STANDARD & POOR'S
RATINGS SERVICES

RatingsDirect®

Industry Report Card:

Credit Quality For U.S. Merchant Power Companies Is Still Trending Downward

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

Deputy Chief Economist:
Beth Ann Bovino, New York (1) 212-438-1652; bethann_bovino@standardandpoors.com

Secondary Contact:
David C Lundberg, CFA, New York (1) 212-438-7551; david_lundberg@standardandpoors.com

Research Contributors:
Stephen Coscia, New York (1) 212-438-3183; stephen_coscia@standardandpoors.com
Harshvardhan Sathe, CRISIL Global Analytical Center, an S&P affiliate, Mumbai

Table Of Contents

Economic Outlook

Industry Ratings Outlook

Issuer Review

Recent Rating Activity

Rating Trends

Contact Information

Industry Report Card:

Credit Quality For U.S. Merchant Power Companies Is Still Trending Downward

Standard & Poor's Ratings Services' outlook for business conditions and credit quality in the U.S. merchant power and independent power producers sector for 2012 and 2013 remains broadly unfavorable, despite mixed economic indicators in the U.S. As the economy stumbles along, weather-adjusted demand for electricity has declined somewhat nationally year-to-date. The outlook distribution of our U.S. issuer ratings in the sector currently is 48% stable, 30% negative, and 22% positive.

Economic Outlook

We focus mainly on the economic indicators most correlated with higher electricity consumption when we form our outlook for the merchant power sector. One general measure of the size of the regional economy is its population. As regional populations increase, the number of households and jobs goes up, and goods and services produced in the economy increase, all driving the need for electricity. Thus, in the power sector, our economists use population, households, nonmanufacturing employment, real personal income, and real GDP as some predictors of demand. Still, there is no one-to-one relationship between growth in the economy and growth in power demand. Other factors, such as power prices, technology changes, and increased energy efficiency can all change the relationship between economic growth and power use.

Table 1

2012-2013 Scenarios For The U.S. Merchant Power Industry

		FORECAST/SCENARIOS*							
		--Pessimistic--		--Baseline--		--Optimistic--			
		Sept. 2012		Sept. 2012		Sept. 2012			
	Actual 2011	2012	2013	2012	2013	2012	2013	Comments/Outlook	Baseline impact on sector
Macroeconomic indicators									
Real GDP (% change)	1.81	1.95	(0.52)	2.18	1.84	2.43	3.68	In the long-term, a region's economic growth is a key driver of demand. Continued modest growth in real GDP shuld propel increasing power usage.	Somewhat favorable
Real nonresidential construction (% change)	2.75	8.94	(3.09)	8.97	0.02	9.70	5.02	Demand for electricity in the nonresidential sector stems from demand for commercial floor space that requires lighting, air conditioning, and services.	Somewhat unfavorable
Total industrial production (% change)	4.08	3.82	(1.03)	4.00	2.19	4.44	5.14	The key driver of demand for the industrial sector is dollars of value added (a measure of output) in each industry.	Favorable

Table 1

2012-2013 Scenarios For The U.S. Merchant Power Industry (cont.)									
Real personal income (% change)	1.33	1.58	1.52	1.61	2.12	1.50	2.09	Personal disposable income contributes to increased demand for electricity as more homes are linked to the Internet, and as the saturation rate for air conditioning and electronics increases, residential sector demand increase.	Neutral
Number of households (mil.)	119.32	120.64	121.88	120.67	122.13	120.69	122.29	An increased housing stock means an increase in electric consumers. The strong preference for electric heat across residential consumers also continues to be a primary driver of load growth. .	Neutral
Unemployment rate (%)	8.95	8.25	8.82	8.22	8.01	8.06	7.11	Sustained heightened unemployment will likely preclude power use.	Unfavorable

Economic indicators released in August (particularly nonfarm payrolls and retail sales) improved from the very weak readings of previous months. This supports the base case economic scenario for continued subdued growth. Thus, S&P's U.S. baseline forecast is largely unchanged--real GDP likely grows 2.1% this year and 1.8% in 2013 (slightly below the forecast of 2.0% in July) and the risk of recession is still at 20% to 25%. The top risks continue to be contagion from the Eurozone crisis, a hard landing in China, and the U.S. falling into a fiscal cliff.

S&P's base case forecast for real residential construction (new construction/building/improvement of housing structures) is essentially unchanged–the sector is forecast to advance about 11% this year and next from depressed levels. Although the multifamily segment has been driving a large part of the growth in recent months, the single-family segment has shown signs of gaining, as well. Meanwhile, S&P's base case outlook continues to be for moderation in equipment spending growth. Equipment spending is forecast to increase 8.3% this year and 7.0% in 2013

Effect on ratings

Significant rating changes so far in 2012 were the downgrade of Edison Mission Energy (EME) and subsidiary Midwest Generation LLC to 'CCC' from CCC+', the one-notch downgrade of GenOn Energy Inc. to 'B-' from 'B', and the CreditWatch listings on GenOn Energy Inc. and NRG Energy Inc. EME's rating cut stemmed from near-term refinancing risks, and also from expectations of reduced future cash. GenOn's downgrade resulted from continued margin compression from lower gas prices. We later put GenOn on CreditWatch positive because of its announced merger with NRG, which we placed on CreditWatch negative at the same time.

Industry Ratings Outlook

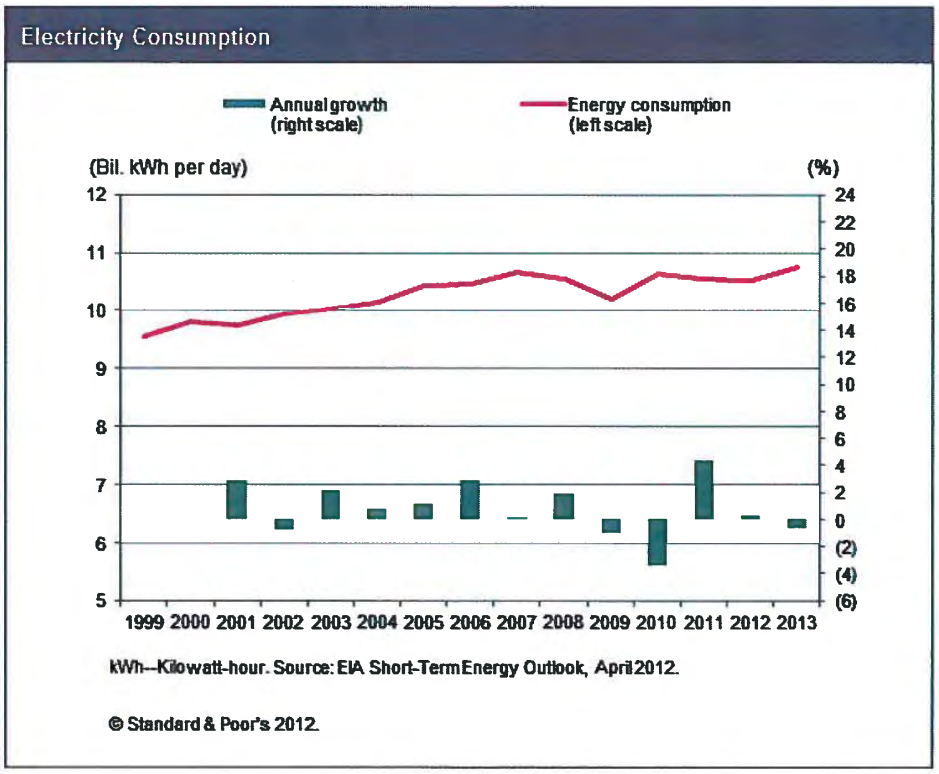
Weather dominates near-term fundamentals

After remaining flat in 2011, weather-normalized power output has increased about 0.2% for the 12 months ended July 2012 compared with the same period last year due to an uptick in industrial production (0.9%) and commercial (0.3%) despite a decline in weather-normal residential (minus 1.0%). However, absolute power generation has fallen across many regions, such as the Southeast and Texas as heating degree-days declined compared with the previous year.

Average residential electricity sales through July were about 4.2% lower than the same period in 2011, as a result of mild winter temperatures in the south where many households heat using electricity. Although summer temperatures this year were much warmer than normal, cooling degree-days during June, July, and August were about 4% than the same months in 2011.

This reduced need for summer cooling contributes to the U.S. Energy Information Administration's (EIA) projection of a 3.5% decline in residential electricity sales in 2012. The EIA expects total consumption of electricity to fall by 0.9% during 2012, and then grow by 1.3% in 2013 (see chart 1). The EIA's demand growth expectation for 2012 is a meaningful downward revision from the 2.4% growth it expected a year ago.

Chart 1



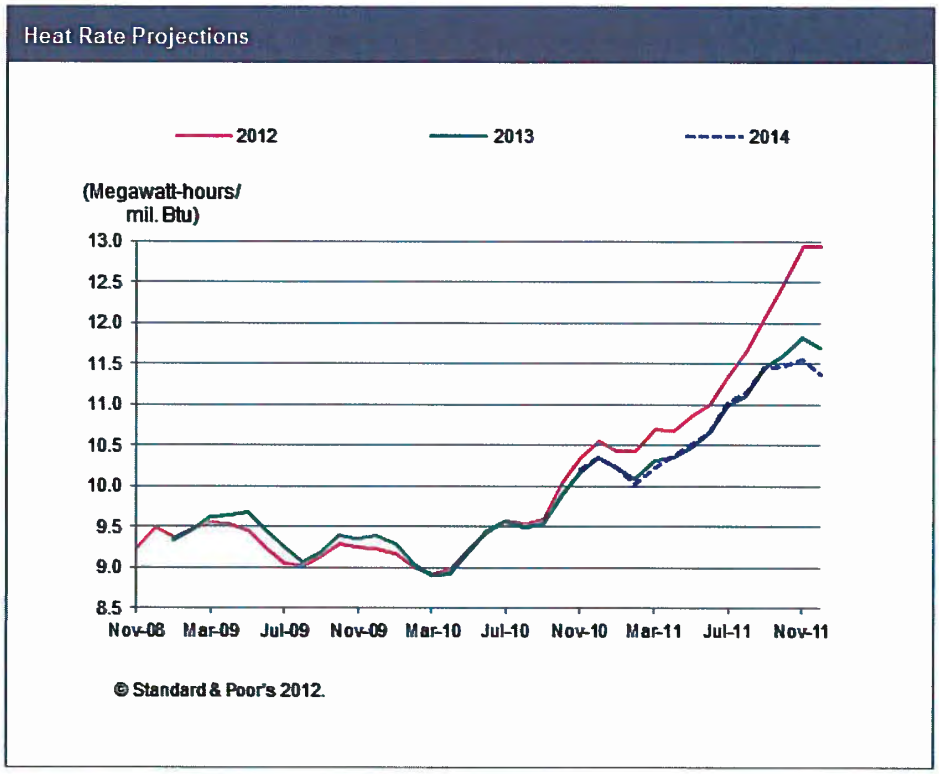
Implied market heat rates have declined

Prompt and forward power prices in the PJM Interconnection power market declined in the last quarter despite a modest rally in natural gas prices. We ascribe the unexpected decline in heat rates to declining coal prices. As coal is increasingly setting the marginal cost of supply, heat rates and power prices have increasingly started tracking coal prices instead of gas prices.

However, forward heat rates have fallen, too. It appears that demand growth, dampened during the global recession, is still not on track to revert to earlier levels because of potential changes in how consumers use power. Although

industrial users have been energy efficient for a while, those trends are working their way into the small commercial and residential sectors as a result of appliance standards, building codes, and construction standards. Should this fundamental shift turns out to be structural, we could see a permanent downward shift in market heat rates (see chart 2).

Chart 2



The commodity environment remains depressed

According to the EIA, dry natural gas production reached 63 billion cubic feet (bcf) per day, a jump of about 14 bcf per over the past six years. The increase was dramatic in 2011 as gas production increased by nearly 4.5 bcf per day just in that year. Production is 2012 is projected to surpass 2011 production by 2.6 bcf per day.

For the six months ended June 2012, 2013 forward power prices declined--in line with declining gas prices--by as much as 5% to 15%. The largest drops came in gas-dominant markets such as the PJM Interconnection and New England. Ironically, low gas prices have been bad news for the merchant sector even as they have been favorable for the rest of the industrial companies, contributing partly to the U.S. production resurgence.

However, a contango exists in the one- to two-year natural gas forward prices. Industry experts expect higher natural gas prices in 2013 and 2014 as a natural consequence of the sharp decline in drilling brought about by the $2.00 gas price observed in 2012 (natural gas rigs are down to 473 compared with 895 just one year ago). Still, a lingering

concern is that shale gas production could continue to impress as increasing production from the Marcellus Shale region is brought to market.

Also, the share of total generation fueled by natural gas during the first half of 2012 averaged 30% compared with 22.3% during the same period in 2011. This increase in fuel share was driven by natural gas costs that were very low relative to coal costs. However, in June 2012, the average Henry Hub natural gas spot price surpassed the average spot price for Central Appalachian coal for the first time since October 2011, indicating that the recent trend of substituting coal-fired generation with natural gas-fired generation may be slowing.

The specter of Casper recedes

Already reeling from low power prices, merchant generators were awaiting a federal court ruling on challenges to the Cross-State Air Pollution Rules ("Casper"). And after hearing the court's decision, the stakes for future litigation efforts have increased against another set of rules--the Mercury And Air Toxin Standards (MATS).

We continue to believe the mercury rules have much greater bearing than Casper on coal generators. The mercury rules will continue to inform utility fuel choices and environmental-compliance equipment decisions through 2015. While the federal court's ruling on Casper may delay some of the marginal coal plant retirement decisions, future litigation efforts against MATS will become the dominant credit driver for the merchant power sector, in our opinion.

Although the two sets of rules are not directly related, the Casper decision adds some uncertainty to the timing of MATS in terms of potential litigation and plant-specific compliance extensions. Industry experts think that most of the procedural aspects that applied to Casper do not apply to MATS. Still, we note that comments have been filed against the MATS with the U.S. Court of Appeals for the D.C. Circuit. In a June 8, 2012, filing, state officials and industry and labor groups also petitioned the federal court to expedite its review of the finalized MATS. No panel of judges has been appointed yet.

Chart 3

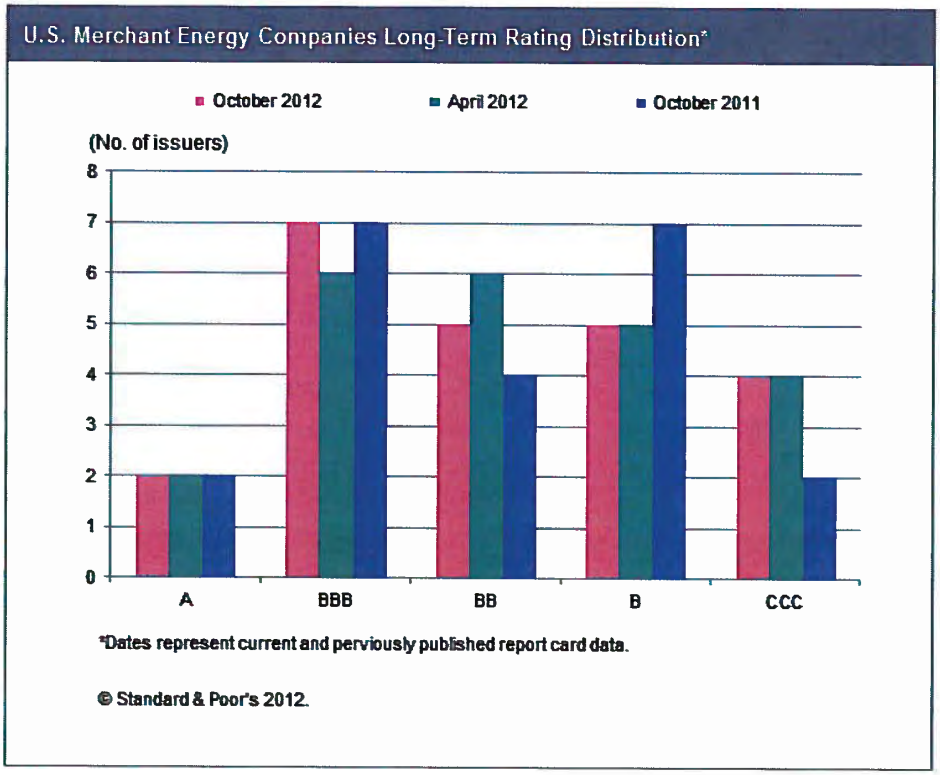
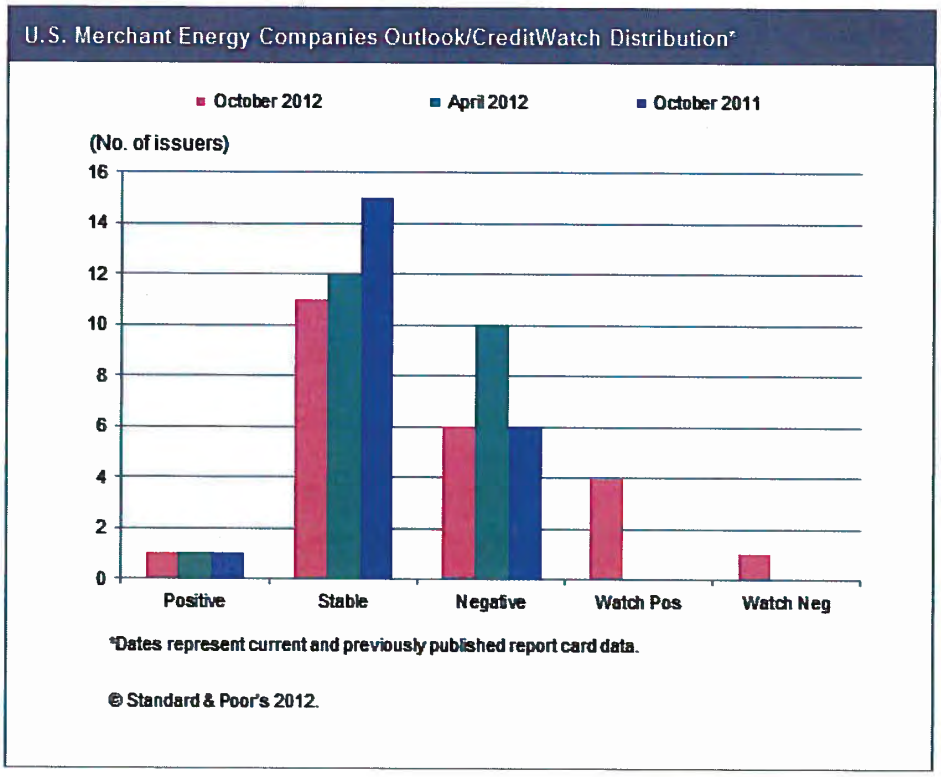

U.S. Merchant Energy Companies Long-Term Rating Distribution*
October 2012
April 2012
October 2011
(No. of issuers)
8
7
6
5
4
3
2
1
0
A
BBB
BB
B
CCC
*Dates represent current and perviously published report card data.
© Standard & Poor's 2012.

Chart 4



Issuer Review

Table 2

Company/Corporate credit rating*/Comments	Analyst
Allegheny Energy Supply Co. LLC (BBB-/Stable/--) FirstEnergy Solutions has successfully integrated Allegheny Energy Supply into its merchant platform. Its "satisfactory" business risk profile reflects its ultimate dependence on the market price of electricity, which has directly weakened the company's margins.	Gabe Grosberg
AmerenEnergy Generating Co. (BB-/Negative/--) We view the Illinois Pollution Control Board's recent decision to allow the company until 2020, instead of 2015, to comply with the Illinois sulfur dioxide limit, as providing some flexibility for the company's remaining environmental capital spending. However, we think the fundamental market pressures that weigh on the company's profit margins will continue to pressure its credit rating. We base the negative outlook on our base-case scenario that persistently low electricity prices will further compress the company's margins, resulting in funds from operations (FFO) to debt of about 9% and debt to EBITDA of about 7x.	Gabe Grosberg
Atlantic Power Corp. (BB-/Stable/--) Atlantic Power's portfolio diversification is satisfactory, with only a single project contributing more than 10% of cash flow thru maturity. Cash flow stability is fair because projects are contracted with long-term power purchase agreements (PPA) and with motly investment-grade offtakers. The company is on track for	Aneesh Prabhu, CFA, FRM

expansion of its portfolio and we expect cash distributions to increase once the projects are on line. Under our base-case assumptions, cash flow available for debt service to debt averages 16% through 2018, cash flow available for debt service to interest coverage averages 2.3x, and debt as a percentage of total capitalization averages about 56%.

Calpine Corp. (B+/Stable/--)

We do not expect to revise Calpine's "fair" business risk profile and highly leveraged financial risk profile over the next two years unless natural gas prices decline substantially from already currently low levels, which we view as unlikely. Our expectations that natural gas prices will stay at or near current levels over the next two years lead us to conclude that Calpine's natural gas portfolio will continues to operate near current capacity factors over the same period. We expect financial performance to be stable over the next two to three years--FFO to debt of 5% to 6%, and debt to EBITDA around 7x. We also expect positive free cash flow over the period, as well. — Terry A. Pratt

Edison Mission Energy (CCC/Negative/--)

Recapitalization risk at EME remains very high, given the inability of the curennt portfolio to generate enough cash to meet environmental capital spending, interest expense, and debt maturities through 2013. While EME has about $900 million balance-sheet cash and is to be paid substantial sums in the next three years under a tax allocation agreement with parent Edison International, we think it unlikely that EME would use its cash to meet debt service obligations and use it instead to accomodate a restructuring event. Edison International has noted that EME does not have the liquidity to meet obligations through 2013 and may also have to reformulate the lease at Midest Generation given the contractual linkage involving EME's financial performance in that structure. — Terry A. Pratt

Energy Future Competitive Holdings Co. (CCC/Negative/--)

See Energy Future Holdings Corp. — Terry A. Pratt

Energy Future Holdings Corp. (CCC/Negative/--)

Refinancing risk of about $3.8 billion 2014 and $16 billion in 2017 remains the key and increasing challenge with persistent low natural gas prices. Recapitalization appears increasingly likely, at least at the Texas Competitive Electric Holdings (TCEH) level. Industry sentiment is that natural gas prices need to be around $7 per million Btu (mmBtu) to refinance on reasonable terms. Our natural gas price assumption for 2014 is just $3.50/mmBtu, escalated with inflation thereafter. We expect EBITDA to decline from past levels toward year-end 2013 as legacy hedges roll off during the year. Energy Future Holdings (EFH) will use proceeds from a recent $750 million offering at Energy Future Intermediate Holding (EFIH) to pay down EFH intercompany obligations to TCEH. — Terry A. Pratt

Exelon Corp. (BBB/Stable/A-2)

Low natural gas prices and a delay in environment rules related to plant retirements have resulted in declining gross margins, which has affected Exelon's financial performance in 2012 and is expected to increasingly do so through 2015. If the commodity headwinds continue, the company will have to address its declining earnings profile by reducing capital spending and may have to reconsider its dividend payout to maintain current ratings. We expect Exelon's FFO to debt to remain between 21% and 23% thru 2015. Liquidity is sufficient and there are no significant maturities until 2014. — Aneesh Prabhu, CFA, FRM

Exelon Generation Co. LLC (BBB/Stable/A-2)

See Exelon Corp. — Aneesh Prabhu, CFA, FRM

FirstEnergy Solutions Corp. (BBB-/Stable/--)

Despite good operational progress, FirstEnergy Solutions' financial performance continues to remain pressured, with FFO to debt expected to decline to 14.5% in 2012 from 16% in 2011 due to weak market conditions. The company has deactivated almost 2,700 MW of coal-fired merchant generation, providing it with added flexibility for its remaining environmental capital spending and potentially higher capacity pricing in its markets. However, a recent decline in market heat rates and our expectation of lower capacity pricing in the ATSI region could pose near-term challenges. We are also monitoring retail margins given increasing competition in Ohio and Illinois. Headwinds continue from the low market price for electricity that have further flattened the forward power price curve. For consolidated financial information, see FirstEnergy Corp. — Aneesh Prabhu, CFA, FRM

GenOn Americas LLC (B-/Watch Pos/--)

See GenOn Energy Inc.	Terry A. Pratt
GenOn Energy Holdings Inc. (B-/Watch Pos/--)	
See GenOn Energy Inc.	Terry A. Pratt
GenOn Energy Inc. (B-/Watch Pos/--)	
The potential improvement in GenOn Energy's rating reflects the planned merger with NRG Energy Inc. (BB-/Watch Neg/--), which has a higher rating due to its superior business position and financial performance than GenOn. GenOn's stand-alone financial performance has been weak due to low power prices for its mostly coal-fired plants. GenOn is shuttering some coal plants that have become uneconomic due to market signals and to the cost of capital spending for emissions control that could be difficult to recovery at a time of low prices. GenOn has large cash balances--much higher than peers--that can help offset further erosion in market prices, but it would likely use a large part of the cash to perform some recapitalization under the merged entity between GenOn and NRG Eneregy.	Terry A. Pratt
GenOn REMA LLC (B-/Watch Pos/--)	
See GenOn Energy Inc.	Terry A. Pratt
InterGen N.V. (BB-/Negative/--)	
A combination of languishing power demand, an increase in renewable generation, and disappointing carbon pricing have resulted in declining spark spreads in InterGen's major markets. Performance of key units such as Coryton in the U.K. and Rijnmond in the Netherlands has been below expectation. Excluding the gains from settlement of cross-currency swaps, the debt service coverage ratio (DSCR) for the trailing 12 months ended June 30, 2012 was 1.62x compared with 1.73x for year-end 2011. With higher market exposure from 2013, we expect coverage to be more sensitive to a decline in spark spreads. Given depressed spark spreads, the DSCR is likely to trend lower, which is pressuring ratings, in our opinion.	Aneesh Prabhu, CFA, FRM
Midwest Generation LLC (CCC/Negative/--)	
Ratings on Midwest Generation are the same as those of parent Edison Mission Energy.	Terry A. Pratt
NRG Energy Inc. (BB-/Watch Neg/--)	
While market conditions have worsened, NRG's hedges have protected cash flow and should continue to do in the near term. Financial performance is adequate for the rating. We expect FFO to debt to hover around 14% in 2012. While risks exist if prices continue to remain low, the Texas retail business serves as a natural hedge. Potentially higher scarcity pricing (or capacity pricing, through a formal capacity market), could also result in higher revenues. Generation is hedged 99%, 84%, and 61% for the 2012-2014 period. The company's liquidity is comfortable for upcoming debt maturities and capital spending. NRG is free cash flow positive, an important consideration in our financial risk profile assessment.	Aneesh Prabhu, CFA, FRM
NextEra Energy Capital Holdings Inc. (A-/Stable/A-2)	
NextEra Energy Capital Holdings directly funds the unregulated arm of NextEra Energy Inc. (NEE) and is effectively equivalent to the parent holding company. Electric generator and marketer NextEra Energy Resources conducts NEE's unregulated activities. Ratings reflect the strength of NEE subsidiary Florida Power & Light's (FP&L) utility operations. The business profile is evenly divided between Resources and FP&L. Resources' higher-risk merchant energy businesses and an unrelenting appetite for growth there hamper credit quality despite the well-positioned "clean" (i.e., low-carbon) portfolio of assets (mostly wind, natural gas, and nuclear) and a consistent approach in managing commodity and market risk.	Todd A. Shipman, CFA
PPL Energy Supply LLC (BBB/Stable/A-2)	
Depressed wholesale market prices for electricity and natural gas have squeezed the margins for PPL Energy Supply. The FFO coverage of debt and interest declined to 22% and 4.5x, respectively, for the 12 months ended June 30, 2012 from 31.5% and 5.0x for the 12 months ended Dec. 31, 2011. We expect FFO to debt at about 21% in 2012. Yet, ratings are predicated on the consolidated credit profile of parent PPL Corp. We expect PPL's financial measures, including ratios of debt to EBITDA, FFO to debt, and debt to capital, to range in the "aggressive" category of our financial risk profile.	Aneesh Prabhu, CFA, FRM
Public Service Enterprise Group Inc. (BBB/Positive/A-2)	
PSEG continues its march toward making regulated operations a greater proportion of all operations by continuing to build its transmission and distribution business. However, it faces credit headwinds with a decline in basis premiums in the eastern PJM region as a result of switching to gas from coal. As power and	Aneesh Prabhu, CFA, FRM

1031107 | 301979078

gas prices continue to remain low, we expect FFO/interest coverage to decline to about 6x, and FFO/debt to about 25%. We expect credit protection measures for supply subsidiary PSEG Power's at about 6.5x to 7x and about 30%. We expect PSEG Power 's contribution to consolidated operating income to decline to about 45% by 2013.

Shell Energy North America (US) L.P. (A-/Stable/--)

Shell Energy North America's (SENA) 'A-' rating reflects its position as the sole North American trading and marketing entity for Royal Dutch Shell. SENA continues to be a dominant player in North American gas markets and we expect it to hold that position for years to come. We expect to see continued cash flow volatility given the nature of operations in volatile commodity markets. Liquidity is the key risk for the industry. SENA has substantial liquidity, from parent and affiliate facilities, and we expect this support to continue. CELA and MCELA measures of 1.5x and 1.4x for first-quarter 2012 are the highest recorded. While increase market volatility might lead to a reduction in these measures, we expect they will be at or above 1x.

Terry A. Pratt

Southern Power Co. (BBB+/Stable/A-2)

Southern Power completed construction of the 100 MW Nagocdoches biomass facility and is completing construction of the 720 MW Cleveland Count, N.C. combustion turbine units. Both projects were on schedule and on budget and Southern Power is pursuing a long-term contract for the fourth combustion turbine unit. For the 12 months ended June 30, 2012, financial performance remained robust, with FFO to debt of 23.2% and debt leverage of 52.1%.

Dimitri Nikas

The AES Corp. (BB-/Stable/--)

AES has refocused its business strategy around its investments in Brazil, Chile, and the U.S., as well as emerging markets like Southeast Asia. The strategy reflects a shift because AES is becoming more of a global infrastructure player rather than a developer with commodity exposure. However, its investment in DPL Inc., an Ohio utility, faces pressure due to retail aggregation in Ohio and we expect lower wholesale electric prices will materially stress DPL's profit margins. Parent operating cash flow to interest deteriorated for the 12 months ended June 30, 2012 to 2.04x from 2.51x for year-end 2011. Parent operating cash flow to debt for the 12 months ended June 30, 2012 similarly reduced to 14.5% from 16.8% for year-end 2011.

Aneesh Prabhu, CFA, FRM

*As of Oct. 25, 2012.

Recent Rating Activity

Table 3

Recent Rating/Outlook/CreditWatch Actions*

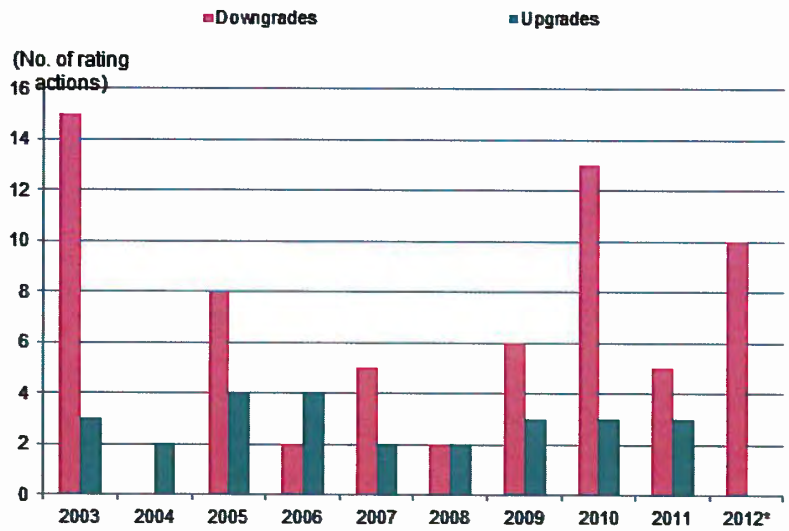
Company	To	From	Date
Edison Mission Energy	CCC/Negative/--	CCC+/Negative/--	June 29, 2012
GenOn Americas LLC	B-/Watch Pos/--	B-/Stable/--	July 23, 2012
GenOn Americas LLC	B-/Stable/--	B/Negative/--	May 3, 2012
GenOn Energy Holdings Inc.	B-/Watch Pos/--	B-/Stable/--	July 23, 2012
GenOn Energy Holdings Inc.	B-/Stable/--	B/Negative/--	May 3, 2012
GenOn Energy Inc.	B-/Watch Pos/--	B-/Stable/--	July 23, 2012
GenOn Energy Inc.	B-/Stable/--	B/Negative/--	May 3, 2012
GenOn REMA LLC	B-/Watch Pos/--	B-/Stable/--	July 23, 2012
GenOn REMA LLC	B-/Stable/--	B/Negative/--	May 3, 2012
InterGen N.V.	BB-/Negative/--	BB-/Stable/--	June 1, 2012
Midwest Generation LLC	CCC/Negative/--	CCC+/Negative/--	June 29, 2012
NRG Energy Inc.	BB-/Watch Neg/--	BB-/Negative/--	July 23, 2012

*Dates represent the period May 4, 2012 to Oct. 25, the period covered by this report card.

Rating Trends

Chart 5

U.S. Merchant Energy Companies Rating Trends



*As of Oct. 25, 2012.

© Standard & Poor's 2012.

Contact Information

Table 4

Contact Information

Credit analyst	Location	Phone	E-Mail
Trevor D'Olier-Lees	New York	(1) 212-438-7985	trevor_dolier-lees@standardandpoors.com
Gabe Grosberg	New York	(1) 212-438-6043	gabe_grosberg@standardandpoors.com
David Lundberg, Regional Leader	New York	(1) 212-438-7551	david_lundberg@standardandpoors.com
Dimitri Nikas	New York	(1) 212-438-7807	dimitri_nikas@standardandpoors.com
Aneesh Prabhu, CFA, FRM	New York	(1) 212-438-1285	aneesh_prabhu@standardandpoors.com
Terry Pratt	New York	(1) 212-438-2080	terry_pratt@standardandpoors.com
Todd Shipman, CFA	New York	(1) 212-438-7676	todd_shipman@standardandpoors.com
Rubina Zaidi	New York	(1) 212-438-1249	rubina_zaidi@standardandpoors.com

Comments and ratings reflect available public data as of Oct. 25, 2012.

Copyright © 2012 by Standard & Poor's Financial Services LLC. All rights reserved.

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

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

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

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

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

STANDARD & POOR'S
RATINGS SERVICES

RatingsDirect®

Standard & Poor's Revises Its U.S. Utility Regulatory Assessments

Primary Credit Analyst:
Todd A Shipman, CFA, New York (1) 212-438-1000; todd_shipman@standardandpoors.com

Secondary Contacts:
Barbara A Eiseman, New York (1) 212-438-1000; barbara_eiseman@standardandpoors.com
Michael T Ferguson, CFA, CPA, New York (1) 212-438-1000;
michael_ferguson@standardandpoors.com
Gabe Grosberg, New York (1) 212-438-1000; gabe_grosberg@standardandpoors.com
Gerrit W Jepsen, CFA, New York (1) 212-438-1000; gerrit_jepsen@standardandpoors.com
Dimitri Nikas, New York (1) 212-438-1000; dimitri_nikas@standardandpoors.com
Ana M Olaya-Rotonti, New York (1) 212-438-1000; ana_olaya-rotonti@standardandpoors.com
Matthew L O'Neill, New York (1) 212-438-1000; matthew_oneill@standardandpoors.com
John W Whitlock, New York (1) 212-438-1000; john_whitlock@standardandpoors.com

Standard & Poor's Revises Its U.S. Utility Regulatory Assessments

In Standard & Poor's Ratings Services' commentary "Assessing U.S. Utility Regulatory Environments," (originally published Nov. 7, 2007 and most recently republished Nov. 15, 2011 on RatingsDirect), we discussed our views on what constitutes a credit-supportive regulatory climate. We then used those factors to create assessments of the regulatory environments in states that regulate the electric and gas utilities that we rate. We based the assessments of relevant jurisdictions on quantitative and qualitative factors, focusing on four main categories: the basic regulatory paradigm employed in the jurisdiction, ratemaking procedures, political influence, and financial stability.

The table and map below show our updated assessments of regulatory jurisdictions.

We revised Arizona to "Less Credit-Supportive" from "Least Credit-Supportive" to reflect decreasing regulatory time lags in deciding rate cases for the state's utilities, as well as the inclusion of lost fixed cost-recovery mechanisms and efforts to ease the burdens of meeting the state's ambitious renewable energy mandate. The Arizona Corporation Commission has been providing the state's utilities with improved recovery mechanisms in recent rate cases.

We revised Indiana to "Credit-Supportive" from "More Credit-Supportive" in response to the significant disallowance of project costs on Duke Energy Indiana Inc.'s new integrated gasification combined-cycle (IGCC) generation plant following the breakdown in the review process established at the project's outset that was designed to avoid such an outcome. In addition, less credit-supportive regulatory decisions due to regulatory lag and disallowances have provided insufficient revenue to adequately recover investments and operating costs with a fair return.

We revised our assessment of Louisiana to "Credit-Supportive" from "Less Credit-Supportive" to reflect an improving trend in regulatory actions. Over the past several years, the regulated utilities in Louisiana have benefited from the implementation of formula rate plans that enable the companies to earn at or close to their allowed returns, recover approved capital spending without the need for a full rate case filing, and recover storm and abandoned costs through securitizations.

We revised Michigan to "More Credit-Supportive" from "Credit-Supportive" reflecting our opinion that legislative reforms that mandated a 12-month deadline for rate cases, self-implemented interim rate increases, forecast test years, and other risk-reducing features are permanent. We view the 19 rate cases since the reforms as generally supportive of credit quality. Overall, the reforms have reduced regulatory lag and provided utilities with a reasonable opportunity to earn the returns authorized by regulators.

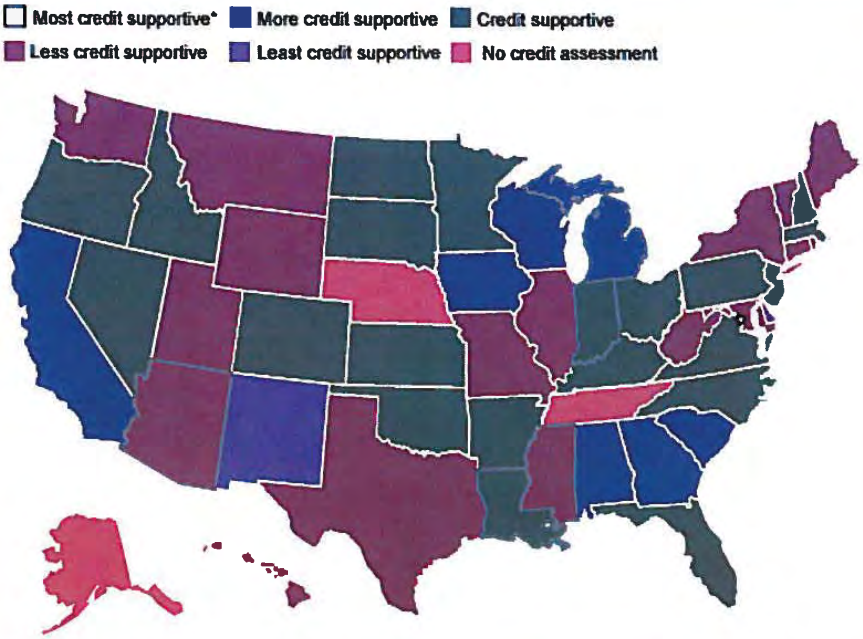
We revised our assessment of Mississippi to "Less Credit-Supportive" from "Credit-Supportive" to reflect unexpected and potentially detrimental actions on Mississippi Power Co.'s large IGCC generation facility now under construction. Regular prudence reviews and recovery of financing costs during construction (as allowed but not required by legislation) should be containing risk for both the company and ratepayers, but the process has foundered amid legal challenges. The inability of the company to thus far recover financing costs during construction creates significant regulatory uncertainty.

Regulatory Jurisdictions For Utilities Among U.S. States

Most credit supportive	More credit supportive	Credit supportive	Less credit supportive	Least credit supportive
	Alabama	Arkansas	Arizona*	Delaware
	California	Colorado	Connecticut	Dist. of Columbia
	Georgia	Florida	Hawaii	New Mexico
	Iowa	Idaho	Illinois	
	Michigan*	Indiana¶	Maine	
	South Carolina	Kansas	Maryland	
	Wisconsin	Kentucky	Mississippi¶	
		Louisiana*	Missouri	
		Massachusetts	Montana	
		Minnesota	New York	
		Nevada	Rhode Island	
		New Hampshire	Texas	
		New Jersey	Utah	
		North Carolina	Vermont	
		North Dakota	Washington	
		Ohio	West Virginia	
		Oklahoma	Wyoming	
		Oregon		
		Pennsylvania		
		South Dakota		
		Virginia		

*Assessment raised. ¶Assessment lowered.

Utility Regulatory Conditions Across 50 U.S. States



*The assessments are made against an absolute standard of the degree of credit support. At this time, we observe no U.S. jurisdictions that qualify in the top category. States outlined in gray have changed their regulatory condition since last surveyed.

© Standard & Poor's 2012.

Copyright © 2013 by Standard & Poor's Financial Services LLC. All rights reserved.

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

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

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

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

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

STANDARD & POOR'S
RATINGS SERVICES

RatingsDirect®

Summary:
Exelon Corp.

Primary Credit Analyst:
Aneesh Prabhu, CFA, FRM, New York (1) 212-438-1000; aneesh_prabhu@standardandpoors.com

Secondary Contact:
Terry A Pratt, New York (1) 212-438-1000; terry_pratt@standardandpoors.com

Table Of Contents

Rationale

Outlook

Related Criteria And Research

Summary:
Exelon Corp.

Credit Rating:	BBB/Stable/A-2

Rationale

Standard & Poor's Ratings Services' 'BBB' corporate credit ratings on diversified energy company Exelon Corp., reflects its consolidated business risk profile, which we view as "strong." Exelon's business risk profile reflects the higher-risk operations of unregulated supply affiliate Exelon Generation Co. LLC (ExGen), which has increased in size to subsume Constellation Energy's unregulated business. Exelon's business risk also reflects the excellent business risk profiles of regulated delivery businesses Commonwealth Edison Co. (ComEd), PECO Energy (PECO), and Baltimore Gas & Electric Co. (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.

As of Sept. 30, 2012, Exelon had about $18.2 billion of on-balance-sheet debt. We also impute about $4.4 billion of off-balance-sheet debt on the books for computing financial ratios, pertaining mostly to unfunded pension and other postemployment benefit obligations and power-purchase agreements.

Post-merger, Exelon 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. The company has long-term exposure to market risk and meaningful exposure to nuclear plants (19,000 megawatts [MW] across 23 units). The company has about 35,000 MW and 465 billion cubic feet (bcf) (2012 estimates) of natural gas business.

Exelon gets a larger proportion of earnings from its regulated and retail operations. Through retail and wholesale channels, ExGen now provides about 170 terawatt-hours, or about 5%, of total U.S. power demand. We expect that retail markets (where customers can shop for electricity providers) in Pennsylvania, Ohio, Michigan, and Arizona to grow at about 10% in the commercial and industrial class and at about 15% in the residential class between 2011 and 2014. The plants arewell positioned to grow where capacity available for competitive supply has room to grow. We expect these incremental revenue streams to make the consolidated Exelon somewhat more resilient to commodity prices. The combination provides ExGen regional diversification of the generation fleet and a customer-facing load business, as generation and load positions are now better balanced across multiple regions. In most locations, ExGen will have adequate intermediate and peaking capacity within the portfolio for managing load shaping (matching resources with energy needs) risks. However, the company will still need to buy and sell length in the market to manage portfolio needs, in our opinion. Moreover, ExGen has a significant open position in the Midwest (exposed to merchant market), and a somewhat tight position in Texas and New England, where it has some risk of finding itself short when loads are high, in our opinion.

ExGen's cash flow is sensitive to commodity prices as almost 95% of its premerger generation is nuclear, all of which sliding natural gas prices are impairing. ExGen's unregulated operations accounted for about 65% of the consolidated enterprise by cash flow and capital spending in 2011. Given that base-load generation is price-taking we expect ExGen's adjusted funds from operations (FFO) to debt to remain volatile relative to its peers. For instance, all else remaining equal, we estimate gross margins in 2014 will be lower by about $400 million for every $5 per megawatt--hour (MWh) (round-the-clock) decline in power prices, about $250 million for every 5 cents per million cubic feet (mcf) decline in gas prices, and about $90 million for every $1 per MWh decline in retail margins.

As a result, ExGen's contribution to the overall Exelon cash flow declines to about 55% under our base case, because of the decline in unregulated cash flow when commodity prices fall. However, despite the lower power prices, we view the business risk profile of parent Exelon as strong. We expect financial measures to decline through 2014. However, the corporate credit ratings reflect our expectation that 2014-2015 will be the trough years. Based on the present forward curve, cash flow measures are adequate for the rated level in that year, especially after parent Exelon announced significantly reduced dividend payouts and ExGen deferred/eliminated some planned capital spending. However, despite the improvement in free operating cash flow , as a result of the decline in future gross margins, we view Exelon's cash flow adequacy ratio as having "significant" financial risk..

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 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. Current hedges show the significant value of Exelon's hedging program. Even though these hedges insulate ExGen, perversely, they also show the sensitivity of ExGen's margins to the prospect of a continued shale gas production onslaught. The decline in mark-to-market value through 2014 shows the limit to which Exelon can hedge--a price-taking fleet can hedge, but only at the prices the market will bear. Also, the merchant generation margins at ExGen will face a decline as high-priced hedges expire, evident in the drop in wholesale hedged gross margins. Still, the forward prices do show a contango as reflected in the increase in ExGen's open EBITDA from higher natural gas forwards. In addition, although retail competition has increased, and ExGen has lowered its growth estimates, we believe retail contributions can mitigate the wholesale decline, given the potential for cost savings, volumes gained from the Constellation merger, and acquisitions (StarTex and MX Energy Holdings).

Because of the decline in commodity prices, we expect ExGen's FFO to debt to tumble to about 27.5% in 2014 from more than 40% in 2011. Although ExGen's cash flows are relatively more volatile compared with peers because of the larger base-load generation, the low variable cost (and highly depreciated nature) of its nuclear plants means that natural gas prices must decline and stay below $3 per mcf before its FFO to debt falls below 20%.

We still view Exelon's internal funding as "aggressive." However, we view Exelon's decision to lower its dividends as bolstering credit quality. Dividend payout is now in line with peers (at about 55% to 60%) .However, Exelon's capital spending requirements remain significant between 2013 and 2015, at about $15.6 billion. Although utility capital spending tends to be funded in rate base, unregulated generation will have to fund its own capital requirements and recover them in market prices. Importantly, because of announced cuts, consolidated cash flow from operations will

largely cover capital spending and dividends, resulting in modest external financing needs. Still, incrementally lower gas prices would hurt ExGen's debt protection measures more than the level of new debt financing, or operating and maintenance cost increases in ExGen's forecast through 2015.

Under our consolidated base case (we assume lower gas prices and market heat rates that result in power prices roughly 10% lower than the current forward contracts), we expect FFO to total debt of the company to decline to about 25% in 2012 and then to hover at 23% to 24.5% through 2015. We expect free operating cash flow to debt to remain positive even in 2013 and 2014 when we expect financial measures to trough. Importantly, we expect to see the negative discretionary cash flow (after dividends) to improve meaningfully. Similarly, we expect debt to EBITDA to be at about 4.0x. This ratio is still consistent with Standard & Poor's 'BBB' rating guideposts for a financial risk profile we assess as "significant," especially since a meaningful amount of capital spending is discretionary (ExGen has lowered capital spending estimates in 2014 by more than $1 billion since July 2012 estimates).

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 the debt maturities we expect and available credit facilities. We estimate that sources of cash will exceed the companies' uses by about 2x during the next 12 to 24 months. 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, declining power prices are favorable from a liquidity perspective because cash is being posted to ExGen on its forward hedges. The next large maturities are in 2015 for Exelon and 2014 for ExGen.

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 fell to $1.5 billion from $2.5 billion, reducing aggregate bank commitments to $3.2 billion. All facilities reside at the parent level. In addition, Exelon is working through the migration of letters of credit and has a liquidity reduction plan in place that it will finalize toward the end of 2012.

As of Jan. 30, 2013, Exelon, ExGen, ComEd, PECO, and BGE had credit facilities of $500 million, $5.6 billion, $1 billion, $600 million, and $600 million, respectively. These facilities expire between September 2013 and March 2017. Availability under these facilities was $498 million for Exelon and $3.946 billion and ExGen, and $1 billion, $599 million, and $600 million for ComEd, PECO, and BGE, respectively. Commercial paper outstanding was $1.7 billion and the aggregate availability was $6.6 billion.

Outlook

The outlook on the ratings is stable. That said, we believe that higher natural gas production from shale gas plays and a delay in environmental rules related to plant retirements can significantly hurt the company's financial performance.

We believe these headwinds have increased and Exelon faces a potential earnings decline in 2014. Should the prevailing commodity environment persist, the company may have to address its declining earnings profile by reducing capital spending. We expect Exelon and ExGen to maintain consolidated FFO to debt in the 22% to 23% and 25% to 27% ranges, 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 if natural gas prices stabilize and power prices respond favorably to coal-plant retirements, resulting in an improvement in consolidated FFO to debt levels of more than 27%.

Related Criteria And Research

- Business Risk/Financial Risk Matrix Expanded, Sept. 18, 2012
- Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011

Copyright © 2013 by Standard & Poor's Financial Services LLC. All rights reserved.

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

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

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

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

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

Commonwealth Edison Company
Cost of Capital Summary
(In Thousands)

Witness: Fruehe

Line No.	Class of Capital (A)		Amount (B)	Percent of Total Capital (C)	December 31 Cost (D)	Weighted Cost (E)
			Year Ending December 31, 2012			
1	Short-Term Debt	(1)	$ 21,227	0.21%	0.50%	0.00%
2	Long-Term Debt		$ 5,560,874	54.61%	5.34%	2.92%
3	Common Equity		$4,600,732	45.18%	8.72% (2)	3.94%
4	Credit Facility Costs (3)					0.05%
5	Total Capital		$10,182,833	100.00%		6.91%

Notes:
(1) See Schedule D-2, Page 1, Line 14.
(2) See Schedule D-6, Line 15.
(3) See Schedule D-2, Page 2, Line 13.

Commonwealth Edison Company
Cost of Capital Summary
(In Thousands)

Witness: Fruehe

Line No.	Class of Capital (A)		Average Amount (B)	Percent of Total Capital (C)	Less CWIP Accruing AFUDC (D)	Adjusted Balance (E)
			Year Ending December 31, 2012			
1	Long-Term Debt	(1)	$5,676,549	54.72%	$115,675	$5,560,874
2	Common Equity		$4,696,435 (2)	45.28%	$95,703	$4,600,732
3	Total Capital		$10,372,984	100.00%	$211,378	$10,161,606

Notes:
(1) See Schedule D-3, Page 2, Column F.
(2) Amount Calculated:

Commonwealth Edison Company
Embedded Cost of Long-term Debt
Year Ending December 31, 2012

Witness: Fruehe

Line No.	Debt, Issue Type Coupon Rate (A)[1]		Date Issued (B)[1]	Maturity Date (C)[1]	Days Outstanding Factor	Principal Amount (D)[1]	Face Amount Outstanding (E)[1]	Unamortized Discount or (Premium) (F)[2]	Unamortized Debt Expense (G)[2]	Carrying Value *(H)=(E)-(F)-(G)* (H)	Annual Coupon Interest *(I)*[3] (I)	Annual Amortization of Discount (Prem) (J)[2]	Annual Amortization of Debt Expense (K)[2]	Annual Interest Expense *(L)=(I)+(J)+(K)* (L)
1	**First Mortgage Bonds**													
2	7.625%	Series 92	04/28/93	04/15/13		220,000,000	125,000,000	20,785	2,098	124,977,117	9,531,250	73,147	**7,381**	9,611,778
3	7.500%	Series 94	07/07/93	07/01/13		150,000,000	127,000,000	63,736	2,315	126,933,949	9,525,000	128,881	4,682	9,658,563
4	5.850%	1994C	01/25/94	01/15/14		20,000,000	17,000,000	6,340	3,360	16,990,300	994,500	6,122	3,244	1,003,866
5	6.150%	Series 98	03/13/02	03/15/12		400,000,000	-	-	-	-	-	44,931	5,775	50,706
6	6.150%	Series 98	06/20/02	03/15/12		200,000,000	-	-	-	-	-	(46,426)	3,333	(43,093)
7	5.875%	Series 100	01/22/03	02/01/33		350,000,000	253,600,000	733,761	1,735,395	251,130,844	14,899,000	36,608	86,850	15,022,458
8	4.700%	Series 101	04/07/03	04/15/15		395,000,000	260,000,000	171,595	359,233	259,469,172	12,220,000	75,305	157,649	12,452,954
9	5.900%	Series 103	03/06/06	03/15/36		325,000,000	325,000,000	1,579,555	2,704,101	320,716,344	19,175,000	68,222	116,792	19,360,014
10	5.950%	Series 104	08/28/06	08/15/16		300,000,000	300,000,000	150,361	1,078,303	298,771,336	17,850,000	41,628	298,531	18,190,159
11	5.950%	Series 104B	10/02/06	08/15/16		115,000,000	115,000,000	(854,125)	329,966	115,524,159	6,842,500	(236,467)	91,352	6,697,385
12	5.900%	Series 103B	03/22/07	03/15/36		300,000,000	300,000,000	9,954,108	840,087	289,205,805	17,700,000	429,928	36,285	18,166,213
13	6.150%	Series 106	09/10/07	09/15/17		425,000,000	425,000,000	562,882	1,905,797	422,531,321	26,137,500	119,916	406,008	26,663,424
14	6.450%	Series 107	01/16/08	01/15/38		450,000,000	450,000,000	1,134,257	3,733,154	445,132,589	29,025,000	45,395	149,408	29,219,803
15	5.800%	Series 108	03/27/08	03/15/18		700,000,000	700,000,000	701,169	3,320,873	695,977,958	40,600,000	135,139	640,042	41,375,181
16	4.000%	Series 109	08/02/10	08/01/20		500,000,000	500,000,000	90,986	3,412,323	496,496,691	20,000,000	12,026	451,033	20,463,059
17	1.625%	Series 110	01/18/11	01/15/14		600,000,000	600,000,000	301,674	1,085,274	598,613,052	9,750,000	291,327	1,048,049	11,089,376
18	1.950%	Series 111	09/07/11	09/01/16		250,000,000	250,000,000	-	1,339,789	248,660,211	4,875,000	-	366,216	5,241,216
19	3.400%	Series 112	09/07/11	09/01/21		350,000,000	350,000,000	100,235	2,357,762	347,542,003	11,900,000	11,591	272,651	12,184,242
	3.800%	Series 113	10/01/12	10/01/42		350,000,000	350,000,000	617,769	3,485,491	345,896,740	**13,300,000**	5,231	28,458	13,333,689
20						6,400,000,000	5,447,600,000	15,335,088	27,695,321	5,404,569,591	**264,324,750**	1,242,504	4,173,739	269,740,993
24	**Notes**													
25	6.950%		07/16/98	07/15/18		225,000,000	140,000,000	507,989	8,680	139,483,331	9,730,000	91,966	1,572	9,823,538
26	**Subordinated Deferrable Interest Debt**													
27	6.350%		03/17/03	03/15/33		206,186,000	206,186,000	125,237	1,518,795	204,541,968	13,092,811	6,212	75,342	13,174,365
28	Settled Interest Rate Swaps					-	-	-	-	-	-	48,434		48,434
29	Debt to be Issued [2]							-	-	-	-			-
30						$ 6,831,186,000	$ 5,793,786,000	$ 15,968,314	$ 29,222,796	$ 5,748,594,890	$ 287,147,561	$ 1,389,116	$ 4,250,653	$ 292,787,330

Notes:
(1) Long-term debt balances taken from Form 21 ILCC, Pages 22a-23b.
(2) Balances taken from Form 21 ILCC, Supplemental Pages 26a-27b.
(3) Amounts are taken from Form 21 ILCC, Pages 23a.

Commonwealth Edison Company
Embedded Cost of Long-term Debt
Year Ending December 31, 2011

Witness: Fruehe

Line No.	Adjusted Cost of Long-term Debt (A)	Amount (B)	Adjusted Long-term Debt Balance (C)	Amount (D)	EMBEDDED COST OF LONG TERM DEBT (E)	Amount (F)
1	Interest on long-term debt (1)	$ 287,147,561	Total long-term debt balance (6)	$ 5,793,786,000	Cost of long-term debt	$ 303,161,886
2	+ Amortization of discount (premium) (2)	1,389,116	Less Unamortized discount (premium) (7)	15,968,314		
3	+ Amortization of debt expense (3)	4,250,653	Less Unamortized debt expense (8)	29,222,796	Balance of long-term debt	$ 5,676,549,121
4	+ Amortization of loss on reacquired debt (4)	10,414,945	Less Unamortized loss on reacquired debt (9)	**$ 72,194,588**		
5	+ Amortization of gain on reacquired debt (5)	(40,389)	Less Unamortized gain on reacquired debt (10)	(148,819)		
6	Cost of long-term debt	$ 303,161,886	Balance of long-term debt	$ 5,676,549,121	**COST OF LONG-TERM DEBT**	**5.34%**

Notes:
(1) Column (I) from Page 1 of Schedule D-3.
(2) Column (J) from Page 1 of Schedule D-3.
(3) Column (K) from Page 1 of Schedule D-3.
(4) Column (H), line 84 from Page 3 of WPD-3
(5) Column (H), line 90 from Page 3 of WPD-3
(6) Column (E) from Page 1 of Schedule D-3.
(7) Column (F) from Page 1 of Schedule D-3.
(8) Column (G) from Page 1 of Schedule D-3.
(9) Column (G) line 84 from Page 3 of WPD-3
(10) Column (G), line 90 from Page 3 of WPD-3

Commonwealth Edison Company
Embedded Cost of Long-term Debt Work Papers
Year Ending December 31, 2012

Line No.	Debt, Issue Type Coupon Rate[1,2] (A)		Date Reacquired (B)	Amortization Period End Date (C)	Principal of Debt Reacquired (D)	Call Premium (E)	Net Gain or (Net Loss) (F)	Balance as 12/31/2011 (G)	Annual Amortization (H)
1	**Unamortized Loss on Reacquired Debt**								
2	**First Mortgage Bonds**								
3	14.250%	Series 46	11/24/87	04/15/15	$ 100,000,000	$ 3,820,000	$ (4,690,683)	$ 160,096	$ (69,868)
4	15.375%	Series 47	11/24/87	04/15/15	100,000,000	12,410,000	(13,618,887)	$ 464,833	(202,851)
5	13.000%	Series 48	03/22/88	04/15/13	150,000,000	14,760,000	(17,231,562)	$ 119,450	(409,857)
6	17.500%	Series 44	05/24/88	04/15/15	47,315,000	2,122,000	(2,161,698)	$ 43,051	(18,788)
7	12.250%	Series 50	11/21/88	04/15/15	100,000,000	3,500,000	(3,839,210)	$ 78,754	(34,370)
8	13.375%	Series 51	11/21/88	04/15/15	83,650,000	8,802,000	(9,670,777)	$ 196,392	(86,576)
9	12.000%	Series 66	03/23/93	04/15/15	100,000,000	9,000,000	(9,791,995)	$ 813,502	(355,009)
10	11.125%	Series 71	05/01/93	04/15/15	125,000,000	9,612,500	(11,593,775)	$ 966,605	(421,822)
11	10.500%	Series 56	05/27/93	04/15/15	150,000,000	9,750,000	(11,536,825)	$ 970,381	(423,469)
12	10.250%	Series 67	06/07/93	04/15/13	200,000,000	14,260,000	(17,087,634)	$ 143,391	(492,174)
13	8.750%	Series 30	08/12/93	07/01/13	125,000,000	4,400,000	(4,656,080)	$ 40,457	(80,913)
14	9.125%	Series 38	08/12/93	07/01/13	250,000,000	10,825,000	(12,880,562)	$ 111,919	(223,838)
15	10.375%	1985	12/14/94	03/01/20	30,000,000	600,000	(1,615,843)	$ 263,932	(36,817)
16	10.625%	1985	12/14/94	03/01/20	111,000,000	2,200,000	(6,825,849)	$ 200,575	(27,975)
17	10.625%	1985	12/14/94	03/01/17				$ 961,046	(230,552)
18									
19	9.875%	Series 75	11/21/01	03/15/12					
20	8.375%	Series 86	09/16/02	02/01/33		3,425,000		2,365,548	(117,744)
21	7.625%	Series 92	02/28/02	03/15/12					
22	7.625%	Series 92	08/25/04	03/15/12					
23	7.625%	Series 92	10/15/04	03/15/12					
24	7.625%	Series 92	11/26/04	03/15/12					
25	7.500%	Series 94	02/28/02	03/15/12					
26	7.500%	Series 94	08/25/04	07/01/13	20,000,000	4,486,200	(5,012,259)	285,354	(566,050)
27	5.850%	Series 94C	08/26/04	01/15/14	3,000,000	410,160	(611,534)	68,125	(65,095)
28	8.625%	Series 81	03/27/02	03/15/12					
29	8.500%	Series 84	07/15/02	03/15/12					
30	8.375%	Series 88	03/18/03	04/15/15	235,950,000	9,114,749	(12,244,541)	1,539,068	(671,642)
31	8.000%	Series 91	04/15/03	04/15/15	160,000,000	5,862,400	(11,858,267)	1,490,516	(650,454)
32	6.150%	Series 98	08/06/04	03/15/12					
33	6.150%	Series 98	08/25/04	03/15/12					
34	5.875%	Series 100	07/27/04	02/01/33	11,400,000	(185,592)	(788,382)	555,483	(27,627)
35	5.875%	Series 100	08/06/04	02/01/33	40,000,000	866,000	(4,283,438)	3,020,960	(150,246)
36	5.875%	Series 100	08/25/04	02/01/33	45,000,000	2,611,350	(6,455,972)	4,561,509	(226,864)
37	4.700%	Series 101	08/06/04	04/15/15	85,000,000	(499,800)	(8,553,071)	1,833,736	(799,660)
38	4.700%	Series 101	08/25/04	04/15/15	50,000,000	793,000	(6,118,209)	1,318,135	(574,812)
39	1.950%	Series 111	10/12/11	09/01/16	80,148,600	-	(171,078)	128,647	(34,796)
40	3.400%	Series 112	10/12/11	09/01/21	110,681,400	-	(236,251)	207,200	(23,823)
41									
42	**Interest Rate Swap Settlement[3]**			03/15/12					
43	**Interest Rate Swap Settlement[3]**			03/15/12					
44	**Interest Rate Swap Settlement[3]**			02/01/33			21,539,444	10,433,439	(519,507)
45	**Interest Rate Swap Settlement[3]**			04/15/15			8,249,000	1,033,338	(450,911)
46	**Interest Rate Swap Settlement[3]**			07/31/20			4,246,042	3,221,095	(424,604)
47									
48	**Sinking Fund Debentures**								
49	10.000%	Series 4	04/01/92	03/15/12					
50	**Subordinated Deferrable Interest Notes and Senior Notes**								
51	8.480%		03/20/03	03/15/33	206,190,000	-	(20,228,911)	13,626,382	(674,297)
52	6.950%		08/06/04	07/15/18	60,000,000	11,509,200	(16,568,486)	6,587,040	(1,187,880)
53	6.950%		08/25/04	07/15/18	25,000,000	5,516,000	(7,624,035)	3,042,398	(548,654)
54	**Pollution Control Obligations**								
55	11.750%	Joliet 1981	08/01/91	04/15/13	25,000,000	750,000	(1,424,316)	17,285	(59,296)
56	11.750%	Pekin 1981	08/01/91	04/15/13	25,000,000	750,000	(1,447,131)	17,563	(60,245)
57	11.500%	Waukegan 1981	08/01/91	04/15/13	10,000,000	300,000	(458,856)	5,570	(19,102)
58	10.125%	IEFFA 1980	09/03/91	04/15/13	15,000,000	375,000	(563,470)	6,870	(23,563)
59	10.375%	IEFFA 1980	09/03/91	04/15/13	25,000,000	625,000	(1,067,250)	13,010	(44,631)
60	11.375%	IEFFA 1984	11/21/94	11/01/19	42,200,000	844,000	(1,687,652)	397,964	(58,192)
61									
62	5.875%	1977	05/15/03	05/15/17	40,000,000	-	(599,277)	187,269	(42,805)
63	Variable	1994B	09/30/03	11/01/19	42,200,000	-	(174,123)	74,019	(10,821)
64	Variable	1994C	11/28/03	03/01/20	50,000,000	-	(79,616)	35,116	(4,899)
65	Variable	1994D	03/21/05	03/01/17	91,000,000	-	(4,524,506)	1,576,893	(378,299)
66	Variable	2005	06/13/08	03/01/18	91,000,000		(961,559)	459,771	(110,408)
67	Variable	2003C	06/18/08	03/01/20	50,000,000		(795,632)	487,573	(67,954)
68	Variable	2002	07/01/08	04/15/13	100,000,000		(583,461)	35,632	(121,847)
69	Variable	2003B	07/08/08	11/01/19	42,200,000		(222,142)	134,253	(19,632)
70	Variable	2003B	07/08/08	05/01/21			(435,433)	283,293	(33,983)
71	Variable	2003A	07/10/08	05/15/17	40,000,000		(566,327)	280,063	(64,021)
72	Variable	2003A	07/10/08	05/01/21			(332,768)	216,592	(25,981)
73	Variable	2003D	07/29/08	01/15/14	19,975,000		(204,456)	39,110	(37,414)
74	Variable	2003D	07/29/08	05/01/21			(112,292)	73,387	(8,803)
75	Variable	2008D	05/28/09	03/01/20	50,000,000		(546,292)	361,393	(50,427)
76	Variable	2008F	05/28/09	03/01/17	91,000,000		(677,508)	360,376	(86,491)
77	Variable	2008E	05/28/09	05/01/21	49,830,000		(566,726)	393,560	(47,227)
78	**Subordinated Deferrable Interest Debentures**								
79	8.500%	ComEd Financing II	03/07/08	01/15/38	154,640,000		(11,579,481)	9,722,242	(387,598)
80	**Write-off**	**1997 Unamoritized Loss**					2,240,678	(3,836,573)	2,178,239
81	TOTAL					$ 153,614,167	$ (221,290,924)	**$ 72,194,588**	**$ (10,414,945)**
82									
83	**Unamortized Gain on Reacquired Debt**								
84	**First Mortgage Bonds**								
85	7.250%		06/04/02	04/15/13	100,000,000	1,000,000	259,689	(6,868)	23,856
86	**Interest Rate Swap Settlement[3]**			07/31/20			165,236	(141,951)	16,533
87	TOTAL					$ 1,000,000	$ 424,925	**$ (148,819)**	**$ 40,389**

Notes:
(1) Listing sourced from Form 21 ILCC, Pages 24a-24c.
(2) Refunded with the proceeds from issuance of long-term debt with the maturity dates on Page 2 of WPD-3.
(3) The unamortized losses and gains on interest rate swap settlements are reported in FERC accounts 182.3 (Other Regulatory Assets) and 254 (Other Regulatory Liabilities), respectively.

Commonwealth Edison Company
Embedded Cost of Long-term Debt Work Papers
Year Ending December 31, 2012

Line No.	Debt, Issue Type Coupon Rate[1] (A)		Maturity Date(s) of New Debt Issues (B)					
	REFUNDING ISSUES							
1	**First Mortgage Bonds**							
2	14.250%	Series 46	Feb-2023	Apr-2015	(2)			
3	15.375%	Series 47	Feb-2023	Apr-2015	(2)			
4	13.000%	Series 48	Apr-2013					
5	17.500%	Series 44	Mar-1998	Feb-2023		Apr-2015	(2)	
6	12.250%	Series 50	Mar-1998	Feb-2023		Apr-2015	(2)	
7	13.375%	Series 51	Mar-1998	Feb-2023		Apr-2015	(2)	
8	12.000%	Series 66	Feb-2023	Apr-2015	(2)			
9	11.125%	Series 71	Feb-2023	Apr-2015	(2)			
10	10.500%	Series 56	Apr-2023	Apr-2015	(2)			
11	10.250%	Series 67	Apr-2013					
12	8.750%	Series 30	Jul-2005	Jul-2013				
13	9.125%	Series 38	Jul-2005	Jul-2013				
14	10.375%	1985	Mar-2009	Mar-2020	(2)			
15	10.625%	1985	Mar-2009	Mar-2015		Mar-2020	Mar-2017	(2)
16	9.875%	Series 75	Mar-2012					
17	8.625%	Series 81	Mar-2012					
18	8.500%	Series 84	Mar-2012					
19	8.375%	Series 86	Feb-2033					
20	7.625%	Series 92	Mar-2012					
21	7.500%	Series 94	Mar-2012	Jul-2013				
22	7.250%	1991	Apr-2013					
23	8.375%	Series 88	Apr-2015					
24	8.000%	Series 91	Apr-2015					
25	**Sinking Fund Debentures**							
26	10.000%	Series 4	Feb-1997	Feb-2022		Mar-2012	(2)	
27	**Subordinated Deferrable Interest Notes**							
28	8.480%		Mar-2033					
29	**Subordinated Deferrable Interest Debentures**							
30	8.500%		Jan-2038					
31	**Pollution Control Obligations**							
32	11.750%	Joliet Series 1981	Jun-2011	Apr-2013	(2)			
33	11.750%	Pekin Series 1981	Jun-2011	Apr-2013	(2)			
34	11.500%	Wkg Series 1981	Jun-2011	Apr-2013	(2)			
35	10.125%	IEFFA Series '80	Jun-2011	Apr-2013	(2)			
36	10.375%	IEFFA Series '80	Jun-2011	Apr-2013	(2)			
37	8.375%	IEFFA Series '79	Jan-2004	Jan-2009		Feb-2011	(2)	
38	8.500%	IEFFA Series '79	Jan-2004	Jan-2009		Feb-2011	(2)	
39	9.750%	IEFFA Series '83	Jan-2004	Jan-2009		Feb-2011	(2)	
40	11.375%	IEFFA Series '84	Oct-2014	Nov-2019	(2)			
41	5.875%	IDFA Series '79	May-2017					
42	Variable	IDFA 1994B	Nov-2019					
43	Variable	IDFA 1994C	Mar-2020					
44	Variable	IDFA 1994D	Mar-2017					
45	Variable	IFA Series 2005	Mar-2018					
46	Variable	IDFA Series 2003 C	Mar-2020					
47	Variable	IDFA Series 2003 B	Nov-2019	May-2021				
48	Variable	IDFA Series 2003 A	May-2017	May-2021				
49	Variable	IDFA Series 2003 D	Jan-2014	May-2021				
50	Variable	IFA Series 2008 D	Mar-2020	Sep-2016	Sep-2021			
51	Variable	IFA Series 2008 F	Mar-2017	Sep-2016	Sep-2021			
52	Variable	IFA Series 2008 E	May-2021	Sep-2016	Sep-2021			
53								
54	**The following debt items were not refinanced:**							
55			Original Maturity Date of Debt Issues					
56	First Mortgage Bonds							
57	7.625%	Series 92	Mar-2012					
58	7.500%	Series 94	Jul-2013					
59	5.850%	Series 94C	Jan-2014					
60	6.150%	Series 98	Mar-2012					
61	5.875%	Series 100	Feb-2033					
62	4.700%	Series 101	Apr-2015					
63	Pollution Control Obligations							
64	Variable	IDFA Series 2002	Apr-2013					
65	Notes -							
66	6.950%		Jul-2018					

Notes:
(1) Listing sourced from Form 21 ILCC, Pages 24d and 24e.
(2) The amortization period has changed due to the refunding of the long-term debt originally issued to refund this issue. Maturity date is that of the new long-term debt issue.