STANDARD
&POOR'S

Global Credit Portal®
RatingsDirect®

April 28, 2011

Research Update:

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

Primary Credit Analyst:
Aneesh Prabhu, New York (1) 212-438-1285;aneesh_prabhu@standardandpoors.com

Secondary Credit Analyst:
Marc Sonnenblick, New York (1) 212-438-7670;marc_sonnenblick@standardandpoors.com

Table Of Contents

Overview

Rating Action

Rationale

Outlook

Related Criteria And Research

Ratings List

864041 | 301097861

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

864041 | 301097861

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

864041 | 301097861

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

864041 | 301097861

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

864041 | 301097861

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

864041 | 301097861

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.

864041 | 301097861

Copyright © 2011 by Standard & Poors Financial Services LLC (S&P), a subsidiary of The McGraw-Hill Companies, Inc. All rights reserved.

No content (including ratings, credit-related analyses and data, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P. The Content shall not be used for any unlawful or unauthorized purposes. S&P, its affiliates, and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P's opinions and analyses do not address the suitability of any security. S&P does not act as a fiduciary or an investment advisor. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

The McGraw·Hill Companies

STANDARD
&POOR'S

Global Credit Portal®
RatingsDirect®

April 28, 2011

Credit FAQ:

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

Primary Credit Analyst:
Aneesh Prabhu, New York (1) 212-438-1285; aneesh_prabhu@standardandpoors.com

Secondary Credit Analyst:
Richard W Cortright, Jr., New York (1) 212-438-7665; richard_cortright@standardandpoors.com

Table Of Contents

Frequently Asked Questions

863890 | 301097861

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.)

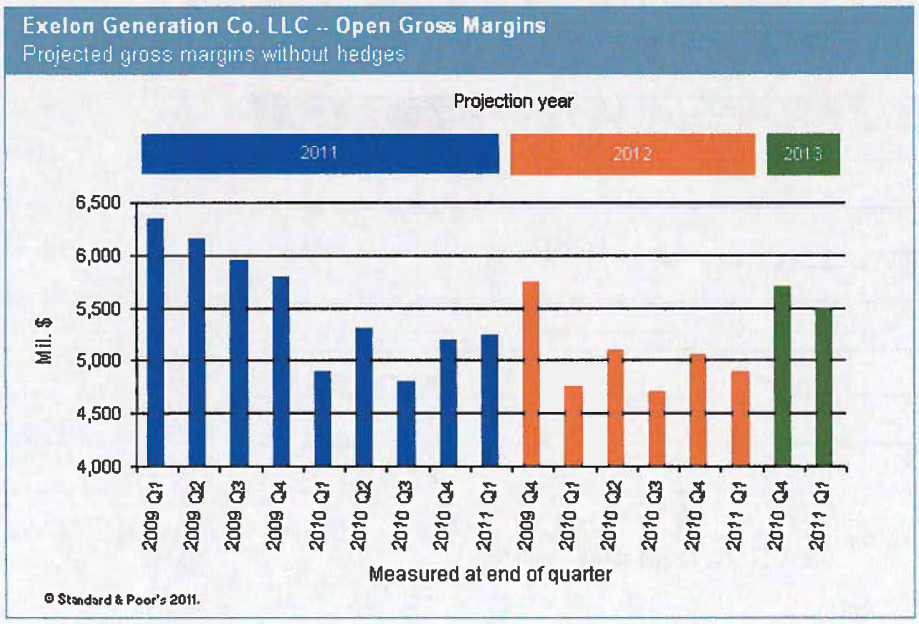
We base our assessment of ExGen's unregulated wholesale supply business risk profile on a number of factors (market diversification, competitiveness, break-even cost structure, etc.), but the profile is dominated by the price-taking nature of its generation business. Consequently, we see the potential 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,

863890 | 301097861

power is non-storable.

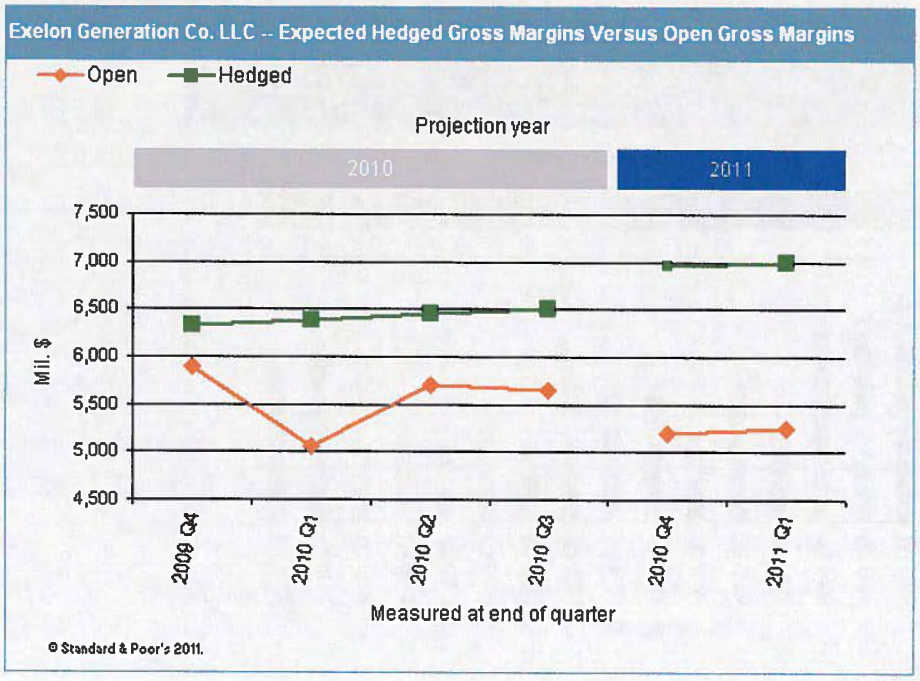
Chart 1



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).

863890 | 301097861

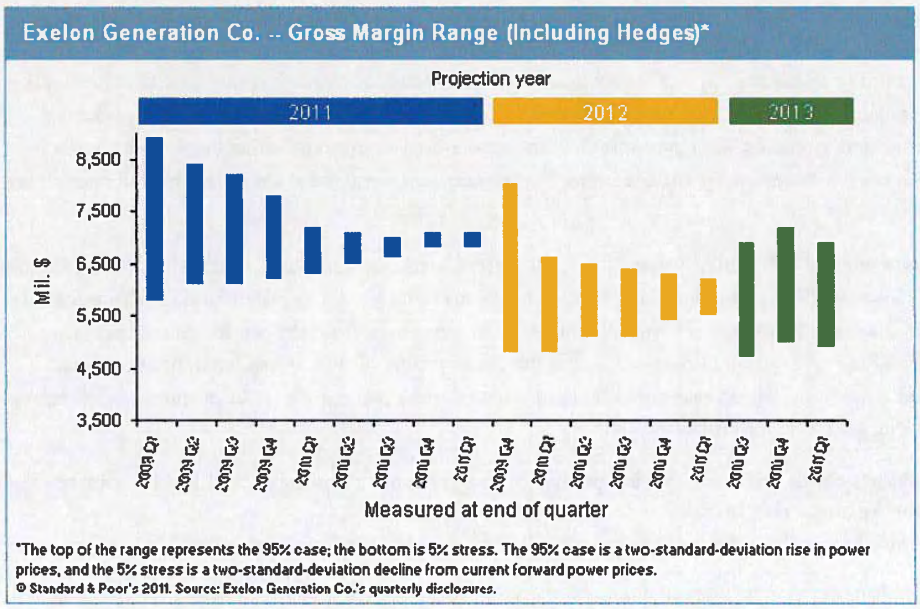
Chart 2



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.)

863890 | 301097861

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.

863890 | 301097861

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.

863890 | 301097861

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.

863850 | 301097861

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.

863890 | 301097861

Copyright © 2011 by Standard & Poors Financial Services LLC (S&P), a subsidiary of The McGraw-Hill Companies, Inc. All rights reserved.

No content (including ratings, credit-related analyses and data, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P. The Content shall not be used for any unlawful or unauthorized purposes. S&P, its affiliates, and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P's opinions and analyses do not address the suitability of any security. S&P does not act as a fiduciary or an investment advisor. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

The McGraw-Hill Companies