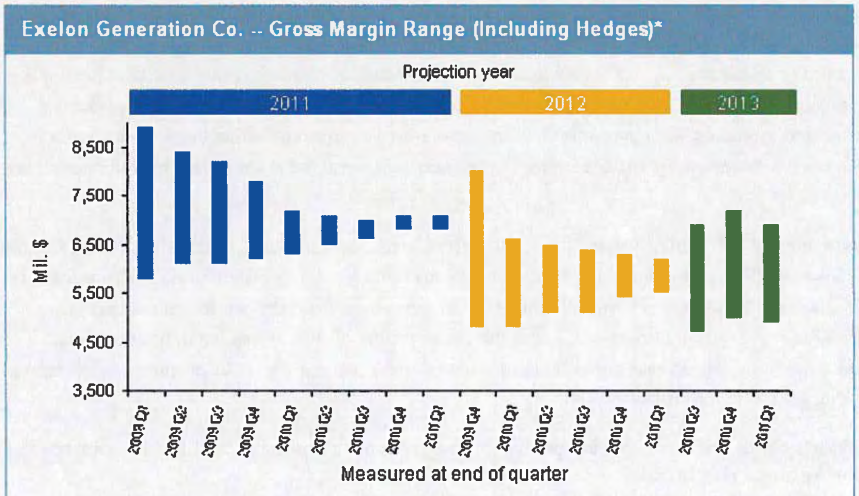
Chart 3



*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.
 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.

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.

We placed the ratings of Constellation Energy on CreditWatch with positive implications upon announcement of the merger because we expect to raise the ratings to 'BBB' at closing.

Do the companies have adequate liquidity?

We will make a final determination after we have further details. Exelon and Constellation (excluding utilities) currently have $10.3 billion of credit facilities and other liquidity lines. Management has indicated that they expect the matching that will result between Exelon's generation position and Constellation's load will reduce the combined company's liquidity needs by almost $3.0 billion. Our analysis normally includes an assessment of liquidity based on a market stress event.

Under what conditions might Standard & Poor's lower the ratings?

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. Should consolidated FFO to debt measures decline to less than 22.0% (or about 27.5% for the unregulated business), we would consider lowering the rating. (Also, we note that a meaningful proportion of the pro forma electric load will not benefit from margin transactions because ExGen's generation position will match Constellation's load. Despite the improvements in scale the merger brings, we will watch closely to see whether the company can meet the demands of its growth with adequate liquidity.

Under what conditions would Standard & Poor's consider raising the ratings?

There are supportive factors that buttress the current ratings. Capacity markets suggest a trough in 2012, and with rising coal prices and the potential for significant retirements of older, less efficient coal units, off-peak prices have risen some, as have market heat rates. We also note that the far end of the forward gas curve (beyond 2015) has recovered somewhat, likely because of the nuclear incident in Japan, which has raised demand for liquefied natural gas. The pro forma company's financial measures may improve as natural gas prices respond to coal asset retirements, but we consider this an upside case and would raise our ratings on the pro forma company only if it achieves consolidated FFO to debt levels of 30% or higher. Practically speaking, this could happen by year-end 2013.