Regulatory environment shows improvement but possibility of unpredictable outcomes remain

Improved ability to recover costs under new legislation

Strong credit metrics for rating category

Sizeable capital program

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 senior unsecured; 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, 2011, ComEd had total assets of $22.65 billion.

SUMMARY RATING RATIONALE

ComEd's Baa2 senior unsecured rating primarily reflects an improved but still less predictable state regulatory environment in which the company operates, strong credit metrics for the rating category, and an improved cost recovery mechanism following last year's passage of legislation. The rating recognizes the company's good liquidity management, the diversity of its regional economy which helps mitigate the financial impact from the still weak economic recovery, as well as the overhang of the company's ongoing exposure to litigation with the IRS.

DETAILED RATING CONSIDERATIONS

Regulatory environment improved but possibility of unpredictable outcomes remain

An important factor in the rating methodology for Regulated Electric and Gas Utilities is the credit supportiveness of the regulatory framework.

ComEd's rating recognizes an improved, but still challenging regulatory environment that continues to persist for electric utilities in Illinois leading to lingering concerns about the framework's predictability. Intervention risk from key and influential stakeholders have occurred in past rate case decisions and regulatory actions involving ComEd making the framework less reliable. Specifically, actions by consumer groups, the Illinois Attorney General, and various legislators have had negative implications for regulatory decisions involving ComEd and other IOUs in the state.

On Dec. 30, 2011, the Energy Infrastructure Modernization Act (EIMA) became law. The EIMA establishes a new distribution formula-rate-plan (FRP) ratemaking paradigm for the state's largest electric utilities and is intended to spur utility infrastructure investment. Specifically, EIMA requires electric utilities that serve at least one million customers, ComEd and Ameren subsidiary Ameren Illinois (AI) , to invest specific amounts in their transmission and distribution (T&D) systems, with recovery of these investments to occur in the context of annual FRP proceedings, subject to ICC approval.

The legislation requires 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. Key aspects of the FRP calculation include cost recovery of the utility's actual capital structure, excluding goodwill; a legislatively-set formula for purposes of calculating the allowed return on equity (ROE) equivalent to a 580 basis-point premium above the 12-month average 30-year Treasury Bond yield; recovery of pension-related costs, as well as recovery of certain incentive compensation expenses. If the utility's actual ROE in a given period is more than 50 basis points above or below its authorized ROE, the company is required to refund to/collect from ratepayers any amounts outside of this deadband. Also, the utility's allowed ROE can be reduced if it fails to meet certain performance metrics. Moreover, the new law requires the utility's FRP to be terminated if the average annual rate increase for the years 2012 through 2014 exceeds 2.5%. All FRPs are to terminate at year-end 2017 (unless legislation is enacted permitting the continued use of these rate plans), and unrecovered costs associated with the investment programs would presumably be addressed in traditional base rate proceedings.

Although the passage of EIMA helps to offset lingering concerns about the predictability of the regulatory framework, the legislation remains untested. Moreover, we understand that the ICC and other stakeholders were opposed to the law's passage since, in their opinion, EIMA limits the oversight ability of the commission. We continue to view the state's regulatory framework for electric utilities as having the potential to be unpredictable and unreliable. Therefore, the regulatory framework (Factor 1 in the Methodology) for ComEd continues to be scored below investment grade or at Ba. Our future assessment of this Factor will be influenced by the manner in which the new regulatory framework is implemented and whether it is accepted as a workable regulatory model by key constituents.

Ability to recover costs and earn returns is acceptable

In light of the passage of EIMA, we believe ComEd's ability to recover costs and earn reasonable returns (Factor 2) has improved and is consistent with an mid-Baa score for this rating factor. Specifically, we believe that passage of EIMA will enhance cost recovery and reduce regulatory lag. From a timing perspective, ComEd implemented into 2011 rates amounts due under the true-up mechanism in EIMA and made its initial filing with the ICC in November 2011 to implement a $44 million refund to customers during the period June 1, 2012 through Dec. 31, 2012. The November 2011 filing reflects a 2010 test year and 2011 plant additions. ComEd plans to file its 2011-test-year FRP case during May 2012, reflecting 2012 net plant additions. New rates associated with that proceeding would take effect in January 2013. Thereafter, ComEd would submit an annual FRP filing each May, with new rates to take effect the following January.

Material Capital Investment

Over the past several years, ComEd's capital expenditure program has approximated around $950 million each year to maintain and strengthen the transmission and distribution network in and around its service territory, and to improve overall reliability for customers. Prospectively, we anticipate that capital spending for smart grid deployment, infrastructure, and maintenance to be approximately $1.5 billion each year. We expect a large portion of these costs to be recovered through the annual FRP filings with the ICC. Like most distribution and transmission systems that serve large metropolitan areas, continued capital investment is important for maintaining system reliability, given the age of these systems.

Strong Credit Metrics for the Current Rating

For the past three years, ComEd has produced very strong credit metrics for the Baa rating category. Reported 2011 results for ComEd included net income of $416 million, representing a 23% increase over 2010 results. The improvement is largely a function of receipt of the distribution rate case during mid 2011 and revenue from recently enacted legislation addressing the recovery of infrastructure investments. Cash flow (CFO pre W/C) to debt has averaged around 21.6%, cash flow coverage of interest expense has averaged 4.3x and retained cash flow to cash has averaged 16.6% 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 positive impact of tax treatment, including the receipt of bonus depreciation, which is not a sustainable source of cash flow. We view Exelon's decision to utilize the receipt of bonus depreciation to voluntarily make a sizable contribution to ComEd's pension plan as a conservative and credit supportive action. Prospectively, and factoring in the benefits of 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.

IRS dispute remains an overhang credit issue

Exelon, through ComEd, is involved in a tax dispute with the IRS relating to the $2.8 billion tax gain associated with the 1999 sale of ComEd's fossil generating assets, and the subsequent transition to market rates for generation that occurred among ComEd's and PECO's customers. Exelon believes that it was economically compelled to dispose of ComEd's fossil generating plants and that the proceeds from the sale of the fossil plants were properly reinvested in qualifying replacement property such that $1.6 billion of the gain could be deferred over the lives of the replacement property under the involuntary conversion provisions. The remaining approximately $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 properly leased back to the municipalities.

In the third quarter 2010, Exelon and the IRS reached a nonbinding, preliminary agreement to settle Exelon's involuntary conversion and competitive transition charge positions. Under the terms of the agreement, Exelon estimates that the IRS will assess tax and interest of approximately $300 million in 2012, and that Exelon will receive additional tax refunds of approximately $365 million between 2012 and 2014, of which $335 million would be received by ComEd, $55 million would be received by ExGen and the remainder paid by Exelon.

During 2010, Exelon and IRS failed to reach a settlement with respect to the like-kind exchange position. As year-end 2011, assuming Exelon's preliminary settlement of the involuntary conversion position is finalized, the potential tax and interest, exclusive of penalties, that could become currently payable in the event of a fully successful IRS challenge to Exelon's like-kind exchange position could be as much as $860 million, of which $550 million would be paid by ComEd and the remainder by 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.

ComEd has a $1 billion unsecured revolving credit facility that expires on March 25, 2013. This credit facility is used primarily to provide liquidity support and for the issuance of letters of credit. As of December 31, 2011, there were no borrowings under the facility; however, $1 million of the facility is used for letters of credit, leaving $999 million of availability. 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 December 31, 2011 ComEd's ratio of net cash flow from operations to net interest expense was 6.39x. Cash on hand at December 31, 2011 was $233 million. We understand that the company is currently in the market replacing and extending the $1 billion revolver due March 2013 to a March 2017 expiry date at the same $1 billion level.

In light of the ample capital investment program anticipated at the utility, the company is expected to be free cash flow negative for the next few years. During 2011, ComEd paid out about 70% of its earnings to Exelon in the form of a dividend. In light of the capital needs at the utility, we do not believe that the ComEd dividend will reach the 70% payout level over the next several years. ComEd has approximately $450 million of debt maturing in 2012, $252 million in 2013, and $600 million in 2014. We would anticipate the company seeking to access the capital markets to refinance a substantial portion of this debt given the planned capital requirements of the utility.

As of December 31, 2011, we observe that if ComEd lost its investment grade credit rating, it could be required to provide $227 million of incremental collateral.

For more information on Exelon's liquidity, please see the Exelon Credit Opinion on www.moodys.com.

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, which helps to offset lingering concerns about the regulatory framework, which has historically been less predictable. ComEd's stable outlook further incorporates our belief the company's dividend policy will remain sensible in light of the utility's increased capital spending requirements.

What Could Change the Rating - Up

In light of the March 2nd one notch upgrade by Moody's, the newness of 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, accepted as a workable model by key constituents in the state, and results in better 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 the implementation of EIMA ratemaking 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. Additionally, 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 indicated 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 12/31/2011**			**Moody's 12-18 month Forward View* As of February 2012**	
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%)	4.3x	Baa	4.8 - 5.3x	A
c) CFO pre-WC / Debt (3 Year Avg) (7.5%)	21.6%	Baa	18 - 21%	Baa
d) CFO pre-WC - Dividends / Debt (3 Year Avg) (7.5%)	17.3%	A	16 - 17%	Baa
e) Debt/Capitalization (3 Year Avg) (7.5%)	39.1%	A	35 - 36%	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 12/31/2011(L); Source: Moody's Financial Metrics

MOODY'S
INVESTORS SERVICE

Announcement: **Moody's Disclosures on Credit Ratings of Exelon Corporation.**

Global Credit Research - 09 Mar 2012

New York, March 09, 2012 -- The following release represents Moody's Investors Service's summary credit opinion on Exelon Corporation and includes certain regulatory disclosures regarding its ratings. This release does not constitute any change in Moody's ratings or rating rationale for Exelon Corporation and its affiliates.

Moody's current ratings on Exelon Corporation and its affiliates are:

Senior Unsecured domestic currency ratings of Baa1, on review for possible downgrade

LT Issuer Rating ratings of Baa1, on review for possible downgrade

Senior Unsec. Shelf domestic currency ratings of (P)Baa1, on review for possible downgrade

Subordinate Shelf domestic currency ratings of (P)Baa2, on review for possible downgrade

Pref. Shelf domestic currency ratings of (P)Baa3, on review for possible downgrade

Commercial Paper domestic currency ratings of P-2

Commonwealth Edison Company

First Mortgage Bonds domestic currency ratings of A3

Senior Unsecured domestic currency ratings of Baa2

LT Issuer Rating ratings of Baa2

Senior Secured Shelf domestic currency ratings of (P)A3

Senior Unsec. Shelf domestic currency ratings of (P)Baa2

Commercial Paper domestic currency ratings of P-2

Backed First Mortgage Bonds domestic currency ratings of A3

Underlying First Mortgage Bonds domestic currency ratings of A3

ComEd Financing III

BACKED Pref. Stock domestic currency ratings of Baa3

PECO Energy Company

First Mortgage Bonds domestic currency ratings of A1

LT Issuer Rating ratings of A3

Pref. Stock domestic currency ratings of Baa2

Senior Secured Shelf domestic currency ratings of (P)A1

Subordinate Shelf domestic currency ratings of (P)Baa1

Pref. Shelf domestic currency ratings of (P)Baa2

Commercial Paper domestic currency ratings of P-2

Backed First Mortgage Bonds domestic currency ratings of A1

Underlying First Mortgage Bonds domestic currency ratings of A1

Peco Energy Capital Trust III

BACKED Pref. Stock domestic currency ratings of Baa1

PECO Energy Capital Trust IV

Pref. Shelf domestic currency ratings of (P)Baa1

BACKED Pref. Stock domestic currency ratings of Baa1

PECO Energy Capital Trust V

Pref. Shelf domestic currency ratings of (P)Baa1

BACKED Pref. Shelf domestic currency ratings of (P)Baa1

PECO Energy Capital Trust VI

Pref. Shelf domestic currency ratings of (P)Baa1

BACKED Pref. Shelf domestic currency ratings of (P)Baa1

Exelon Generation Company, LLC

Senior Unsecured domestic currency ratings of A3, on review for possible downgrade

LT Issuer Rating ratings of A3, on review for possible downgrade

Senior Unsec. Shelf domestic currency ratings of (P)A3, on review for possible downgrade

Pref. Shelf domestic currency ratings of (P)Baa2, on review for possible downgrade

Commercial Paper domestic currency ratings of P-2

Exelon Capital Trust I

BACKED Pref. Shelf domestic currency ratings of (P)Baa2, on review for possible downgrade

Exelon Capital Trust II

BACKED Pref. Shelf domestic currency ratings of (P)Baa2, on review for possible downgrade

Exelon Capital Trust III

BACKED Pref. Shelf domestic currency ratings of (P)Baa2, on review for possible downgrade

RATINGS RATIONALE

Exelon's Baa1 rating reflects strong consolidated credit metrics, due in large part to the financial performance of ExGen, its unregulated generation subsidiary, and the generally predictable cash flows at its T&D subsidiaries. While the T&D subsidiaries are sizeable standalone companies, Exelon's rating is largely influenced by the performance of its unregulated segment, which will be increasing in size and importance upon the expected completion of the merger with Constellation Energy Group (CEG: Baa3 senior unsecured; under review for possible upgrade).

The long-term ratings of Exelon and ExGen are under review for possible downgrade due to their plans to merge with CEG in a stock-for-stock transaction. The rating review considers the pending merger with a lower-rated entity, the increased reliance on unregulated operations that will follow from the merger, the expected increase in consolidated leverage, particularly off-balance sheet debt, at a time when electric margins are compressed, all of which is compromised by the sizeable common dividend requirements at Exelon, expected to be funded primarily by its unregulated business platform.

Rating Outlook

Exelon's rating is under review for possible downgrade reflecting the planned CEG merger. The review considers our expectation for a decline in consolidated financial metrics following the stock-for-stock merger driven primarily by continued weak power prices. The review also considers the increase in off-balance leverage that will accompany the merger due, in large part, to the addition of third party guarantees and other potential calls on capital, including tolling obligations.

At this time, we anticipate that the outcome of the rating review is likely to result in a one-notch rating downgrade of Exelon's and ExGen's senior unsecured rating to Baa2 and Baa1, respectively. However, we believe there are increased prospects that the rating outlook for Exelon and ExGen would be negative at the conclusion of the review due to the combined effect of continued weak power prices, a sizeable common dividend, and a large capital investment program. The rating review is likely to be concluded when key regulatory approvals required for the merger to move forward have been obtained.

What Could Change the Rating - Up

In light of the ongoing review for possible downgrade, Exelon's rating is not likely to be upgraded over the near term.

What Could Change the Rating - Down

The review will focus on the expected earnings and cash flow contributions from Exelon's various unregulated businesses operating in the current down cycle. The review will examine the dividend requirements of the merged corporation and the expected contribution from its rate regulated subsidiaries. Moody's notes that one of the MPSC merger approval conditions was the requirement that Baltimore Gas and Electric Company, a CEG regulated transmission and distribution company, not pay dividends through 2014. The review will further consider the various levers that we believe Exelon could consider as it relates to financing the expected negative free cash flow at the corporation, driven by its dividend requirements and various growth capital spending programs.

The principal methodology used in these ratings was Unregulated Utilities and Power Companies published in August 2009. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

Although these credit ratings have been issued in a non-EU country which has not been recognized as endorsable at this date, the credit ratings are deemed "EU qualified by extension" and may still be used by financial institutions for regulatory purposes until 30 April 2012. Further information on the EU endorsement status and on the Moody's office that has issued a particular Credit Rating is available on www.moodys.com.

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