Docket No. 13-XXXX
ComEd Ex. 3.02

FitchRatings

Fitch Rates Commonwealth Edison's $350MM FMBs 'BBB+' Ratings Endorsement Policy

25 Sep 2012 3:54 PM (EDT)

Fitch Ratings-New York-25 September 2012: Fitch Ratings has assigned a 'BBB+' rating to Commonwealth Edison Co.'s (Comed) $350 million 3.8% first mortgage bonds (FMBs) due Oct. 1, 2042. Net proceeds will be used to repay outstanding commercial paper and for general corporate purposes. The Rating Outlook is Stable.

Key Rating Drivers

Credit Metrics: Comed's credit quality measures will be adversely affected for the remainder of 2012 by a recently implemented rate reduction but should remain supportive of the current ratings. Fitch estimates the 2012 ratios of EBITDA/interest and Debt/EBITDA will approximate 4.0 times (x) and FFO/debt 20%. Current ratings assume a portion of the rate reduction will be restored following the resolution of a rehearing and that higher rates are implemented in 2013.

Regulatory Uncertainty: The positions taken by the Illinois Commerce Commission (ICC) in Comed's initial Formula Rate Plan (FRP) filing heightened regulatory risk for utilities in Illinois. In ordering a $168.6 million rate reduction, the ICC disallowed a return on Comed's pension asset and relied on an average rate base and capital structure, all of which appears to be inconsistent with the FRP legislation. The company supported a $59.1 million rate reduction, largely reflecting a lower return on equity (ROE) as per the rate formula.

FRP Appeal: Fitch expects at least $35 million of the FRP rate reduction will be restored, consistent with the recommendation of the Administrative Law Judge (ALJ) hearing Comed's appeal. The ALJ's position reflects a reversal of the ICC's treatment of the pension asset but maintains the use of an average rate base and capital structure. The Illinois House of Representatives passed a non-binding resolution supporting Comed's position. A final order on rehearing is due by Nov. 19, 2012.

Pending Rate Case: Current ratings anticipate higher rates and stronger credit quality measures in 2013 following a decision in the second FRP proceeding. In its April 2012 filing, Comed proposed a $106.2 million rate increase to be effective Jan. 1, 2013. The proposed increase reflects actual 2011 results and estimated plant additions through 2012 as per the FRP legislation. The ICC staff is recommending a net reduction of $$69.4 million including a $37.3 million base rate increase offset by a $106.7 million reconciliation adjustment. Prospectively, Comed will file an annual FRP each May with new rates effective the following January.

Rising Capex: Capital expenditures are forecasted to rise to $4.5 billion over the three-year period 2012-2014, including $1.6 billion in 2013 and 2014, compared to $2.8 billion in the prior three-year period. The higher outlays are primarily driven by the Illinois Energy Infrastructure Modernization Act (EIMA), which requires Comed to invest an incremental $1.3 billion on electric system upgrades over five years and an additional $1.3 billion for smart grid deployment over 10 years. The legislation provides for recovery through the FRP filings.

Commodity Price Exposure: Ratings benefit from the absence of commodity price exposure and the associated cash flow volatility. Legislation that provides Illinois utilities the ability to adjust tariffs annually to reflect changes in uncollectible accounts is also credit positive.

Liquidity: A $1 billion unsecured credit facility and ready access to capital markets provide adequate liquidity. Debt maturities are well laddered and relatively modest over the next several years.

What would lead to consideration of a negative rating action?
An unfavorable ruling in Comed's second FRP filing is the primary credit risk and could adversely affect ratings.

What would lead to consideration of a positive rating action?
Adherence to the principles in the EIMA would lower regulatory risk, provide a timely return of and on invested capital and could lead to improved ratings.

Docket No. 13-XXXX
ComEd Ex. 3.02

Contact:

Primary Analyst
Robert Hornick
Senior Director
+1-212-908-0523
Fitch, Inc.
33 Whitehall Street
New York, NY 10004

Secondary Analyst
Shalini Mahajan
Director
+1-212-908-0351

Committee Chairperson
Glen Grabelsky
Managing Director
+1-212-908-0977

Media Relations: Brian Bertsch, New York, Tel: +1 212-908-0549, Email: brian.bertsch@fitchratings.com.

Additional information is available at 'www.fitchratings.com'. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Applicable Criteria and Related Research:
--'Corporate Rating Methodology' (Aug. 12, 2011);
--'Parent and Subsidiary Rating Linkage' (Aug. 12, 2011);
--'Recovery Ratings and Notching Criteria for Utilities' (May 3, 2012);
--'Rating North American Utilities, Power, Gas and Water Companies' (May 12, 2011).

Applicable Criteria and Related Research:
Corporate Rating Methodology
Parent and Subsidiary Rating Linkage
Recovery Ratings and Notching Criteria for Utilities
Rating North American Utilities, Power, Gas, and Water Companies