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Global Credit Portal

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Summary:
Exelon Corp.

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Summary:
Exelon Corp.

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.

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

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January 20, 2012

Summary:
Exelon Corp.

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Summary:
Exelon Corp.

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.) 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.

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. ExGen engages in unregulated energy generation, wholesale power marketing, and energy delivery. ExGen's unregulated operations accounted for about 60% of the consolidated enterprise by cash flow and capital spending in 2010. The company has long-term exposure to market risk and meaningful exposure to nuclear assets (17,000 megawatts [MW] across 19 units). As of Sept. 30, 2011, Exelon had about $13.8 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).

On April 28, 2011, Exelon and Constellation Energy Group Inc. agreed to merge in a stock-for-stock transaction. The Public Utilities Commission of Texas, the U.S Dept. of Justice, and shareholders of the two companies have approved the merger. The companies have reached a merger settlement with key parties in Maryland, but a Public Service Commission (PSC) decision is expected in February 2012. However, the Oct. 11, 2011 filing of a settlement between the companies and the market monitoring unit at the Pennsylvania-Jersey-Maryland (PJM) Interconnection was designated as an amendment to the merger application. That action restarted the 180-day clock on the merger review at the Federal Energy Regulatory Commission. The commission has until mid-April 2012 to act on the docket, but we believe that an earlier decision is possible. From a credit perspective, we view the transaction favorably because of the complementary nature of retail operations and wholesale generation, and greater generation and load diversity across six different regions.

Given continuing oversupply from the shale-gas gathering regions, natural gas prices are clearly not cooperating. Along with the decline in natural gas prices, power prices too had dropped about 50%, on average, by the fourth quarter of 2011 from 2008 levels. PJM and Nihub power prices have plunged further in the last quarter as natural gas prices further eased due to gas production continuing to increase in liquid-rich (natural gas liquids, condensates, and oil) regions. The stay of the Environmental Protection Agency's (EPA) Cross State Air Pollution Rule (Casper) on Dec. 30, 2011 has also diminished the outlook across the sector.

We view ExGen's ratable hedging strategy favorably as it ensures that a high percentage of the company's near-term generation is locked in. 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 ExGen from the shale gas glut and economic turmoil have started rolling off. While ExGen's expected gross margin remained fairly stable between 2009 and 2011 despite a downward movement in the forward strip, there are limits to what a price-taking base-load fleet can do to mitigate the effects of a long-term decline in prices. ExGen is now feeling the effects of low forward prices. Its expected hedged margins for 2012 of about $6 billion at the end of the third quarter 2011 is about $1 billion lower than its estimated gross margin in 2011.

Because the U.S District Court of Appeals stayed the EPA's Casper rule the sharpest falloff is in 2012 forward power prices. The market still expects that a reworked Casper may still be re-implemented by 2013. All else equal, we expect natural gas prices to increase somewhat in 2014 because of incremental demand for the fuel as natural gas-fired generation replaces retiring coal plants. Yet, over the past six months, 2013 and 2014 forwards in the PJM Interconnect have fallen about 20%. We think this represents the biggest risk to ExGen. Because of its rolling hedging strategy, ExGen is hedging its 2014 forward generation and is confronted with forward prices that have weakened to about $40 per megawatt-hour (MWh) from about $50 per MWh as recently as September 2011. Consequently, the company faces a significantly backwardated EBITDA profile in 2014. We also note that depressed prices harm Exelon more severely than its peers because almost 95% of its generation (excluding power purchase contracts) is delivered by price–taking, base-load nuclear plants.

We view Exelon's stand-alone financial risk profile as significant. The company ended 2010 with adjusted funds from operations (FFO) to total debt at about 31.8% because of benefits from bonus depreciation. As of Sept. 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 has already hedged a significant proportion of its expected 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 estimate that the measure will end up at about 45% 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 expect adjusted FFO to debt measures in the range of about 25%-27% at the current rating level.

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 Sept. 30, 2011, Exelon's adjusted debt to total capital was about 56.4%. 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, moderate capital spending, and upcoming debt maturities. Ironically, a declining power environment is favorable from a liquidity perspective as cash is being posted to ExGen on its forward hedges. The next large maturities are in 2015 for Exelon and 2014 for ExGen.

As of Oct. 21, 2011, Exelon, ExGen, ComEd, and PECO had $7.7 billion of credit lines, of which about $487 million is posted for letters of credit and outstanding commercial paper. 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. That said, we believe that higher natural gas production from shale plays and a delay in environment rules related to plant retirements can significantly affect the company's financial performance. We believe these headwinds have increased and Exelon faces a potential earnings cliff in 2014. Should the prevailing commodity environment persist, the company may have to address its backwardated earnings profile through reduction in capital spending. We expect Exelon and ExGen to maintain consolidated FFO to debt levels in the range of 21%-23% and 25%-27%, respectively, in 2014 to maintain current ratings. A positive outlook--currently not under consideration—can result should natural gas prices stabilize and power prices respond favorably to coal-plant retirements, resulting in an improvement in consolidated FFO to debt levels of over 27%.

Related Criteria And Research

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

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March 12, 2012

Bulletin:

Constellation Energy/Exelon Ratings Not Immediately Affected By Merger Approval

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NEW YORK (Standard & Poor's) March 12, 2012--Standard & Poor's Ratings Services said today that the March 9, 2012, Federal Energy Regulatory Commission's (FERC) approval of the merger of Exelon Corp. (BBB/Stable/A-2) and Constellation Energy Group Inc. (BBB-/Watch Pos/A-3) would not immediately affect ratings. We expected the FERC approval following approvals from the Maryland Public Service Commission and the PJM Interconnection market monitor, but also note the record-setting fine the FERC levied on Constellation for alleged market manipulation charges dating back to trading activity in 2007 and 2008. Constellation has denied any wrongdoing, but agreed to the settlement that resolves the charges. Over the next several weeks we will assess the combined company's financial risk profile. While power markets have declined meaningfully--and negatively affect the credit quality of the unregulated generation business--we expect the pro forma financials to support a 'BBB' rating.

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March 23, 2012

Research Update:

Exelon Corp. Ratings Affirmed; Constellation Energy Ratings Raised, Then Withdrawn After Merger Completion

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Research Update:

Exelon Corp. Ratings Affirmed; Constellation Energy Ratings Raised, Then Withdrawn After Merger Completion

Overview

- Chicago-based diversified energy company Exelon Corp. has completed its merger with Constellation Energy Group Inc.
- We are affirming 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 is stable.
- We raised our corporate credit ratings on Constellation Energy Group to 'BBB' from 'BBB-'. We have subsequently withdrawn the ratings as Constellation has merged into Exelon.
- We are affirming the senior unsecured debt ratings of Constellation at 'BBB-'. Exelon has assumed this debt.

Rating Action

On March 23, 2012, 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 also raised our corporate credit ratings on Constellation Energy Group Inc. to 'BBB' from 'BBB-'. Constellation's ratings were on CreditWatch with positive implications where we placed them on April 28, 2011 following the merger announcement. We have subsequently withdrawn Constellation's ratings as the company has merged into Exelon. Also, Exelon has assumed Constellation's senior unsecured notes. The one-notch differential between the senior unsecured debt at ExGen and Exelon represents structural subordination.

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.

Rationale

On March 9, 2012, the Federal Energy Regulatory Commission (FERC) approved the Exelon/Constellation merger. The FERC approval was the final in a series following approvals from the Maryland Public Service Commission, the Nuclear Regulatory Commission and the PJM market monitor. We expected the approval to come through, but also note the record-setting fine the FERC levied on

Constellation for alleged market manipulation charges dating back to trading activity in 2007 and 2008

Based on our evaluation of cash flows, we consider about 60% of the pro forma company as unregulated under management's base case. The unregulated proportion declines to about 55% under our base case, because of the decline in unregulated cash flow in a lower commodity-price environment. However, despite the lower power prices, under our base case, we view the business risk profile of the consolidated pro forma company as "strong" (as defined in our criteria). While we expect financial measures to decline through 2014, we have affirmed the 'BBB' corporate credit ratings because we expect 2014 to be the trough year. Based on the present forward curve, cash flow measures are still adequate for the rated level in that year.

The 'BBB' corporate credit rating on Exelon reflects its consolidated business risk profile, which we view as strong. (We categorize business profiles from excellent to vulnerable.) Exelon's business risk profile reflects the higher-risk operations of unregulated supply affiliate ExGen, which now will increase in size to subsume Constellation's unregulated business. Exelon's business risk also reflects the excellent business risk profiles of regulated delivery businesses, ComEd, PECO, and BGE, which have generally predictable transmission and distribution cash flows. Because of ring-fencing, we will continue to deconsolidate BGE and analyze it as an equity investment, counting only distributions to the parent as primary contributions to the parent's credit quality and financial profile.

The new company is the nation's second-largest regulated distributor of electricity and gas, with 5.4 million customers in Illinois and Pennsylvania and 1.2 million customers in Maryland. Exelon also distributes natural gas to 490,000 customers in the Philadelphia metropolitan area through PECO and 650,000 customers in Maryland. ExGen engages in unregulated energy generation, wholesale power marketing, and energy delivery. ExGen's unregulated operations accounted for about 60% of the consolidated enterprise by cash flow and capital spending in 2011. The company has long-term exposure to market risk and meaningful exposure to nuclear assets (17,000 megawatts [MW] across 19 units). Constellation's operations will add about 30,000 MW and 350 billion cubic feet (bcf) of natural gas business to Exelon's businesses, although the pro forma company will divest about 2,500 MW of generation to address market power concerns.

As of Dec. 31, 2011, Exelon had about $13 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). Constellation (net of BGE) had about $2.7 billion of debt. We also impute about $1.4 billion of off-balance-sheet debt.

Given continuing oversupply from the shale-gas gathering regions, natural gas prices are clearly not cooperating. Along with low natural gas prices, power prices also had dropped about 50%, on average, by the fourth quarter of 2011 from 2008 levels. Power prices in the PJM and NiHub markets plunged further in the last quarter as natural gas prices further eased due to gas production continuing to increase in liquid-rich (natural gas liquids, condensates, and oil) regions. The stay of the Environmental Protection Agency's (EPA) Cross State Air Pollution Rule (Casper) on Dec. 30, 2011 has also diminished the outlook across the sector.

We view Exelon's ratable hedging strategy favorably as it ensures that a high percentage of the company's near-term generation is locked in. Hedging not only protects unregulated generation cash flows from steep price declines, it also 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 the unregulated business from the shale gas glut and economic turmoil have started rolling off. While ExGen and Constellation's expected unregulated gross margin remained fairly stable between 2009 and 2011 despite a downward movement in the forward strip, there are limits to what a price-taking base-load fleet can do to mitigate the effects of a long-term decline in prices.

Because the U.S District Court of Appeals stayed the EPA's Casper rule the sharpest falloff is in 2012 forward power prices. The market still expects that a reworked Casper will still be re-implemented by 2013. All else being equal, we expect natural gas prices to increase somewhat from 2014 because of incremental demand for the fuel as natural gas-fired generation replaces retiring coal plants. Yet, over the past six months, 2013 and 2014 forwards in the PJM Interconnect have fallen about 20%. We think this represents the biggest risk to the pro forma company's cash flow. Because of their rolling hedging strategy, ExGen and Constellation were hedging their 2014 forward generation and were confronted with forward prices that have weakened to about $40 per megawatt-hour (MWh) from about $50 per MWh as recently as September 2011. Consequently, the company faces a significantly backwardated EBITDA profile in 2014.

Exelon and Constellation had material off-balance-sheet obligations, which will carry over to the pro forma company. 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. Similarly, Constellation has a number of legacy supply agreements, such as PPAs and toll contracts that serve its customer supply load obligations. The company also accounts for other PPAs, in which it has substantial economic interest as operating leases. We treat these contracts as debt because of their debt-like characteristics.

Under our consolidated pro forma base case (we assume lower gas prices and market heat rates that result in power prices roughly 10% lower than the current forward contracts), we expect adjusted FFO to total debt of the pro forma company (i.e., Exelon and Constellation combined) to decline to about 26% in 2012 and then to hover at 24% to 25% 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 a negative $1 billion through this period--largely because of the utilities' capital spending. Similarly, we expect total debt to total capital to decline below 50% and debt to EBITDA to hover at about 3.5x. These ratios are consistent with Standard & Poor's 'BBB' guideposts for a financial risk profile we assess as "significant."

Liquidity

The short-term rating on Exelon and affiliates is 'A-2'. Standard & Poor's views the liquidity across the Exelon group of companies as 'strong', in light of expected debt maturities and available credit facilities. We estimate that sources of cash during the next 12 to 24 months to exceed the companies' uses by about 2x. We expect sources over uses for Exelon and ExGen 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, moderate capital spending, and upcoming debt maturities. Ironically, a declining power environment is favorable from a liquidity perspective as cash is being posted to ExGen on its forward hedges. The next large maturities are in 2015 for Exelon and 2014 for ExGen.

As of Dec. 31, 2011, Exelon, ExGen, ComEd, Constellation, and PECO had $11.9 billion of credit lines, of which about $2.5 billion was posted for letters of credit and outstanding commercial paper. BGE has a separate $600 million facility. 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. On March 10, 2012, the capacity under Constellation's revolving facility was reduced to $1.5 billion from $2.5 billion reducing aggregate bank commitments to $3.2 billion. All facilities reside at the Corp. level. In addition, Exelon is working through the migration of letters of credit and have a liquidity reduction plan in place that it will finalize toward the end of 2012.

Outlook

The outlook on the ratings is stable. That said, we believe that higher natural gas production from shale plays and a delay in environment rules related to plant retirements can significantly affect the company's financial performance. We believe these headwinds have increased and Exelon faces a potential earnings decline in 2014. Should prevailing commodity environment persist, the company may have to address its backwardated earnings profile by reducing capital spending. We expect Exelon and ExGen to maintain consolidated FFO to debt levels in the 22% to 23% range and 25% to 27%, respectively, in 2014 to maintain current ratings. We will specifically monitor the expected negative discretionary cash position that results from Exelon's large dividend commitment. A positive outlook--currently not under consideration--can result should natural gas prices stabilize and power prices respond favorably to coal-plant retirements, resulting in an improvement in consolidated FFO to debt levels of over 27%.

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	BBB-
Commercial Paper	A-2
Commonwealth Edison Co.	
Senior Secured	A-
Recovery Rating	1+
Senior Unsecured	BBB
Preferred Stock	BB+
Commercial Paper	A-2
Exelon Generation Co. LLC	
Senior Unsecured	BBB
Commercial Paper	A-2
PECO Energy Co.	
Senior Secured	A-
Recovery Rating	1+
Preferred Stock	BB+
Commercial Paper	A-2
Baltimore Gas & Electric Co.	
Corporate Credit Rating	BBB+/Stable/A-2

Senior Unsecured	BBB+	
Preference Stock	BBB-	
Commercial Paper	A-2	

Rating Affirmed; Off CreditWatch

	To	From
Constellation Energy Group Inc.		
Senior Unsecured	BBB-	BBB-/Watch Pos

Ratings Raised; Off CreditWatch

	To	From
Constellation Energy Group Inc.		
Corporate Credit Rating	BBB/Stable/A-2	BBB-/Watch Pos/A-3
Commercial Paper	A-2	A-3/Watch Pos
Junior Subordinated	BB+	BB/Watch Pos

Rating Withdrawn

Constellation Energy Group Inc.		
Corporate Credit Rating	NR	BBB/Stable/A-2

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

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March 23, 2012

Commonwealth Edison Co.

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Commonwealth Edison Co.

Major Rating Factors

Strengths:
- Rate-regulated, monopolistic, and essential service.
- Lower-risk transmission and distribution operations.
- Improving management of regulatory risk in Illinois.

Corporate Credit Rating
BBB/Stable/A-2

Weaknesses:
- Affiliation with Exelon's competitive energy businesses that ultimately depend on the market price of electricity.
- Low power prices that will weaken the competitive energy businesses' cash flow.

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., unregulated Exelon Generation Co. LLC, and the recently merged assets of the former Constellation Energy Group Inc., including rate-regulated Balitmore Gas & Electric Co. In general, ComEd's ratings are limited to the lower of Exelon's consolidated rating or ComEd's stand-alone credit quality. The ratings also reflect ComEd's "excellent" business risk profile and Exelon's "significant" financial risk profile (as our criteria define the terms).

ComEd's excellent business risk profile reflects its monopolistic, rate-regulated utility transimission and distribution businesses that provide an essential service. ComEd serves about 3.8 million electricity customers in the City of Chicago and the surrounding area. The company's distribution rates are regulated by the Illinois Commerce Commission and the transmission rates, which comprise about 23% of the company's rate base, are regulated by the Federal Energy Regulatory Commission. Additionally, we view the distribution and transmission businesses as lower risk than the generation businesses often included in many fully integrated electric utilities.

ComEd took the initiative in engaging state legislators and regulators to effect reform in the utility regulatory process. As a result, at year-end 2011, the Illinois Governor signed into law House Bill 3036 that will allow for a formula process for determining rates, including the recovery of actual costs and a formula for calculating return on equity. We view these developments as potentially enhancing ComEd's credit quality. Recently, ComEd filed its first electric rate filing under the new law, requesting a rate decrease of $59 million. We expect that the company will continue to file annual distribution formula rate cases through this streamlined process, improving the stability of the utilities' cash flows and ultimately reducing regulatory lag. Earlier 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 from the elimination of the smart meter rider.

Our corporate credit rating on ComEd incorporates its affiliation with Exelon's competitive energy businesses. The competitive energy businesses' strong business risk profile reflects their ultimate dependence on the market price for electricity, which has recently sharply declined. Although management continues to proactively manage those areas that it can directly influence--including capital spending, operations and maintenance (O&M) costs, and maintaining its hedging strategy--sustained weak power prices will hurt the competitive businesses' cash flow over the intermediate term. Furthermore, prolonged weakness of the power markets, particularly the flattening of the forward curve, could potentially reduce the value of the company's hedging strategy to protect it from weak power prices. Although the company's hedging strategy provides a degree of price insulation over the short term, sustained depressed power prices could eventually undermine this credit enhancement.

The significant financial risk profile reflects Exelon's strong consolidated financial measures, with consolidated adjusted funds from operation (FFO) to debt at year-end 2011 of 34.8% and debt to EBITDA of 2.9x, which we expect will continue to suffer from the ongoing weakness in the power markets. ComEd's standalone financial measures have steadied over the past two years, benefiting from the past rate increases and increasing deferred taxes. For the 12 months ended Dec. 31, 2011, ComEd's adjusted FFO to debt was 20.3%, consistent with 20.4% at the end of 2010; adjusted debt to EBITDA weakened to 4.4x from 4.0x at year-end 2010; and adjusted debt to total capital was about 49.8%, compared with 49.2% at year-end 2010.

Although ComEd's financial measures currently have more than adequate cushion at the present rating level, we forecast some weakening over the intermediate term, as the benefit of bonus depreciation is reduced. We also expect ComEd to have negative discretionary cash flow over the intermediate term, primarily because of its anticipated large annual capital expenditures of approximately $1 billion over this period. We further 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.

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) to exceed its uses by more than 1.45x over the next 12 months.
- Debt maturities are manageable over the intermediate term, with $450 million and $252 million maturing in 2012 and 2013, respectively.
- Even if EBITDA declines by 15%, we believe net sources would be well in excess of liquidity requirements.
- The company can absorb high-impact, low-probability events with limited need for refinancing, has the flexibility to lower capital spending, has sound bank relationships and solid standing in the credit markets, and has generally prudent risk management.

In our analysis, we assume liquidity of about $2.5 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 Dec. 31, 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 the notching of issue ratings 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 outlook reflects Standard & Poor's baseline forecast that ComEd's FFO to debt will consistently exceed 15% over the intermediate term. Because ComEd's CCR is limited to the lower of its stand-alone credit rating or its parent's CCR, for us to raise our rating on ComEd, we would first have to upgrade Exelon 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. 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 Exelon. 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

- Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- Business Risk/Financial Risk Matrix Expanded, May 27, 2009
- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008
- Changes To Collateral Coverage Requirements For '1+' Recovery Ratings On U.S. Utility First Mortgage Bonds, Sept. 6, 2007

Table 1

Exelon Corp.--Peer Comparison

Industry Sector: Energy

	Exelon Corp.	Ameren Corp.	FirstEnergy Corp.	PPL Corp.	Public Service Enterprise Group Inc.
Rating as of March 20, 2012	BBB/Stable/A-2	BBB-/Positive/A-3	BBB-/Stable/--	BBB/Stable/--	BBB/Positive/A-2
	--Average of past three fiscal years--				
(Mil. $)					
Revenues	17,904.0	7,419.7	14,140.1	8,268.7	11,423.0
EBITDA	6,734.6	2,237.1	4,063.3	2,440.8	3,731.8

Table 1

Exelon Corp.--Peer Comparison (cont.)					
Net income from cont. oper.	2,588.0	423.3	891.7	826.1	1,514.3
Funds from operations (FFO)	5,912.1	1,892.8	2,762.9	2,311.4	2,788.5
Capital expenditures	3,700.0	1,328.5	2,179.9	1,569.9	1,976.2
Free operating cash flow	2,013.5	623.4	712.4	799.4	980.4
Discretionary cash flow	617.0	255.4	(28.0)	138.0	294.0
Cash and short-term investments	1,556.0	474.0	698.3	872.4	469.6
Debt	18,717.7	8,842.9	18,966.9	12,490.0	8,854.8
Equity	13,728.3	7,924.2	10,123.0	8,659.1	9,380.4
Adjusted ratios					
EBITDA margin (%)	37.6	30.2	28.7	29.5	32.7
EBITDA interest coverage (x)	7.2	4.3	3.5	4.3	7.8
EBIT interest coverage (x)	5.7	2.7	2.3	3.2	6.5
Return on capital (%)	14.1	7.3	8.5	9.6	14.3
FFO/debt (%)	31.6	21.4	14.6	18.5	31.5
Free operating cash flow/debt (%)	10.8	7.0	3.8	6.4	11.1
Debt/EBITDA (x)	2.8	4.0	4.7	5.1	2.4
Total debt/debt plus equity (%)	57.7	52.7	65.2	59.1	48.6

Table 2

Exelon Corp.--Financial Summary					
Industry Sector: Energy					
	--Fiscal year ended Dec. 31--				
	2011	**2010**	**2009**	**2008**	**2007**
Rating history	BBB/Stable/A-2	BBB/Stable/A-2	BBB/Stable/A-2	BBB/Watch Neg/A-2	BBB+/Stable/A-2
(Mil. $)					
Revenues	18,924.0	18,230.0	16,558.0	17,869.0	17,730.0
EBITDA	6,376.8	7,069.0	6,756.0	6,437.8	5,540.9
Net income from cont. oper.	2,495.0	2,563.0	2,706.0	2,717.0	2,726.0
Funds from operations (FFO)	6,376.2	5,992.7	5,367.5	4,520.6	4,111.1
Capital expenditures	4,215.1	3,479.0	3,405.8	3,325.4	2,885.9
Free operating cash flow	2,051.1	1,869.7	2,119.7	2,292.2	591.2
Discretionary cash flow	650.6	473.2	727.2	949.7	(605.8)
Cash and short-term investments	1,016.0	1,642.0	2,010.0	1,271.0	311.0
Debt	18,333.7	18,844.3	18,975.1	19,049.2	15,939.9
Equity	14,586.0	13,761.0	12,838.0	11,245.0	10,412.5
Adjusted ratios					
EBITDA margin (%)	33.7	38.8	40.8	36.0	31.3
EBITDA interest coverage (x)	7.0	7.1	7.4	6.9	6.2
EBIT interest coverage (x)	5.4	5.4	6.3	5.4	5.6
Return on capital (%)	12.3	14.2	15.8	15.0	16.4

Table 2

Exelon Corp.--Financial Summary (cont.)					
FFO/debt (%)	34.8	31.8	28.3	23.7	25.8
Free operating cash flow/debt (%)	11.2	9.9	11.2	12.0	3.7
Debt/EBITDA (x)	2.9	2.7	2.8	3.0	2.9
Debt/debt and equity (%)	55.7	57.8	59.6	62.9	60.5

Table 3

Reconciliation Of Exelon Corp. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. $)

--Fiscal year ended Dec. 31, 2011--

Exelon Corp. reported amounts	Debt	Shareholders' equity	EBITDA	Operating income	Interest expense	Cash flow from operations	Cash flow from operations	Capital expenditures
Reported	13,405.0	14,475.0	5,815.0	4,480.0	726.0	4,853.0	4,853.0	4,042.0
Standard & Poor's adjustments								
Operating leases	447.0	--	26.7	26.7	26.7	37.8	37.8	57.1
Intermediate hybrids reported as debt	(154.5)	154.5	--	--	(9.5)	9.5	9.5	--
Intermediate hybrids reported as equity	43.5	(43.5)	--	--	2.0	(2.0)	(2.0)	--
Postretirement benefit obligations	2,925.7	--	188.0	188.0	--	1,445.0	1,445.0	--
Capitalized interest	--	--	--	--	74.0	(74.0)	(74.0)	(74.0)
Share-based compensation expense	--	--	69.0	--	--	--	--	--
Power purchase agreements	1,475.0	--	280.1	90.1	90.1	190.0	190.0	190.0
Reclassification of nonoperating income (expenses)	--	--	--	170.0	--	--	--	--
Reclassification of working-capital cash flow changes	--	--	--	--	--	--	110.0	--
US decommissioning fund contributions	--	--	--	--	--	(193.0)	(193.0)	--
Debt - Accrued interest not included in reported debt	192.0	--	--	--	--	--	--	--
Total adjustments	4,928.7	111.0	563.8	474.8	183.3	1,413.2	1,523.2	173.1

Standard & Poor's adjusted amounts

	Debt	Equity	EBITDA	EBIT	Interest expense	Cash flow from operations	Funds from operations	Capital expenditures
Adjusted	18,333.7	14,586.0	6,378.8	4,954.8	909.3	6,266.2	6,376.2	4,215.1

Ratings Detail (As Of March 23, 2012)	
Commonwealth Edison Co.	
Corporate Credit Rating	BBB/Stable/A-2

Ratings Detail (As Of March 23, 2012) **(cont.)**	
Commercial Paper	
Local Currency	A-2
Preferred Stock (1 Issue)	BB+
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
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
Commercial Paper	
Local Currency	A-2
Senior Secured (10 Issues)	A-
Senior Secured (1 Issue)	AA-/Stable
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.