STANDARD & POOR'S

Global Credit Portal
RatingsDirect

Commonwealth Edison Co.

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Commonwealth Edison Co.

Major Rating Factors

Corporate Credit Rating
BBB/Stable/A-2

Strengths:

- Lower-risk transmission and distribution electric utility;
- More than adequate cash flow measures for the current rating; and
- The announced merger between its parent, Exelon Corp., and Constellation Energy Group Inc., which will add size and scope to Exelon.

Weaknesses:

- Association with Exelon's merchant generation businesses; and
- A challenging regulatory environment that requires constant navigation.

Rationale

Standard & Poor's Ratings Services' ratings on Commonwealth Edison Co. (ComEd) reflect the consolidated credit profile of Chicago-based parent Exelon Corp. Exelon's other considerable subsidiaries include regulated PECO Energy Co. and unregulated Exelon Generation Co. LLC. In general, ComEd's ratings are limited to the lower of Exelon's consolidated rating or ComEd's stand-alone credit quality. The ratings also reflect ComEd's excellent business risk profile and Exelon's significant financial risk profile. (For more on business risk and financial risk, see "Business Risk/Financial Risk Matrix Expanded," published May 27, 2009, on RatingsDirect on the Global Credit Portal.)

The announced merger between Exelon and Constellation Energy Group Inc. in a stock-for-stock transaction will require the approval of the Federal Energy Regulatory Commission (FERC), the Nuclear Regulatory Commission, the Department of Justice, the Maryland Public Service Commission, the New York Public Service Commission, the Public Utility Commission of Texas, and other state and federal regulatory bodies. The companies expect that the merger will close in early 2012. We believe it's highly likely that we will assign a 'BBB' corporate credit rating to the combined Exelon-Constellation company following our complete assessment of the final plan, and therefore we affirmed the ratings and outlook for Exelon and its subsidiaries, including ComEd, following the merger announcement.

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

Fundamental to ComEd's excellent business risk profile is its ability to effectively manage its challenging regulatory risks. Management's recent strategies have included filing rate cases to reduce regulatory lag and working with state legislators (on Senate Bill 1652) to develop a recovery structure that would allow ComEd to invest an additional $2.6 billion over 10 years. In May 2011, the company received a $156 million rate increase--just 39% of its original request--which was materially affected by the Illinois Appellate Court's ruling that accumulated depreciation should reduce post-test-year plant additions, and by the elimination of the smart meter rider. Furthermore, the governor has said publicly that he will veto Senate Bill 1652. These developments continue to highlight the continuous regulatory challenges that ComEd faces and the multiple strategies the company must use to effectively manage regulatory risks.

The significant financial risk profile reflects Exelon's strong financial measures, with consolidated adjusted funds from operation (FFO) to debt at about 28%, which we expect will continue to be affected by the ongoing weakness in the power markets. ComEd's stand-alone financial measures have steadied over the past two years, partially reflecting its 2008 rate increase. In 2010, the company benefited from warmer-than-expected weather, the recovery of uncollectible costs through a rider, and an increase in deferred taxes.

For the 12 months ended June 30, 2010, ComEd's adjusted FFO to debt was 19.5%, down from 20.5% at the end of 2010; adjusted debt to EBITDA weakened to 5.0x from 4.0x at year-end 2009; and adjusted debt to total capital was about 51%, or worse than the 49% at year-end 2010. ComEd's financial measures currently have adequate cushion at the present rating level, and we expect that they will remain more than adequate over the intermediate term. We expect ComEd to have negative discretionary cash flow over near and intermediate terms primarily because of its anticipated large annual capital expenditures of approximately $1 billion over this period. We expect that the company will meet its cash shortfalls with increasing debt issuances.

Liquidity

ComEd's short-term rating is 'A-2'. We view its liquidity as adequate and recognize that the company can comfortably cover its needs for the foreseeable future, even if FFO declines. (For more on our liquidity assessments, see "Standard & Poor's Standardizes Liquidity Descriptors For Global Corporate Issuers," published July 2, 2010.)

We base our liquidity assessment on the following factors and assumptions:

- We expect the company's liquidity sources (including cash, FFO, and credit facility availability) over the next 12 months to exceed its uses by more than 1.3x.
- Debt maturities are material over the intermediate term, with $450 million and $252 million maturing in 2012 and 2013, respectively.
- Even if FFO declines by more than 15%, we believe net sources would still be more than 1.2x cash requirements.
- The company has good relationships with its banks, in our assessment, and has a good standing in the credit markets, having had market access even during the 2009 credit crisis.

In our analysis, we assume liquidity of about $2.3 billion over the next 12 months, primarily consisting of cash, FFO, and availability under the credit facilities. We estimate the company will use about $1.7 billion over the same period for capital spending, debt maturities, working capital needs, and shareholder dividends.

ComEd's $1 billion revolving credit facility that expires in March 2013 has a financial covenant requiring that ComEd must maintain cash from operations to interest expense of at least 2x. As of June 30, 2011, ComEd had adequate cushion against this covenant.

Recovery analysis

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

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

Outlook

The stable rating outlook reflects the high likelihood that we will assign a 'BBB' corporate credit rating to the combined Exelon-Constellation company following our complete assessment of the final plan. The stable outlook also reflects Standard & Poor's baseline forecast that ComEd's FFO to debt will consistently exceed 15% over the near-to-intermediate term. Because ComEd's CCR is limited to the lower of its stand-alone credit rating or its parent's CCR, in order for us to raise our rating on ComEd, we would first have to upgrade the Exelon-Constellation company, and ComEd's stand-alone credit quality would have to reflect the higher rating. We could raise ComEd's rating if we upgrade the parent Exelon-Constellation company. This could occur if consolidated FFO to debt is consistently greater than 30% and would most likely occur if the U.S. economy rebounds and natural gas prices increase. We would lower ComEd's rating if we downgraded the combined Exelon-Constellation. A downgrade could result if consolidated FFO to debt is below 22%, which could occur if shale gas production continues to pressure natural gas prices, expected coal plant retirements are delayed, or there is a significant increase in nuclear generation costs.

Related Criteria And Research

- Standard & Poor's Standardizes Liquidity Descriptors For Global Corporate Issuers, July 2, 2010
- Business Risk/Financial Risk Matrix Expanded, May 27, 2009
- Analytical Methodology, April 15, 2008
- Changes To Collateral Coverage Requirements For '1+' Recovery Ratings On U.S. Utility First Mortgage Bonds, Sept. 6, 2007

Table 1

Commonwealth Edison Co. -- Peer Comparison

Industry Sector: Electric

	Commonwealth Edison Co.	Baltimore Gas & Electric Co.	Consolidated Edison Inc.	NSTAR	PECO Energy Co.
Rating as of Sep. 6, 2011	BBB/Stable/A-2	BBB+/Stable/A-2	A-/Stable/A-2	A+/Watch Neg/A-1	BBB/Stable/A-2

Table 1

Commonwealth Edison Co. -- Peer Comparison (cont.)

	--Average of the past three fiscal years--				
(Mil. $)					
Revenues	5,893.0	3,494.8	13,313.3	2,953.9	4,845.0
EBITDA	1,275.7	449.7	2,729.0	806.8	1,042.3
Operating income	923.7	259.6	1,925.7	574.3	652.0
EBIT	961.4	284.9	1,972.7	600.3	651.6
Interest Expense	362.4	112.3	614.8	152.5	173.3
Net income from continuing operations	304.0	96.6	934.7	239.2	334.0
Funds from operations (FFO)	1,120.2	460.4	2,093.1	552.6	550.7
Capital expenditures	932.7	427.7	2,189.1	397.8	446.7
Free operating cash flow	68.5	(35.6)	(202.7)	137.6	93.9
Discretionary cash flow	(114.8)	(107.4)	(820.6)	(22.1)	(246.7)
Cash and short-term investments	62.7	179.3	224.0	59.5	288.0
Debt	6,411.7	2,051.0	13,471.0	3,198.0	2,905.4
Equity	6,945.3	2,085.4	10,442.5	1,886.6	2,638.3
Adjusted ratios					
EBITDA margin (%)	21.6	12.9	20.5	27.3	21.5
EBITDA interest coverage (x)	3.5	4.0	4.4	5.3	6.0
EBIT interest coverage (x)	2.7	2.5	3.2	3.9	3.8
Return on capital (%)	6.2	5.6	7.0	9.7	8.6
FFO/debt (%)	17.5	22.4	15.5	17.3	19.0
Free operating cash flow/debt (%)	1.1	(1.7)	(1.5)	4.3	3.2
Debt/EBITDA (x)	5.0	4.6	4.9	4.0	2.8
Total debt/debt plus equity (%)	48.0	49.6	56.3	62.9	52.4

Table 2

Commonwealth Edison Co. -- Financial Summary

Industry Sector: Electric

	--Fiscal year ended Dec. 31--				
	2010	**2009**	**2008**	**2007**	**2006**
Rating history	BBB/Stable/A-2	BBB/Stable/A-2	BBB-/Watch Neg/A-3	BB/Positive/B	BBB-/Watch Neg/A-3
(Mil. $)					
Revenues	6,204.0	5,774.0	5,701.0	5,728.0	5,715.0
EBITDA	1,681.5	1,418.1	727.6	614.0	1,401.9
Net income from continuing operations	337.0	374.0	201.0	165.0	(112.0)
Funds from operations (FFO)	1,394.1	1,230.8	735.7	410.5	714.2
Capital expenditures	983.2	856.8	958.1	1,041.8	914.7
Dividends paid	310.0	240.0	0.0	0.0	0.0

Table 2

Commonwealth Edison Co. -- Financial Summary (cont.)					
Debt	6,793.5	6,182.5	6,259.0	5,350.1	4,879.4
Preferred stock	103.0	103.0	103.0	0.0	0.0
Equity	7,013.0	6,985.0	6,838.0	6,528.0	6,298.0
Debt and equity	13,806.5	13,167.5	13,097.0	11,878.1	11,177.4
Adjusted ratios					
EBITDA margin (%)	27.1	24.6	12.8	10.7	24.5
EBIT interest coverage (x)	3.0	3.0	1.9	1.8	5.0
FFO interest coverage (x)	4.1	4.6	2.9	2.1	3.3
FFO/debt (%)	20.5	19.9	11.8	7.7	14.6
Discretionary cash flow/debt (%)	(0.7)	(0.2)	(4.6)	(15.9)	(4.8)
Net cash flow/capital expenditures (%)	110.3	115.6	76.8	39.4	78.1
Debt/debt and equity (%)	49.2	47.0	47.8	45.0	43.7
Return on capital (%)	7.2	6.4	4.8	4.1	10.5
Return on common equity (%)	4.9	5.5	3.0	2.6	(1.8)
Common dividend payout ratio (unadjusted) (%)	92.0	64.2	0.0	0.0	0.0

Table 3

Reconciliation Of Commonwealth Edison Co. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. $)*

--Fiscal year ended Dec. 31, 2010--

Commonwealth Edison Co. reported amounts

	Debt	Shareholders' equity	Revenues	EBITDA	Operating income	Interest expense	Cash flow from operations	Cash flow from operations	Dividends paid	Capital expenditures
Reported	5,207.0	6,910.0	6,204.0	1,572.0	1,056.0	386.0	1,077.0	1,077.0	310.0	962.0
Standard & Poor's adjustments										
Operating leases	90.4	--	--	6.4	6.4	6.4	10.1	10.1	--	21.2
Intermediate hybrids reported as debt	(103.0)	103.0	--	--	--	--	--	--	--	--
Postretirement benefit obligations	1,376.9	--	--	96.1	96.1	--	161.2	161.2	--	--
Share-based compensation expense	--	--	--	3.0	--	--	--	--	--	--
Asset retirement obligations	68.3	--	--	4.0	4.0	4.0	(1.3)	(1.3)	--	--
Reclassification of nonoperating income (expenses)	--	--	--	--	24.0	--	--	--	--	--
Reclassification of working-capital cash flow changes	--	--	--	--	--	--	--	147.0	--	--

Table 3

Reconciliation Of Commonwealth Edison Co. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. $)* (cont.)										
Debt – accrued interest not included in reported debt	154.0	–	--	–	–	--	–	–	–	–
Total adjustments	1,586.5	103.0	–	109.5	130.5	10.4	170.1	317.1	--	21.2

Standard & Poor's adjusted amounts

	Debt	Equity	Revenues	EBITDA	EBIT	Interest expense	Cash flow from operations	Funds from operations	Dividends paid	Capital expenditures
Adjusted	6,793.5	7,013.0	6,204.0	1,681.5	1,186.5	396.4	1,247.1	1,394.1	310.0	983.2

Ratings Detail	
Commonwealth Edison Co.	
Corporate Credit Rating	BBB/Stable/A-2
Commercial Paper	
Local Currency	A-2
Preferred Stock (1 Issue)	BB+
Senior Secured (25 Issues)	A-
Senior Unsecured (2 Issues)	BBB
Corporate Credit Ratings History	
22-Jul-2009	BBB/Stable/A-2
21-Oct-2008	BBB-/Watch Neg/A-3
11-Sep-2008	BBB-/Stable/A-3
29-Aug-2007	BB/Positive/B
01-Jun-2007	BB/Watch Neg/B
05-Oct-2006	BBB-/Watch Neg/A-3
Business Risk Profile	Excellent
Financial Risk Profile	Significant
Related Entities	
Exelon Corp.	
Issuer Credit Rating	BBB/Stable/A-2
Commercial Paper	
Local Currency	A-2
Senior Unsecured (3 Issues)	BBB-
Exelon Generation Co. LLC	
Issuer Credit Rating	BBB/Stable/A-2
Commercial Paper	
Local Currency	A-2
Senior Unsecured (6 Issues)	BBB
Senior Unsecured (1 Issue)	BBB-
Senior Unsecured (1 Issue)	BBB/A-2
PECO Energy Co.	
Issuer Credit Rating	BBB/Stable/A-2

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Ratings Detail (As Of September 6, 2011)*(cont.)	
Commercial Paper	
Local Currency	A-2
Preferred Stock (6 Issues)	BB+
Senior Secured (12 Issues)	A-
Senior Secured (1 Issue)	AA+/Negative
Philadelphia Electric Co.	
Senior Secured (3 Issues)	A-

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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Credit Rating: BBB/Stable/A-2

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Exelon Corp.

Major Rating Factors

Strengths:
- Low-cost base-load generation,
- Strong operating track record,
- Positive operating cash flow, and
- Ample available liquidity.

Weaknesses:
- Exposure to market prices of a price-taking fleet,
- Backdated EBITDA profile and potential for a significant decline in cash flow,
- Uncertain tax position pertaining to structures the IRS has listed as abusive,
- Exposure to nuclear generation, and
- Aggressive financial policies.

Corporate Credit Rating
BBB/Stable/A-2

Rationale

Standard & Poor's Ratings Services' 'BBB' corporate credit rating on Chicago-based electric utility holding company Exelon Corp. reflects its consolidated business risk profile, which we view as strong. (We categorize business profiles from excellent to vulnerable. See "Business Risk/Financial Risk Matrix Expanded," published May 27, 2009, on RatingsDirect on the Global Credit Portal.) Exelon's business risk profile reflects the higher-risk operations of unregulated supply affiliate Exelon Generation Co. LLC (ExGen) and the excellent business risk profiles of its two regulated delivery businesses, Commonwealth Edison Co. (ComEd) and PECO Energy Co.

ExGen, which accounted for about 60% of the consolidated enterprise by cash flow and capital spending in 2010, has long-term exposure to market risk and meaningful exposure to nuclear assets (17,000 megawatts [MW] across 19 units). Partially offsetting the enterprise's risks are the solid operating performance of ExGen's low-cost nuclear power plants and the relative stability of PECO's and ComEd's regulated cash flows. Legislative risk has abated for ComEd since it worked out a settlement with the Illinois Commerce Commission for supply procurement through mid-2013, while uncertainty about the shape and form of deregulated markets for PECO has abated after five successful request-for-proposal (RFP) supply procurements.

Exelon distributes electricity to about 5.4 million customers in Illinois and Pennsylvania, and natural gas to 490,000 customers in the Philadelphia metropolitan area through ComEd and PECO. The company also engages in unregulated energy generation, wholesale power marketing, and energy delivery through its ExGen subsidiary. As of June 30, 2011, Exelon had about $13.6 billion of balance-sheet debt. We also impute about $4.3 billion of off-balance-sheet debt on the books for computing financial ratios, pertaining mostly to unfunded pension and other postemployment benefit obligations ($2.33 billion) and power-purchase agreements (PPA; about $1.5 billion).

The tightening of reserve margins that some expected in the PJM Interconnection electricity market has not materialized because of the economic slowdown following the credit crisis. A slight decline in demand has already resulted in lower prices in the reliability pricing model (RPM) capacity auction. A bigger concern for Exelon's unregulated portfolio is higher shale gas production, which has led to significantly lower natural gas prices. Up until the end of 2009, that impact was largely in the spot and prompt (next-year) prices. However, in the first quarter of 2010, the natural gas markets fully factored in the short- to near-term expectations for shale gas in the forward strip, and the forward curve collapsed. For instance, the 2013 Henry Hub forward price is now at about $5.05 per million Btu (mmBtu) after trading at $7.50 per mmBtu in June 2009. We note that while Exelon has a long position on market heat rates and carbon and other emissions, the company is double leveraged to an economic recovery. We believe an energy-light economic recovery, or falling demand in a double-dip recession, would harm Exelon more severely than its peers because of its significant base-load generation. However, the far end of the forward gas curve (post-2015) has recovered somewhat, likely because of anticipated coal plant retirements, and also because of the nuclear incident in Japan, which has increased demand for liquefied natural gas. It is unclear whether that uplift will be sustained.

Despite the longer-term decrease in expected load growth, the economic recovery has caused robust industrial growth in ComEd's and PECO's service territories, and heat rates in the spot market are improving. In particular, because Northern Appalachian coal prices have continually increased, and because load is recovering, off-peak power prices in the Northern Illinois Hub (NiHub, part of the Midwest Independent Transmission System Operator system) and PJM West electricity markets have increased. The Environmental Protection Agency's (EPA) electric power agenda covering air, water, and waste during the next two years is a busy one, including compliance standards for nitrogen oxide and sulfur dioxide, mercury, once-through cooling, dry ash, and carbon. Despite a massive build-out of capacity resources over the past decade, the recently released Cross-State Air Pollution Rule (CSAPR), which is scheduled to take effect Jan. 1, 2012, could cause significant retirements of existing U.S. coal plants. The EPA typically requires compliance at the end of a three-year period, so companies will likely feel the full impact of these rules in 2014-2015. If implemented in its present form, CSAPR should be favorable for Exelon, because higher marginal costs of coal fleets are reflected in capacity and energy prices. Also, the EPA's final utility maximum available control technology (MACT) rules on mercury and acid gas are due in November 2011, and the May 2012 RPM auction for 2015-2016 will be an important indicator for reserve margins, in our opinion.

Requirement contracts in Exelon's markets for various volumes and periods have also ensured that a high percentage of ExGen's near-term margins through 2013 are locked in, which we view favorably. ExGen's hedging policies and practices as consistent and sophisticated, in our view, and benefit credit quality. Hedging not only protects ExGen's generation from steep price declines, it provides the company time to adjust its cost structure or its capital structure, should prices remain depressed.

However, hedging activities insulate, but do not isolate, power merchants from commodity price effects. The high-price hedges that have thus far insulated Exelon from the economic turmoil will start rolling off during the next 12 months, exposing it to the power markets. Although most of ExGen's gross margin is under contract for next two years, which leaves little commodity exposure, the company continues to face a backdated EBITDA as the hedge percentage rolls off in later years. Consequently, our analysis focuses on ExGen's exposure to commodity prices in the outer years. For instance, by early 2009, ExGen had hedged about 30% of its expected Mid-Atlantic 2011 production at an effective average realized energy price of about $71 per megawatt hour (MWh). This hedged level was higher at just above 97.5% by June 2011, but the effective average realized price had declined to $57.00 per MWh because of lower power prices.

Similarly, ExGen's estimate of margin at risk (represented by gross margin at the 95th and fifth percentiles--i.e., assuming an approximate two-standard-deviation upward/downward move in power prices imposed on the unhedged generation) declined to about $7.1 billion as of June 2011 at the 95th percentile from about $8.9 billion in early 2009. Importantly, from a credit perspective, ExGen successfully controlled the downside risk and tightened its gross margin distribution estimate for 2011 at the fifth percentile to $6.9 billion by June 2011 from $5.8 billion at the beginning of 2009. The company's expected gross margin has remained fairly stable between 2009 and 2011 despite significant movements in the forward strip, which we view favorably. Still, there are limits to what a price-taking base-load fleet of power plants such as ExGen's can do to mitigate the effects of a long-term decline in prices. The 2012 Mid-Atlantic hedged prices are at an average realized energy price of $50.00 per MWh, and the fifth percentile gross margin has declined to $5.5 billion--about $600 million lower than the corresponding expectation for the 2011 gross margin at the end of second-quarter 2009.

ExGen owns one of the lowest-cost generation fleets, dispatching almost 17,000 MW of nuclear generation at the lowest end of the supply stack. We expect that the events at Fukushima Daiichi will raise costs associated with nuclear safety for ExGen's nuclear operations, although it remains unclear how much and to what extent the company can recover those costs in market prices.

We view Exelon's stand-alone financial risk profile as significant. Exelon ended 2009 with adjusted funds from operations (FFO) to total debt of about 28.3%. The company ended 2010 with that ratio at about 31.8% because of benefits from bonus depreciation. As of June 30, 2011, the ratio had soared to about 35%, driven mainly by lower total adjusted debt; the expiration of a below-market PPA with PECO, the impact of new rate cases at both utilities, and tax benefits also supported the increase. We estimate that the ratio at year-end 2011 will be around 30%. We expect these ratios to go down from 2012 as the high-priced hedges fall away. Even so, consolidated cash flow metrics should remain stable at 24% to 27.5% of total debt through 2013 as the company hedges a significant proportion of generation. We view this level as adequate for the rating, given that the two utilities' low-risk business profiles offset the lower cash flow they generate.

Similarly, ExGen's cash flow protection, as reflected by the ratio of FFO to debt, was about 43.4% in 2010. We expect the measure to remain at about 44% to 47% for 2011. However, we expect adjusted FFO to debt to decline in 2012 and 2013 to about 33% to 35% because the prices at which power will be hedged in these years will decline. For ExGen, we consider adjusted FFO to debt measures at about 30% to be adequate for the rating.

Exelon has material off-balance-sheet obligations, representing roughly one-third of total adjusted debt. After adjusting for ExGen's tolling contracts and the consolidated entity's unfunded pension and postretirement benefit obligations, we consider Exelon's capital structure to be significant. However, about 54% of the company's total adjusted debt is at its utility operating companies: 37.5% at ComEd and 16.5% at PECO.

As of June 30, 2011, Exelon's adjusted debt to total capital was about 55.5%. Given the current business mix, which depends heavily on the volatile generation business, we consider leverage to be high. Still, because the book value of ExGen's nuclear assets is materially understated, we would characterize the ratio of book-value debt to capital as a somewhat weak indicator of financial risk. Also, excluding debt at the utilities and after imputing all debt relating to PPAs and unfunded pensions and postretirement obligations, Exelon's stand-alone merchant business of adjusted owned and contracted kilowatts (kW) remains modest, at about $275 per kW, and is under $500 per kW when we include only base-load kW. We believe this is well below the replacement value of base-load nuclear units.

Liquidity

The short-term rating on Exelon and affiliates is 'A-2'. Standard & Poor's views Exelon's and ExGen's liquidity as strong, in light of expected debt maturities and available credit facilities. We estimate that Exelon's and ExGen's sources of cash during the next 12 to 24 months to exceed the companies' uses by about 1.8x and 2.0x, respectively. We expect sources over uses for both companies to remain positive even if EBITDA declines by 50%. In addition, because of Exelon's solid relationships with banks and high conversion of FFO to discretionary cash flow, we believe the company can absorb low-probability, high-impact shocks.

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

As of July 14, 2011, Exelon, ExGen, ComEd, and PECO had $7.7 billion of credit lines, of which about $324 million is drawn or posted for letters of credit. In March 2011, Exelon closed on three five-year credit facilities totaling $6.4 billion. The company also executed a $300 million letter of credit facility agreement at ExGen. This represents the refinancing of the $6.35 billion facility maturing 2012 at PECO and ExGen and at the Exelon parent level. In March 2010, ComEd replaced its $952 million credit facility with a three-year, $1 billion unsecured revolving credit facility that expires March 25, 2013.

Outlook

The outlook on the ratings is stable. Exelon's financial measures are strong for its rating, reflected in 2010 adjusted FFO to debt at about 40% excluding utilities and about 33% consolidated. In 2011, we expect consolidated FFO to debt at about 27.5% and unregulated FFO to debt to improve to about 44%, which comfortably meets requirements for the rating. 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 company more than its peers because of its significant base-load generation. We could lower the ratings if ExGen's adjusted FFO to debt falls materially below 30% and if consolidated FFO to debt falls below 22.5%. We could revise the outlook to positive if it becomes clear that shale gas development and its impact on power prices will not harm the company's financial profile. A positive outlook revision would also require management's continuing commitment to credit quality.

Rating Methodology

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 regulatory or structural insulation (ring-fencing). 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 put less weight on Exelon in rating the subsidiaries 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.

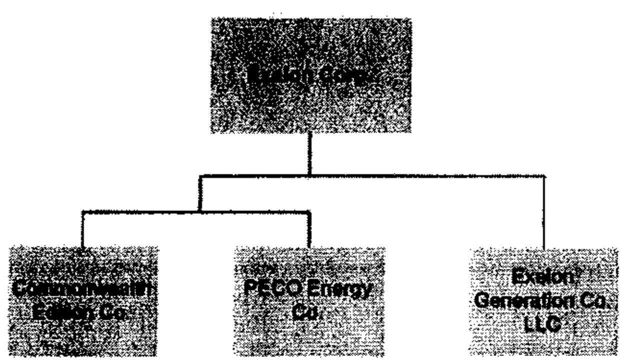
(This report primarily focuses on Exelon's unregulated generation business. Please see the full reports on ComEd and PECO published May 18, 2011, for details on those affiliates.)

We note that our 2011 review is a stand-alone evaluation of Exelon Corp. While the merger with Constellation offers scope and scale opportunities, we will incorporate those in Exelon's business risk profile only if the merger is consummated.

Business Risk Profile

Exelon is a utility services holding company, operating through three principal subsidiaries: ExGen, ComEd, and PECO. ExGen operates electric generating facilities, a wholesale energy marketing business, and a competitive retail sales operation. ComEd purchases, transmits, distributes, and sells electricity to residential, commercial, industrial, and wholesale customers in northern Illinois. PECO offers electricity and natural gas to retail customers in southeastern Pennsylvania. (See chart 1.)

Chart 1
Exelon Corp. --Summary Of Organizational Chart



Traditional transmission and distribution

	Illinois Utility	Pennsylvania Utility	Regional wholesale energy
			Nuclear generation
Population	9 million	3.8 million	Fossil generation
Electric customers	3.8 million	1.6 million	Power marketing
Gas customers	0	0.5 million	
Square miles	11,300	2,100	Nuclear generation: 17,047 MW
			Owned generation: 25,619 MW
			Total generation: 31,758 MW*

*Includes capacity under contract.

© Standard & Poor's 2011. This organizational chart presents a summary and may exclude organizational details we view as immaterial or irrelevant to our analysis.

ExGen's owned and contracted generation resources are located in the Midwest, mostly in Illinois (46% of capacity); the Mid-Atlantic, mainly in the PJM Interconnection region (36% of capacity); and in Texas, Georgia, Oklahoma, Kansas, Missouri, Idaho, and Oregon (18% of capacity)

In 2010, ExGen, ComEd, and PECO accounted for about 57%, 21%, and 23%, respectively, of consolidated cash flow (defined here only as operating cash flow minus investments other than capital expenditures, acquisitions, and changes in restricted cash). In 2011, we expect PECO's and ComEd's proportionate share of cash flow to increase because of new rates that went into effect in 2011, and we expect ExGen's cash flow contribution to decrease as high-priced legacy hedges roll off. We estimate ExGen's generation at about 150,000 gigawatts-hours (GWh). In 2010, the company also controlled about 21,000 GWh of supply through about 6,153 MW in PPAs.

Proposed merger with Constellation Energy Group Inc.

In April 2011, Exelon announced that it will merge with Constellation Energy Group Inc. in a stock-for-stock transaction that will require the approval of the Federal Energy Regulatory Commission (FERC), the Nuclear Regulatory Commission, the Department of Justice, the Maryland Public Service Commission, the New York Public Service Commission, the Public Utility Commission of Texas, and other state and federal regulatory bodies. The companies expect that the merger will close in early 2012.

From a credit perspective, we view the transaction as favorable to the business risk profile because of the complementary nature of retail operations and wholesale generation, regional diversity, a broadened nuclear footprint, and matching of load to generation that reduces liquidity requirements. Exelon expects to use net proceeds (after tax) from the divestiture of about 2,650 MW of generation assets to offset future incremental debt funding as well as to fund growth projects. Yet the aggressiveness of Exelon's growth could impair the company's business risk profile. While the merger offers scale opportunities, we will focus on Exelon's growth, which the company must match with commensurate liquidity.

We believe it's highly likely that we will assign a 'BBB' corporate credit rating to the combined Exelon-Constellation company following our complete assessment of the final plan, and therefore we affirmed the ratings and outlook for Exelon and its subsidiaries following the merger announcement. 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. For additional information on these rating actions and on the credit implications of the merger agreement, see the research update and Credit FAQ published April 28, 2011.

Standard & Poor's characterizes Exelon's business risk profile as strong based on the individual business risk profiles of the operating subsidiaries. We view ComEd's and PECO's business risk profiles as excellent, and we view the long-term prospects for the supply business as strong, even as short-term prospects remain depressed and medium-term prospects continue to weaken. We believe Exelon's base-load nuclear assets have a competitive cost structure, which is the primary reason for its strong business risk profile. However, we note that Exelon's cash flows vary significantly with changes in electricity and natural gas commodity prices. Specifically, we note that Exelon is more exposed than its peers to drops in commodity prices.

As long as the economy grows modestly, ExGen's assets in regions such as the Mid-Atlantic will likely benefit from improving structural fundamentals for its fleet, such as environmental legislation. We also believe that the competitive position of ExGen's nuclear fleet will remain strong in the medium term as these assets are best positioned to serve the wholesale needs of regional transmission and distribution companies. However, ExGen is also most exposed to higher costs associated with nuclear safety, with nuclear generation accounting for nearly 140,000 GWh of its total 150,000 GWh. As such, ExGen's ability to operate the fleet reliably and safely will be one key determinant of its credit quality.

Commonwealth Edison Co.

ComEd is a regulated transmission and distribution company that serves 3.8 million customers in Chicago and surrounding areas. About 77% of revenues pertain to distribution and are regulated by the Illinois Commerce Commission (ICC). The remaining 23% is related to transmission and regulated by the FERC. In 2010, the company filed for a $396 million rate increase, later adjusted by the company to a $343 million request based on a 11.5% return on equity (ROE). The staff recommended a rate increase of $113 million based on an ROE of 10.0%. Eventually, the ICC approved a $143 million based on a 10.5% ROE and $6.549 billion rate base. Exelon estimates the increase will represent a 4.0% impact on residential rates. The new rates went into effect in June 2011. (Please see the full analysis on ComEd published May 18, 2011.)

PECO Energy Co.

PECO is a regulated electric and gas transmission and distribution company that serves 1.6 million electric customers and 490,000 gas customers in Philadelphia and surrounding areas. About 90% of revenues are related to distribution, which is regulated by the Pennsylvania Utility Commission, and 10% comes from transmission, which is regulated by the FERC. PECO was able to make a successful transition to full-competitive rates by effectively managing its regulatory risk and benefiting from low market power prices. PECO proactively conducted five competitive wholesale power auctions for 2011 that locked in lower-priced power costs for its customers. Additionally, PECO has been able to settle its electric and gas rate cases for $245 million, or approximately 68% of the amount requested ($225 million for electricity and $20 million for gas; the approved revenue increase represented 71% and 46%, respectively, of the amount requested). Because of the settlement and the wholesale power auctions, customers' 2011 total electric bill increased by 5%. We believe this level of rate increase will not attract any regulatory risk. (Please see the full analysis on PECO published May 18, 2011, for further details.)

Market fundamentals for ExGen have weakened for the medium term

There are several key factors, both negative and positive, that could affect Exelon's rating in the future. 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. Moreover, the expected tightening of reserve margins in the PJM Interconnection electricity market has not materialized because of the economic slowdown following the credit crisis.

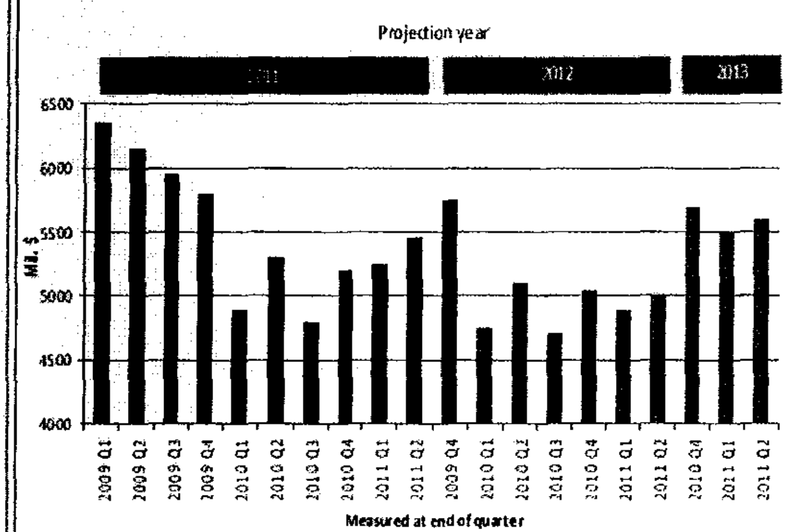
Both spot and forward power prices have declined because natural gas sets the marginal price for power in most regions of the U.S. Yet the front end of the forward curve is not that meaningful because companies are usually highly hedged for the near to medium term. For power companies, the back end of the price curve is more relevant to EBITDA, especially because power can't be stored, unlike coal or natural gas, for which pricing and inventory are affected by events in the present.

While the prompt 12-month strip has stabilized somewhat because inventory levels are expected to be lower, the back end of the forward curve has considerably flattened since 2009. The 2013 strip in the current forward curve declined to about $5.16 per million cubic feet (mcf) by July 2011, compared with about $7.50 per mcf in June 2009. The market appears to be indicating, via the deferred part of the curve, that the future does not warrant higher prices. Because base-load generation is essentially a price-taking business, ExGen, like all integrated merchants, face a backdated EBITDA as old hedges come off and generation can be hedged only at lower prices.

Chart 2

Exelon Generation Co. LLC – Open Gross Margins

Projected gross margins without hedges based on the forward strip.



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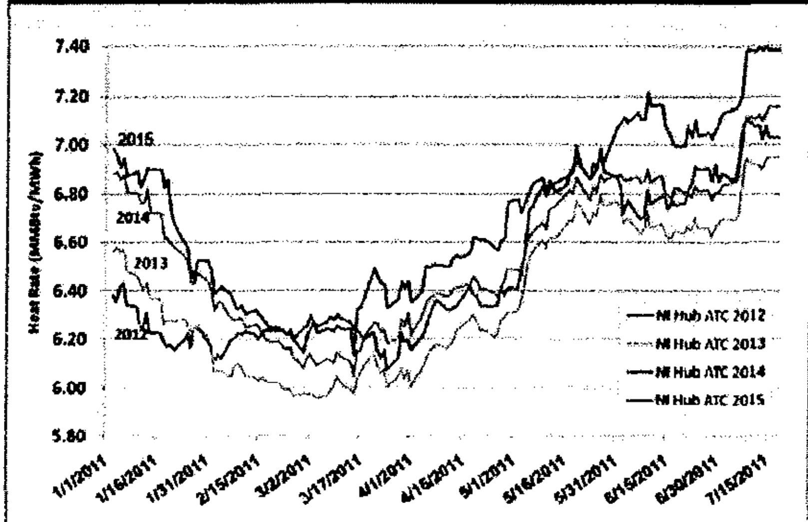
While Exelon has a long position on market heat rates and carbon and other emissions, the company is double leveraged to an economic recovery. We believe an energy-light economic recovery, or falling demand in a double-dip recession, could harm Exelon more severely than its peers because of its significant base-load generation, though we recognize that the company's cost structure is among the most competitive in the industry.

We also note that the far end of the forward gas curve (post-2015) has recovered somewhat, likely because of expected coal plant retirements, and also because demand for liquefied natural gas has risen since the nuclear incident in Japan. It is unclear whether the market has fully priced in shale gas or whether the uplift will continue. In fact, estimated shale reserves continue to rise. The Energy Information Administration's Annual Energy Outlook for 2011 showed shale gas reserves of 827 trillion cubic feet (Tcf), compared to just 347 Tcf in 2010.

We are also observing a rise in the forward imputed market heat rates, especially in the PJM NiHub region (see chart 3). However, it is unclear whether the rise in market heat rate comes from a recovery in demand or from expectations of higher dispatch of gas-fired assets. Any heat rate recovery is positive for Exelon's low-cost price-taking base-load fleet.

Chart 3
PJM Interconnection Northern Illinois Hub (NI Hub) Around-The-Clock (ATC) Heat Rates



Source: Exelon Corp.
MMBtu -- Million Btu. MWH -- Megawatt-hour.

Load growth is slowing

Demand for electric power is highly correlated to GDP. Amid the recent severe downturn, average weather-adjusted demand (demand is average load, as distinct from peak load) in the PECO zone declined by 2.6% in 2009 and then remained flat at that level through 2010. Similarly, demand dropped 3.3% in the ComEd zone in 2009 and recorded a modest 0.2% growth through 2010. Our economists now project GDP growth at about 2.9% in 2011. According to the North American Electricity Reliability Corporation's 2010 long-term reliability assessment, total U.S. electricity demand is now expected to rise at a compound annual growth rate of 1.3% from 2011 to 2019, down from 1.57% projected in 2009 (through 2018) and 1.7% projected in 2008. Moreover, demand response and energy-efficiency programs could suppress demand growth in Exelon's territory. We project that demand in both PECO's and ComEd's zones will remain at 2010 levels.

Still, despite the longer-term slowing in expected load growth, economic recovery has somewhat improved industrial growth in ComEd's and PECO's service territories, and heat rates in the spot market are improving. In particular, because Northern Appalachian coal prices have continually increased, and because load is recovering, the NiHub and PJM West off-peak power prices have increased.

Capacity prices in the eastern and western PJM regions converge

The May 2011 auction in the PJM region for the delivery year June 2014 through May 2015 resulted in clearing price of $125.90 per megawatt per day (MW-day), a marked increase over the last two auctions that resulted in clearing prices of $27.73 per MW-day for the delivery year June 2013 through May 2014 and $16.46 per MW-day for the delivery year June 2012 through May 2013. However, the prices in the constrained Eastern Mid-Atlantic Area Council (EMAAC) region fell to $136.50 per MW-day for the delivery year June 2014 through May 2015 from $245 per MW-day in 2013-2014. The substantial decline in reliability obligations, driven by lower forward load forecast and upgrades to the transmission facilities, contributed to the increase in capacity margins for imports into EMAAC from the rest of the PJM west region, resulting in a convergence of prices between these regions

We do not anticipate that the capacity markets will significantly affect ExGen's fleet, because ExGen's portfolio is almost equally distributed, with about 10,300 MW in the regional transmission organization (RTO) and about 10,200 MW in the constrained region (8,700 MW in EMAAC and the remaining 1,500 MW in MAAC, the Mid-Atlantic Area Council region). As such, the overall impact of recent auction results is mostly neutral to Exelon's credit quality (see table 1).

Table 1

Exelon Generation Co. LLC's Estimated Capacity Prices*

	2010-2011		2011-2012		2012-2013		2013-2014		2014-2015	
	Capacity (MW)	Cleared prices ($/MW-day)	Capacity (MW)	Cleared prices ($/MW-day)	Capacity (MW)	Cleared prices ($/MW-day)	Capacity (MW)	Cleared prices ($/MW-day)	Capacity (MW)	Cleared prices ($/MW-day)
Regional Transmission Organization	23,900	174.29	22,300	110.00	11,600	16.46	10,300	27.73	10,300	125.99
Eastern Mid-Atlantic Area Council					8,700	139.73	8,700	245.00	8,700	136.50
Mid-Atlantic Area Council					1,500	133.37	1,500	226.15	1,500	136.50
Average price		174.29		110.00		73.70		134.46		131.22

*Weighted average prices under the PJM Interconnection reliability pricing model capacity auction if all generation is cleared in the respective zones. MW – Megawatt.

The EPA will make several decisions affecting the electric power industry over the next two years, setting compliance standards for secondary nitrogen oxide and sulfur dioxide, mercury, once-through cooling, dry ash, and carbon. The EPA's slate of pending regulations significantly affected the May 2011 auction results for the RTO region. An increase of about 60% to 80% in auction clearing prices reflects the higher costs associated installing the emissions-control technologies that are required to meet increasingly stringent environmental regulations. Such costs affected EMAAC prices to a much lesser extent either because many generators in the eastern part of the market had installed such controls and reflected these costs in previous auctions or because new emissions controls were incremental to controls already installed and therefore had a smaller impact.

Moreover, a significant proportion of the existing U.S. fleet faces retirement in the face of additional environmental control requirements, despite a massive buildout of capacity resources during the past. Those power plants that are most vulnerable include vintage coal plants (typically 30 years or older) and plants that are relatively small (less than 400 MW) and do not meet existing environmental compliance requirements (scrubber or selective catalytic reduction). We estimate these plants' capacity to total 50 GWh to 60 GWh, located primarily in the PJM (13,500 MW), Midwest Independent Transmission System Operator (13,000 MW), and SERC Reliability Corp. regions (25,000 MW). (The SERC region covers 16 southeastern and central states.) In fact, we have already seen the effect of environmental compliance requirements on coal plants in the May capacity auction, when committed coal capacity declined by 16% or almost 6,900 MW. However, the reduction in coal capacity was replaced by an increase of about 4,836 MW in demand response capacity, the performance of which is yet to be observed.

ExGen has significant market exposure because of the size of its portfolio

ExGen's all-requirements contract with ComEd for about 80,000 GWh expired in 2006, exposing its generation to the merchant market. ComEd accounted for nearly 42% of ExGen's total GWh sales in 2006. Still, ExGen's net revenues improved because ComEd's contract was significantly below market.

Simultaneous with the discontinuation of the auction format (and with an interim request for proposal solicitation for part of the expiring auction volumes in 2008), ComEd and ExGen entered into a financial swap that is designed to cover about 60% of ComEd's residential and small commercial energy requirements, or about 25,200 to 27,000 GWh. Through May 2010, swapped MW replaced a part of the expiring auction supply amounts, and after that date, about 3,000 MW is being delivered until mid-2013. We estimate that in 2011 the contracts with ComEd represent about 15.5% of ExGen's total owned and contracted supply.

The agreement is structured as around-the-clock (ATC) energy only and has built-in escalators through the term, starting at about $48 per MWh in 2008 and increasing up to about $53.50 per MWh in 2013. Given current wholesale power levels at NiHub, these contracts are in-the-money for ExGen. In May 2011, the ICC approved the bids that the Illinois Power Agency (IPA) procured from the RFP for the remaining ComEd 2011-2012 load and the balance of the 2012-2013 load. The RFP for 2011-2012 cleared at an ATC price of about $34.77 per MWh; the financial swap price was about $51.20 per MWh. The IPA also procured about 35% of the 2013-2014 ComEd requirement in the 2011 RFP, or about 6,500 GWh of on-peak and 6,000 GWh of off-peak capacity.

At PECO, legacy full-requirements provider-of-last-resort prices have expired

Under the 1998 restructuring settlement, PECO's generation rates were capped through December 2010. ExGen was also providing about 42,000 GWh, or about 24.5% of its total supply, to serve PECO's provider-of-last-resort load through 2010. In 2007, the generation rate was increased to $62.6 per MWh, where it remained through 2010. However, the effective rate was about $88 per MWh after including a charge for stranded cost recovery and a shopping credit for capacity and energy charge.

Full-requirements prices set in recent auctions have declined in line with ATC wholesale power but have not dropped as much. We think this is because a number of market participants have exited the power sector and suppliers have started pricing in higher counterparty and credit risks, as well as the risk premium relating to higher natural gas price volatility. We now have a reasonable sample of RFP and auction prices established in the wake of the credit crisis, and the resulting pricing, although it's declining, is still stronger than we expected. In particular, PECO's June 2009 auction for 2011 supply returned a price of $89 per MWh but had declined to about $67 per MWh by the time of the final auction for 2011 supply in September 2010. Given that these prices have been established amid the severe recession, we now believe that supply margins could remain adequate for the rating under current market rates.

While the 2011 supply price for PECO is materially higher, by about 25%, over the supply price in 2010, a customer's bill should increase by only about 5%, after competitive-transition-charges (CTC) and transmission and distribution rates. We think the prospect that a rate shock will heighten regulatory risk has ebbed.

Table 2

PECO Energy Co. -- Average Residential Rates	--Rates effective Jan. 1--		Year-to-year increase (%)
	2010	2011	
Cents per kilowatt-hour			
Distribution	5.03	5.84	
Transmission	0.51	0.69	
Energy and capacity	6.26	8.4	34.2
Competitive transmission charge	2.57	--	
Energy efficiency surcharge	0.29	0.47	
Total bill	14.66	15.4	5.0

Source: PECO Energy Co.

Hedging is increasingly important

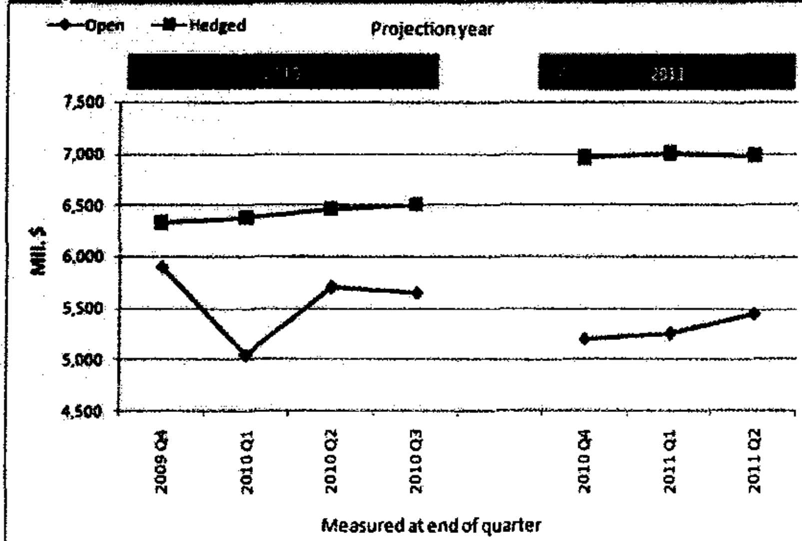
With the expiration of ComEd's fixed-price contract and transition to market of PECO's load, ExGen faces higher volatility, placing greater emphasis on its hedging and risk management policies and practices. To protect gross margin from adverse movements in market price, ExGen enters into forward hedges, typically 36 months out on a ratable basis and places hedges that they expect will lock gross margins (as opposed to volumetric hedges). The company typically hedges about 95% in the prompt year, 70% to 90% one year out, and 50% to 70% two years out. Consistent with that hedging philosophy, at the end of second-quarter 2011, ExGen was hedged 95% to 98% for 2011, 82% to 85% for 2012, and 49% to 52% for 2013.

Although the bulk of total projected margin is under contract for the next two years, this percentage rolls off in the outer years, pointing to ExGen's need to constantly enter into new contracts and exposing it to the volatility of wholesale market prices. The price-taking nature of the fleet results in margin erosion when wholesale power prices begin to decline and contracts are renewed at lower levels. Our concern stems from ExGen's relatively larger exposure to merchant margin volatility because of its base-load nuclear generation. For instance, in the first quarter of 2010, ExGen's open gross margin dropped significantly (see chart 4) due to the collapse in the entire forward natural gas strip. Furthermore, these contracts expose ExGen's margins to market risks, including load-shaping, fuel, and volume risks. Although margins are highly hedged, they are hedged based on expected volumes.

However, hedging has its limitations. Because nuclear assets are essentially price-takers, hedged gross margins depend on power prices set by longer-term marginal fuel prices (natural gas, in most instances). The difference between hedged margins and open gross margins has widened (see chart 4). Also, ExGen's expected gross margin has declined by almost $1.0 billion between 2011 and 2012 (see chart 6). While the backdated EBITDA still supports current rating levels, a deterioration in merchant market fundamentals has the most potential to affect Exelon's credit quality.

Chart 4

Exelon Generation Co. LLC -- Expected Hedged Gross Margins Versus Open Gross Margins



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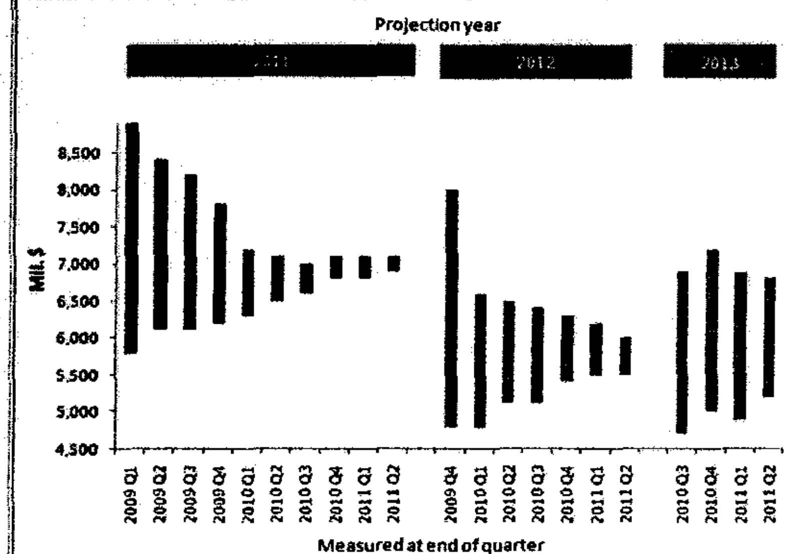
Exelon's margin will be pressured, should commodity prices fall further (see chart 5). (The 5% stress signifies a two-standard-deviation drop from current power price levels.). We note that the range starts out wide because we simulate up to a two-standard-deviation movement in fuel prices. For instance, in first-quarter 2009, expectation of 2011 gross margin varied from $5.7 billion to nearly $9.0 billion. This is because ExGen starts hedging two years into the future and the unhedged proportion of the production is subject to merchant volatility. As the hedges increase, the range starts narrowing.

Chart 5

Exelon Generation Co. -- Gross Margin Range (Including Hedges)



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 in power prices.

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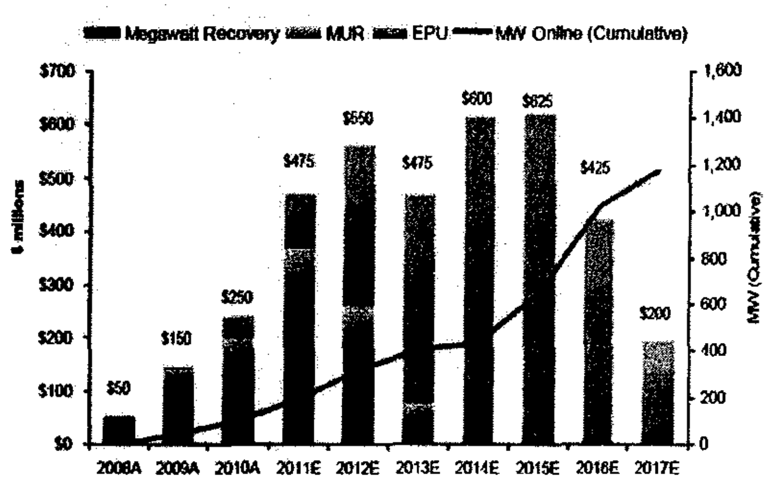
Nuclear operation

ExGen is the largest nuclear operator in the U.S., and nuclear generation poses numerous operating, regulatory, and environmental risks. ExGen's nuclear assets consist of 19 operating plants with an ownership interest of about 17,000 MW, representing more than 66.5% of ExGen's total owned generation capacity but over 90% of its overall generation. ExGen's strong operational track record mitigates the company's significant exposure to nuclear assets. During the last eight years, ExGen's nuclear capacity factor exceeded 93%, which is among the highest in the industry. In 2001-2007, the duration of its refueling outages was at 24 days, on average. Although in 2009–2010 their average duration increased to about 29 days, ExGen's refueling averages remain among the shortest in the industry. With gas on the margin in most markets, ExGen's well-run nuclear fleet gives it an advantage in the market because most of its plants are depreciated and the variable costs of nuclear generation is low. Still, systemic risks weigh negatively on credit quality.

Exelon has recently made a significant change in its nuclear strategy. While we expect nuclear power to be a significant part of ExGen's growth, the growth will now come through an announced uprate program, which the company expects will extract an incremental 1,175 to 1,300 MW (revised in 2011 from 1,300 to 1,500 MW planned originally) of nuclear generation from its existing fleet. The revision stemmed from a cancellation of the

Three Mile Island uprate plan, which it now deems uneconomical. Through June 30, 2011, Exelon has added 194 MW from its uprate program and expects to add another 11 MWs during the remainder of 2011. We view uprate programs as lower risk than new nuclear plant construction because new nuclear technology in untested. Costs tend to be lower and more predictable with uprates than with new construction.

Chart 6
Exelon Corp.: Uprate Plan Expenditures



Source: Exelon Corp.
MUR – Measurement uncertainty recapture. EPU – Extended power uprate. MW – Megawatts. A – Actual. E – Estimated.

The emergence of a carbon price would represent a meaningful upside for the company's generation portfolio. ExGen has 92,000 GWh of nuclear generation in the Midwest, where gas is 40% on the margin, and 47,500 GWh of generation in the Mid-Atlantic region, where gas is on the margin more often. As a result, climate change legislation would increase ExGen's gross margin. However, we expect this to occur in 2014 or later, which is beyond our ratings outlook.

Finally, the Japanese nuclear crisis will raise costs associated with nuclear safety, although it remains unclear how much or whether the company can recover those costs in market prices. Importantly, the Nuclear Regulatory Commission's July 2011 Near-Term Task Force report did not recommended any changes for spent nuclear fuel storage or the licensing process.

Renewable businesses

Acquisition of John Deere Renewables. In order to reduce its economic exposure to natural gas, as well as gain a foothold in the fast-expanding renewable businesses, Exelon acquired John Deere Renewables LLC. The portfolio includes 735 MW of wind capacity spread across 36 projects located in eight states, and has a clean capital structure with no tax equity. There is also no project-level debt.

Approximately 75% of the portfolio is sold under long-term PPAs, and only the Texas assets (located in the Southwest Public Service zone) are under the Public Utility Regulatory Policies Act with pricing on an avoided-cost basis. While the portfolio's total capacity is expected to be about 1,470 MW, Exelon currently contemplates only 230 MW with signed PPAs. Except for Consumers Energy Co., all counterparties are investment-grade entities. Although the cost structure of the wind portfolio is relatively lean, free cash flow will be negative during the construction phase in 2011 and 2012 but should be cash flow positive after 2013. For future growth, Exelon plans to develop only projects for which there are signed PPAs.

The portfolio's purchase price was $900 million, or about $1,000 per kW, which we believe is competitive, given construction costs of about $2,000 per kW for new wind energy infrastructure. We estimate that the company paid about $775 million for the 735 MW already in operation and a further $124 million for the future capacity. In September 2010, ExGen issued $900 million of senior notes to fund the acquisition.

Acquisition of Wolf Hollow. In the second quarter of 2011, Exelon announced the acquisition of Wolf Hollow I for $305 million, or $423 per kW. Wolf Hollow I is a 720-MW combined-cycle plant located in Electric Reliability Council of Texas (ERCOT) region. As with Exelon's wind portfolio acquisition, the purchase price compares favorably with the costs of building a new plant. The acquisition also eliminates the current above-market PPA with Wolf Hollow. (The acquisition will lower the off-balance-sheet debt imputation pertaining to the PPA by about $270 million in 2011.) Moreover, the acquisition fits with Exelon's strategy to match load with generation. Exelon expects to close the transaction in the third quarter of 2011. While the company financed the John Deere acquisition with recourse debt, it's financing the Wolf Hollow acquisition with existing cash flow and liquidity resources. In the past, we have imputed off-balance-sheet debt for ExGen's offtake contract with Wolf Hollow. As a result, we do not expect the transaction to harm ExGen's financial metrics.

Management evaluation

Exelon's financial performance exceeds its financial measures for its current ratings, yet higher ratings are unlikely in the short term. At this point, an upgrade is constrained by uncertainty about the economic recovery and impact of shale gas on forward power prices, especially in the 2014 timeframe. We will need more visibility into merchant market dynamics to consider an upgrade.

We view Exelon's business strategy as an important determinant of its credit profile. 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.

But Exelon's management has also been on the prowl for aggressive growth through the acquisition of companies such as NRG Energy. In our view, Exelon's attempted hostile takeover of NRG Energy, without a plan on how to refinance $9 billion in debt during one of the worst credit and capital markets, was detrimental to the company's creditworthiness and shows a significant appetite for risk. However, we see management's eventual decision to walk away without increasing the bid price as a commitment to maintain investment-grade ratings.

More recently, Exelon has grown incrementally through smaller acquisitions such as John Deere and Wolf Hollow, eventually culminating in the bid for Constellation. In our view, the proposed merger with Constellation is favorable to the business risk profile and offers several 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.

While the merger also offers scale opportunities, we will focus on Exelon's growth, which the company must match with commensurate liquidity. There are also regulatory risks in the form of intervening challenges to the merger. State regulators may also require concessions to approve the merger, which could change the economics of the transaction. We will also monitor whether management is able to confront and manage integration risks effectively after the merger is consummated.

Standard & Poor's remains focused on the future structure and dynamics of Exelon's senior management as the time approaches for John Rowe, the longtime 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 disperse authority, particularly as it pertains to the origination of corporate strategy.

Profitability

Exelon is double leveraged to an economic recovery through heat rates and gas prices. While an economic rebound will benefit ExGen's low-cost nuclear assets the most out of the integrated power merchants, an energy-light economic recovery or falling demand in a double-dip recession would harm Exelon more severely than its peers because of its significant base-load generation. Over the short term, lower marginal fuel prices are tempered by the company's significant hedging policy. A lasting suppression of demand, demand side response, and continuing low natural gas prices will meaningfully affect profitability, but a carbon price could counter the downside.

Financial Risk Profile

We view Exelon's financial risk profile as significant. While the financial metrics remain strong for the rating, an aggressive book-value capital structure and contested IRS claims hinder credit quality.

Accounting

Exelon's accounting policies conform to industry standards. We assign a significant amount of off-balance-sheet debt to Exelon, about $4.3 billion. A $2.1 billion pension plan funding in January 2011 (of which, ExGen contributed $952 million, ComEd $871 million, and PECO $110 million) reduced off-balance-sheet debt by 28% to $4.3 billion as of June 30, 2011, from $6.0 billion as of Dec. 31, 2010. Still, off-balance-sheet debt accounts for 32% of reported debt. Also, ExGen bears much of this off-balance-sheet debt because we allocate to ExGen all the debt-servicing requirements pertaining to the $1.3 billion parent-level debt.

Exelon funded the $2.1 billion pension plan contribution with $500 million from cash from operations, $750 million from tax benefits associated with the pension contributions, and $850 million associated with the accelerated cash tax benefits from the 100% bonus depreciation provision enacted as part of the Tax Relief Act of 2010 (which Exelon expects to receive in 2011). In order to provide interim funding for expected bonus depreciation, ComEd issued $600 million in debt to fund its share of the pension contribution.

Debt profile

Table 3

Debt Profile As Of June 30, 2011

(Mil.$ unless otherwise noted)

	Exelon Corp.	Exelon Generation Co. LLC	Commonwealth Edison Co.	PECO Energy Co.	Total
On balance sheet					
Debt (secured and unsecured)	1,451	3,678	5,601	2,303	13,033
Hybrids classified as debt	--	--	206	103	309
Accounts receivable sold				225	225
Total on balance sheet	1,451	3,678	5,807	2,631	13,567
Off-balance-sheet debt adjustments					
Power purchase agreement debt imputation	--	1,475	--	--	1,475
Operating leases	41	240	98	49	428
Pension imputed debt	87	377	368	61	893
Other post-employment benefits imputed as debt	103	696	446	191	1,436
Capital adequacy	--	--	--	--	--
Accrued interest	4	56	102	29	191
Adjustment for hybrids (including hybrids classified as equity on balance sheet)	--	--	(103)	(8)	(111)
Total adjustments	235	2,844	911	322	4,312
Total adjusted debt	1,686	6,522	6,718	2,953	17,879
Off-balance-sheet debt (%)	16	77	16	12	32

- Purchased-power commitments--ExGen has various off-balance-sheet, long-term commitments relating to the purchase and sale of capacity from and to unaffiliated parties. Exelon's contracted future capacity payments equate to a net present value debt equivalent of about $1.48 billion, which would decline to about $1.21 billion upon consummation of the Wolf Hollow acquisition
- Exelon has substantial postretirement benefit obligations, and its reported financial performance is thus highly subject to assumptions regarding discount rates, including expected return on pension plan assets, salary growth, health care cost and utilization trends, and mortality rates. Standard & Poor's adds about $2.33 billion in postretirement benefit obligations to Exelon's adjusted debt balances. At ExGen we add about $1.07 billion of postretirement debt obligations.
- Exelon has about $1.3 billion of debt associated with its 2005 borrowing to finance underfunded pensions and other postretirement obligations. This debt is serviced by cash flow distributed by the subsidiaries. Although both ComEd and PECO distribute a modest level to the parent, these distributions are not highly predictable, based on the utilities' current capital expenditure requirements. As a result, we allocate the entire parent debt to ExGen because it services the majority of this debt.
- The net present value of Exelon's operating leases is about $428 million. At ExGen, this obligation is about $240 million.

Bonus depreciation

The Small Business Jobs Act of 2010, enacted Sept. 27, 2010, extended the tax deduction for 50% bonus depreciation through 2010 for qualified property. The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, enacted Dec. 17, 2010, included a provision making qualified property placed into service after Sept. 8, 2010, and before January 1, 2012, eligible for 100% bonus depreciation for tax purposes. In addition, qualified property placed into service in 2012 will be eligible for 50% bonus depreciation for tax purposes. These provisions will generate cash for Exelon through tax benefits (estimated to be $1 billion) related to the accelerated depreciation, of which they expect to realize $850 million in 2011 and $170 million in 2012. These tax benefits would otherwise take an estimated average of 20 years to materialize. Exelon's bonus depreciation receivables will be somewhat offset by provisions for deferred income taxes, which negate the effect on cash flow. We give credit for this accelerated cash flow in our analysis because it is real and Exelon used it judiciously toward funding pension obligations. Still, we recognize that the net effect is just in the timing of cash flow, which at some point will reverse as Exelon pays higher taxes to extinguish its deferred tax liabilities.

Involuntary conversion and like-kind exchange

Through ComEd, Exelon took two positions to defer nearly $2.8 billion of tax gain on the 1999 sale of ComEd's fossil-fueled generating assets under two IRS provisions: involuntary conversion and like-kind exchange. Exelon deferred about $1.6 billion of the gain under the involuntary conversion provision because the company determined it was economically compelled to dispose of the assets when Illinois deregulated the electricity markets. Exelon reinvested the proceeds in qualifying replacement property such that the gain was deferred over the term of this replacement property under the involuntary conversion provisions. About $1.2 billion of the gain was deferred by reinvesting the proceeds from the sale in qualifying replacement property under the like-kind exchange provisions of the IRS. The like-kind exchange property included interests in three municipal-owned electric generation facilities, which Exelon leased back to these municipalities. The IRS has rejected the deferral of gains on both the like-kind exchange and involuntary conversion.

In third quarter of 2010, Exelon and the IRS reached a nonbinding, preliminary agreement to settle involuntary conversion and competitive transition charges (CTC) positions. The preliminary settlement agreement is consistent with the IRS's second-quarter offer to settle the involuntary conversion and CTC positions and also includes the IRS's agreement to withdraw its assertion of the $110 million substantial understatement penalty with respect to Exelon's involuntary conversion position. Final resolution of the involuntary conversion and CTC disputes is subject to finalizing terms and calculations and executing definitive agreements.

Under the terms of the preliminary agreement, Exelon estimated that the IRS will assess tax and interest of about $300 million, net of $300 million of refunds due. In order to stop additional interest from accruing on the expected assessment, Exelon made a payment to the IRS of $302 million in December 2010. Further, Exelon expects to receive additional tax refunds of approximately $270 million between 2011 and 2014.

On the other hand, Exelon and the IRS have failed to reach a settlement with respect to the like-kind exchange position. In the company's view, the like-kind exchange will likely be litigated. The IRS has classified this transaction under sale-in lease-out, a listed transaction that it considers an abusive tax shelter. Exelon expects to initiate litigation in the first half of 2012, after the involuntary conversion and CTC settlement is finalized. If Exelon is fully successful in its challenge to the IRS, the company would owe $840 million in tax and interest and an additional $86 million in penalties. However, if the IRS were to prevail, Exelon estimates that its liability (after tax) will be increased by $240 million. We view any adverse decision as a claim on cash flow that could otherwise be used for debt retirement.

Corporate governance/Risk tolerance/Financial policies

Exelon's dividend policy adds to financial flexibility by reducing its fixed commitments at a time when cash flow generation is expected to be robust but far less stable than in previous years. The company had historically maintained a dividend payout policy of 50% to 60% of ongoing operating earnings. In line with this policy, the company paid out about 54% of its GAAP earnings in 2010. Although we expect cash flows to remain strong through 2011, we do not expect Exelon to increase dividends because of its pension funding obligations and declines in open EBITDA. Currently, Exelon estimates paying out 55% to 60% of its earnings through dividends.

Exelon reduces its exposure to short-term earnings volatility by hedging its open position at ExGen. Specifically, ExGen targets hedging ratios of about 95% in the current year, 70% to 90% one year out, and 50% to 70% two years out. As of June 30, 2011, the proportion of hedged generation was 95% to 98%, 82% to 85%, and 49% to 52% for 2011, 2012, and 2013, respectively. Hedging ratios represent the percentage of gross margin the company has insulated from adverse commodity price movements. These hedges are subject to rollover risk and do not mitigate the company's exposure to long-term market risk.

Cash flow adequacy

We apportion all of the $1.3 billion in holding-company debt to ExGen even though both ComEd and PECO will make distributions to the parent. We do so because we view the utilities' capital expenditure requirements as somewhat unpredictable based on their changing smart grid and renewable energy plans.

On a consolidated basis, Exelon ended 2009 with adjusted FFO to total debt of about 28.3%. The company ended 2010 at about 31.8% because of benefits from bonus depreciation. The ratio soared to about 35% as of June 30, 2011, driven mainly by lower total adjusted debt. The expiration of its below-market PPA with PECO, the impact of new rate cases at both utilities, and tax benefits also supported the increase. We estimate the year-end 2011 ratio to be around 30%. We expect the ratio to decline by 2012 as the high-priced hedges fall away. Even so, consolidated cash flow metrics should remain stable at 26.0% to 27.5% through 2013 as the company hedges a significant proportion of generation. We view this as adequate given that the two utilities' low-risk business profiles offset the lower cash flow they generate. Specifically, ComEd has worked out a settlement with the ICC for supply procurement through mid-2013 and settled contested issues with the ICC in its 2007 and 2010 delivery service rate cases. Similarly, with five successful RFP supply procurements completed, PECO's regulatory risks to cash flow have also ebbed. FFO to interest levels are more than adequate at about 7.0x to 7.5x, and we expect them to trend at about 6.0x through 2013.

ExGen's cash flow protection, as reflected by the ratio of adjusted FFO to debt, was about 43.4% in 2010 (after incorporating $1.3 billion of parent-level debt). We expect the measure to remain at about 44% to 47% for 2011. However, we expect this figure to decline to between 30% and 35% in 2012 and 2013 due to the decline in power prices at which generation in these years will be hedged. We consider adjusted FFO to debt at about 30% for ExGen to be adequate for the rating.

Importantly, even under our low gas price and heat rate assumptions, we estimate that ExGen's free operating cash flow will be positive in 2011 and 2012. We view this as a reasonable stress because under this scenario around-the-clock power prices in the PJM and NiHub regions decline to $37 per MWh and $27 per MWh, respectively. The current strip is projecting a power price of about $46 per MWh and $33 per MWh, respectively.

We characterize ExGen's and Exelon's cash flows as satisfactory for the current rating. Still, while we expect Exelon to generate strong operating cash flow, it may not necessarily resort to debt retirements because it has planned significant capital expenditures for reliability enhancements, smart grid programs, renewable energy at the utilities, and a large nuclear uprate program.

Capital structure/Asset protection

Exelon has significant off-balance-sheet obligations, which represent about a third of total adjusted debt.

After adjusting for ExGen's tolling contracts and the consolidated entity's unfunded pension and postretirement benefit obligations, we consider Exelon's capital structure to be significant. However, about 54% of total adjusted debt is at the utility operating companies: 37.5% at ComEd and 16.5% at PECO.

As of June 30, 2011, Exelon's adjusted debt to total capital was about 55.5%. Given the current business mix, which depends considerably on the volatile generation business, we consider leverage to be high. Still, because the book value of ExGen's nuclear assets is understated, we consider the ratio of book-value debt to capital to be a somewhat weak indicator of the company's financial risk. Nonetheless, we give less importance to the debt-to-capital ratio because the ratio doesn't directly affect Exelon's ability to service its debt.

Debt per kW, a more relevant leverage statistic, remains modest. Excluding debt at the utilities, and after imputing all debt relating to PPA and unfunded pensions and postretirement obligations, Exelon's stand-alone merchant business of adjusted owned and contracted kW remains modest, at about $275 per kW, and under $500 per kW when we include only base-load kW. We believe this is well below the replacement value of base-load nuclear units.

Liquidity and liability management

Exelon's short-term credit profile reflects adequate cash flow generation and sufficient alternative sources of liquidity to cover current liquidity needs, including ongoing capital requirements and margin requirements at ExGen, moderate capital expenditures, and debt maturities. In September 2009, ExGen raised $1.5 billion in two tranches, of $600 million due in 2019 and $900 million due in 2039. Proceeds were used to retire Exelon's $500 million debt and ExGen's $700 million debt, both due in 2011. The company used the remainder to refinance $307 million of tax-exempt debt that was repaid in 2009. The next large maturities at Exelon and ExGen are in 2015 and 2014, respectively.

In September 2010, ExGen issued $900 million of senior notes, consisting of $550 million due in 2020 and $350 million due in 2041, to fund the acquisition of John Deere Renewables. In January 2011, ComEd issued $600 million in first mortgage bonds due in 2014. Proceeds were used as an interim source of liquidity for the January 2011 contribution to pension-plan funding.

As of July 14, 2011, Exelon, ExGen, ComEd, and PECO had $7.7 billion of credit lines, of which $324 million are drawn or posted for letters of credit. In March 2011, Exelon closed on three five-year credit facilities totaling $6.4 billion. The company also executed a $300 million letter of credit facility agreement at ExGen. This represents the refinancing of the $6.35 billion facility maturing in 2012 at PECO, ExGen, and Exelon. In March 2010, ComEd replaced its $952 million credit facility with a three-year, $1 billion unsecured revolving credit facility that expires on March 25, 2013. The facilities for the rest of the Exelon group expire in March 23, 2016.

Table 4

Exelon Corp. -- Liquidity				
	Exelon Corp.	Exelon Generation Co. LLC	PECO Energy Co.	Commonwealth Edison Co.
Maturity date				

Table 4

Exelon Corp. -- Liquidity (cont.)				
Revolving credit facility	March 23, 2016	March 23, 2016	March 23, 2016	March 25, 2013
Bilateral credit facility		December 2015 and March 2016*		
Revolving credit facility commitments	$500 mil.	$5.3 bil.	$600 mil.	$1.0 bil.
Revolving facility extension period	Two 1-year extensions	Two 1-year extensions	Two 1-year extensions	Two 1-year extensions
Revolving credit facility commitments increase	$200 mil.	$1.0 bil.	$200 mil.	$500 mil.
Letters of credit sublimit under revolving credit facility	$200 mil.	$3.5 bil.	$300 mil.	--
Bilateral credit facility commitments¶	--	$300 mil.	--	--
Current total credit facility commitments	$500 mil.	$5.6 bil.	$600 mil.	$1.0 bil.
Outstanding letters of credit as of July 14, 2011	$7 mil.	$121 mil.	$1 mil.	$195 mil.
Outstanding draws on facility as of July 14, 2011	--	--	--	--
Credit facility availability as of June 30, 2009	$493 mil.	$5.5 bil.	$599 mil.	$805 mil.
Outstanding commercial paper as of July 14, 2011	$140 mil.	--	--	--

*$150 mil. expires in December 2015 and $150 mil. expires in March 2016. ¶Agreement provides for commitment of up to $500 mil.; however, Exelon's board has only authorized commitment of up to $300 mil.

Related Criteria And Research

- Standard & Poor's Standardizes Liquidity Descriptors For Global Corporate Issuers, July 2, 2010
- Business Risk/Financial Risk Matrix Expanded, May 27, 2009

Ratings Detail (As Of September 19, 2011)*	
Exelon Corp.	
Corporate Credit Rating	BBB/Stable/A-2
Commercial Paper	
Local Currency	A-2
Senior Unsecured (3 Issues)	BBB-
Corporate Credit Ratings History	
22-Jul-2009	BBB/Stable/A-2
21-Oct-2008	BBB/Watch Neg/A-2
29-Aug-2007	BBB+/Stable/A-2
05-Oct-2006	BBB+/Watch Neg/A-2
Business Risk Profile	Strong
Financial Risk Profile	Significant
Related Entities	
Commonwealth Edison Co.	
Issuer Credit Rating	BBB/Stable/A-2

Ratings Detail (As Of September 19, 2011) (cont.)	
Commercial Paper	
Local Currency	A-2
Preferred Stock (1 Issue)	BB+
Senior Secured (25 Issues)	A-
Senior Unsecured (2 Issues)	BBB
Exelon Generation Co. LLC	
Issuer Credit Rating	BBB/Stable/A-2
Commercial Paper	
Local Currency	A-2
Senior Unsecured (6 Issues)	BBB
Senior Unsecured (1 Issue)	BBB-
Senior Unsecured (1 Issue)	BBB/A-2
PECO Energy Co.	
Issuer Credit Rating	BBB/Stable/A-2
Commercial Paper	
Local Currency	A-2
Preferred Stock (6 Issues)	BB+
Senior Secured (12 Issues)	A-
Senior Secured (1 Issue)	AA+/Negative
Philadelphia Electric Co.	
Senior Secured (3 Issues)	A-

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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