Docket No. 13-XXXX
ComEd Ex. 3.03

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Credit Opinion: Commonwealth Edison Company

Global Credit Research - 05 Mar 2013

Chicago, Illinois, United States

Ratings

Category	Moody's Rating
Outlook	Stable
Issuer Rating	Baa2
First Mortgage Bonds	A3
Senior Unsecured	Baa2
Pref. Shelf	(P)Ba1
Commercial Paper	P-2
Parent: Exelon Corporation	
Outlook	Stable
Issuer Rating	Baa2
Senior Unsecured	Baa2
Subordinate Shelf	(P)Baa3
Pref. Shelf	(P)Ba1
Commercial Paper	P-2
ComEd Financing III	
Outlook	Stable
BACKED Pref. Stock	Baa3

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Key Indicators

[1]**Commonwealth Edison Company**

	2012	2011	2010	2009
(CFO Pre-W/C + Interest) / Interest Expense	**4.7x**	**5.2x**	**3.9x**	**4.0x**
(CFO Pre-W/C) / Debt	**19%**	**25%**	**20%**	**20%**
(CFO Pre-W/C - Dividends) / Debt	**17%**	**21%**	**15%**	**16%**
Debt / Book Capitalization	**37%**	**38%**	**39%**	**40%**

[1] All ratios calculated in accordance with the Global Regulated Electric Utilities Rating Methodology using Moody's standard adjustments.

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

Regulatory environment remains unpredictable despite credit supportive legislation

Sizeable capital program

Strong credit metrics for rating category

Parent's dividend reduction enhances ComEd's internal cash flow

Dispute with IRS remains an overhang credit issue

Corporate Profile

Commonwealth Edison Company (ComEd) is a regulated electric transmission and distribution company and a subsidiary of Exelon Corporation (Exelon: Baa2 stable). ComEd provides energy delivery services to retail and wholesale customers in northern Illinois, including the city of Chicago. ComEd is regulated by the Illinois Commerce Commission (ICC) and the Federal Energy Regulatory Commission (FERC). At December 31, 2012, ComEd had total assets of $22.91 billion.

SUMMARY RATING RATIONALE

ComEd's Baa2 senior unsecured rating primarily reflects an improving but still unpredictable state regulatory environment in which the company operates. The 2011 passage of EIMA improved the cost recovery framework; however, implementation of the law has been a challenge for Illinois electric utilities. The rating factors in continuing strong credit metrics for its rating category, good liquidity management, a sizeable capital spending program, and a diverse regional economy which helps mitigate the financial impact from the still weak economic recovery. The rating further recognizes the expected enhancement to ComEd's internal cash flow following Exelon's decision to reduce its common dividend by 40%. A longer-term credit overhang remains owing to ComEd's ongoing exposure to litigation with the IRS.

DETAILED RATING CONSIDERATIONS

Regulatory environment remains unpredictable despite credit supportive legislation

ComEd's rating recognizes an improving, but still challenging regulatory environment for utilities in Illinois. Continuing complications with the implementation of the formula-rate-plan (FRP) has reinforced previous concerns over the predictability of the regulatory environment.

On 30 December 2011, the Energy Infrastructure Modernization Act (EIMA) became law. The EIMA established a new distribution, performance based FRP ratemaking paradigm for the state's largest electric utilities with an intention to spur utility infrastructure investment. The legislation required ComEd to invest $1.3 billion over a five-year period in electric system upgrades, modernization projects, and training facilities, and at least $1.3 billion over a 10-year period in transmission & distribution assets and smart-grid system upgrades. While EIMA has the potential to create a concrete, dependable regulatory framework, the ICC's interpretation of certain aspects of EIMA has resulted in lower than expected financial results for the utilities, including ComEd, leading to litigation, lower investment by the utilities, and the prospect of additional legislation.

On 29 May 2012, the ICC issued an order in its initial FRP filing that reduced ComEd's annual revenue requirement by $168 million, approximately $110 million more than proposed by the company. The reduction included $50 million that the ICC determined could be recovered through alternative rate proceedings, $35 million for the disallowance of a return on pension assets, $10 million for incentive compensation related adjustments, and $15 million for various adjustments on other technical items. The ICC agreed to rehear some of the issuer's appeal and on 3 October 2012, the ICC issued its final order in that rehearing, adopting ComEd's position on the return on its pension asset, resulting in an increase in ComEd's annual revenue requirement. However, in two other areas, the ICC ruled against ComEd by reaffirming use of an average rather than year-end rate base in ComEd's reconciliation revenue requirement; and amending its prior order to provide a short-term debt rate as the appropriate interest rate to apply to under/over recoveries of incurred costs. ComEd filed an appeal with the courts on 4 October 2012. New rates reflecting the impacts of the rehearing order went into effect in November 2012.

In December 2012, ICC issued the second FRP for ComEd authorizing the utility an $72.6 million rate increase. While the outcome was only $2 million less than the company's ask, ComEd's position reflected the rate impact of the ICC decision in the initial FRP proceeding, including the methodology used to calculate rate base and capital structure, both of which remain under appeal in the Illinois courts. As such, ComEd's position does not reflect the full revenue requirement expected had the FRP been implemented in a manner consistent with the company's interpretation of the legislation.

In light of these developments, the Illinois legislature has introduced Senate Bill 9 (SB 9), to further clarify the perceived ambiguity around EIMA by the ICC, specifically the FRP process. The new bill includes language indicating that the ICC should use year-end rate base values and year-end capital structures in all rate reconciliations. Additionally, SB 9 specifies that any reconciliation-related amounts should accrue interest calculated using the weighted average cost of capital. If passed, the bill will supersede the ICC's previous orders to the extent that the orders are inconsistent with the bill, allowing companies to retroactively recover any amounts not previously authorized for recovery. On 13 February 2013, the Illinois Senate Executive Committee voted unanimously to pass SB 9, and the bill will now be considered by the full Senate. We understand that there is broad bipartisan support for SB 9 in both the Senate and the House and that such a vote, when taken, will likely pass with a veto-proof majority. The 2013 legislative session is expected to conclude on May 31st.

Material Capital Investment

ComEd's capital expenditure program has increased in each of the last two years primarily to maintain and strengthen the transmission and distribution network in and around its service territory, and for infrastructure spending related to smart grid deployment. In 2011 and 2012, capital expenditures increased to $1.0 billion and $1.2 billion, respectively, as compared to the three year average of $923 million over the 2008-2010 period. Following the outcome of the above-referenced ICC rehearing in October 2012, ComEd deferred $65 million of planned spend in 2012 and plans to defer an additional $335 million of smart meter and other infrastructure spend from the 2013-2014 period to 2015 and beyond. We anticipate that capital spending will approximate $1.4 billion during 2013.

Strong Credit Metrics for the Current Rating

For the past three years, ComEd has produced very strong credit metrics for the Baa rating category. Cash flow (CFO pre W/C) to debt has averaged around 21.2%, cash flow coverage of interest expense has averaged 4.6x while retained cash flow to debt has averaged 17.6% for the past three years, all of which are reflective of a higher Baa rating. Some of this financial performance can be attributed to the receipt of bonus depreciation, which is not a sustainable source of cash flow. During 2011, Exelon's utilized the incremental cash sourced by bonus depreciation to voluntarily make a sizable contribution to ComEd's pension plan, an action we viewed as credit positive. Prospectively, and factoring in the loss of bonus depreciation in the near-term financial results, we believe that ComEd will produce credit metrics that will strongly position the company within the Baa2 rating category.

Parent's dividend reduction enhances ComEd's internal cash flow

On 7 February 2013, Exelon announced that it would reduce its common dividend by 40% which will enhance retained cash flow and free cash flow across the company by $740 million. We view this action as being supportive of credit quality and highlights management's strong commitment to maintain an investment grade rating at all legal registrants. Exelon's revised dividend policy contemplates that the utilities, including ComEd, pay out an average of 65-70% of their respective earnings.

IRS dispute remains an overhang credit issue

Exelon, through ComEd, is involved in a tax dispute with the IRS relating to a portion of the tax gain associated with the 1999 sale of ComEd's fossil generating assets. Specifically, about $1.2 billion of the gain was deferred by reinvesting the proceeds from the sale in qualifying replacement property under the like-kind exchange provisions. The like-kind exchange replacement property purchased by Exelon included interests in three municipal-owned electric generation facilities which were leased back to the municipalities.

Exelon has been unable to reach agreement with the IRS regarding the dispute over the like kind exchange position. The IRS has asserted that the Exelon purchase and leaseback transaction is substantially similar to a leasing transaction, known as a SILO, which the IRS does not respect as the acquisition of an ownership interest in property.Exelon disagrees with the IRS and continues to believe that its like-kind exchange transaction is not the same as or substantially similar to a SILO. Exelon expects to initiate litigation in 2013 to contest the IRS's disallowance of the like-kind exchange position.

On 9 January 2013, the U.S. Court of Appeals for the Federal Circuit reversed the U.S. Court of Federal Claims and reached a decision for the government disallowing Consolidated Edison's deductions stemming from its participation in a LILO transaction that the IRS also has characterized as a tax shelter.

In light of the Consolidated Edison decision and Exelon's current determination that a settlement is unlikely, Exelon has concluded that it will record a non-cash charge to earnings of approximately $270 million in the first quarter of

2013, which represents the full amount of interest expense (after-tax) and incremental state tax expense in the event that Exelon is unsuccessful in litigation. Of this amount, approximately $185 million will be recorded at ComEd and the balance at Exelon. Exelon intends to hold ComEd harmless from any unfavorable impacts of the after-tax interest amounts on ComEd's equity.

At 31 March 2013, in the event of a fully successful IRS challenge to Exelon's like-kind exchange position, the potential tax and after-tax interest, exclusive of penalties, that could become currently payable may be as much as $860 million, of which approximately $320 million would be attributable to ComEd after consideration of Exelon's agreement to hold ComEd harmless with the balance at Exelon.

Liquidity

ComEd's Prime-2 short-term rating for commercial paper reflects our view that the company will maintain adequate liquidity for the next 4 quarters.

On 28 March 2012, ComEd entered into a new five year unsecured revolving credit agreement for $1 billion, expiring in 2017. This credit facility is used primarily to provide liquidity support and for the issuance of letters of credit. As of 31 December 2012, there were no borrowings or letters of credit outstanding under the facility. While the credit agreement does not contain any rating triggers that would affect borrowing access to the commitment and does not require any material adverse change (MAC) representation for borrowings, there is a requirement to maintain a ratio of net cash flow from operations to net interest expense at a minimum level of at least 2.0 times. At 31 December 2012, ComEd's ratio of net cash flow from operations to net interest expense was 6.14x. Cash on hand at 31 December 2012 was $144 million.

In light of the ample capital investment program anticipated at the utility, we expect ComEd being free cash flow negative for the next few years. That said, in light of the higher capital spending at ComEd, we do not believe that the utility's dividend will reach the higher end of the above-referenced targeted 70% payout level. In that vein, we note that ComEd paid $105 million of dividends during 2012 representing 28% of ComEd 2012 earnings. ComEd has approximately $252 million of debt maturing in 2013 and $600 million in 2014. We anticipate the company seeking to access the capital markets to refinance a substantial portion of this debt given the capital requirements of the utility.

As of 31 December 2012, if ComEd lost its investment grade credit rating, it could be required to provide $218 million of incremental collateral.

Rating Outlook

ComEd's rating outlook is stable reflecting an expectation that financial results will remain strong for the rating category, particularly with the passage of EIMA. Although the regulatory environment remains challenging and unpredictable, we believe that the latest credit supportive legislation will improve cost recovery under the FRP. ComEd's stable outlook further incorporates our belief the company's dividend policy will continue to remain sensible in light of the utility's increased capital spending requirements.

What Could Change the Rating - Up

In light of our March 2012 one notch upgrade of ComEd's ratings, the challenges that have occurred in implementing ratemaking under EIMA, and the increased capital spending anticipated at ComEd, limited prospects exist for the utility's ratings to be upgraded in the near-term. However, upward rating pressure can surface if the new regulatory framework is seamlessly implemented and accepted as a workable model by key constituents in the state, resulting in more predictable financial results for the state's utilities. Specifically, consideration of a higher rating could emerge if ComEd's the ratio of cash flow to debt exceeds 20% and its cash flow interest coverage exceeds 5.0x on a sustainable basis.

What Could Change the Rating - Down

The rating could be downgraded if EIMA ratemaking implementation is altered dramatically or terminated, if the company's cash flow to debt declines to below 16.0% or cash flow to interest expense falls below 3.5x for an extended period. Also, negative rating pressure could materialize if the outcome of a continuing IRS challenge concerning certain sale/leaseback transactions affecting Exelon and ComEd leads to substantial payments for the utility.

Other Considerations

As depicted below, ComEd's implied rating under the grid on a historical and projected basis is Baa2 on par with the current senior unsecured rating.

Rating Factors

Commonwealth Edison Company

Regulated Electric and Gas Utilities Industry [1][2]	**Current 12/31/2012**		**Moody's 12-18 month Forward View* As of March 2013**	
Factor 1: Regulatory Framework (25%)	Measure	Score	Measure	Score
a) Regulatory Framework				
Factor 2: Ability To Recover Costs And Earn Returns (25%)		Ba		Ba
a) Ability To Recover Costs And Earn Returns		Baa		Baa
Factor 3: Diversification (10%)				
a) Market Position (10%)		Baa		Baa
b) Generation and Fuel Diversity (na)		na		na
Factor 4: Financial Strength, Liquidity And Key Financial Metrics (40%)				
a) Liquidity (10%)		Baa		Baa
b) CFO pre-WC + Interest/ Interest (3 Year Avg) (7.5%)	4.6x	A	4.5x - 4.8x	A
c) CFO pre-WC / Debt (3 Year Avg) (7.5%)	21.2%	Baa	18 - 22%	Baa
d) CFO pre-WC - Dividends / Debt (3 Year Avg) (7.5%)	17.6%	A	15 - 18%	A/Baa
e) Debt/Capitalization (3 Year Avg) (7.5%)	38.1%	A	35 - 38%	A
Rating:				
a) Indicated Rating from Grid		Baa2		Baa2
b) Actual Rating Assigned		Baa2		Baa2

* THIS REPRESENTS MOODY'S FORWARD VIEW; NOT THE VIEW OF THE ISSUER; AND UNLESS NOTED IN THE TEXT DOES NOT INCORPORATE SIGNIFICANT ACQUISITIONS OR DIVESTITURES

[1] All ratios are calculated using Moody's Standard Adjustments. [2] As of 12/31/2012(L); Source: Moody's Financial Metrics

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