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

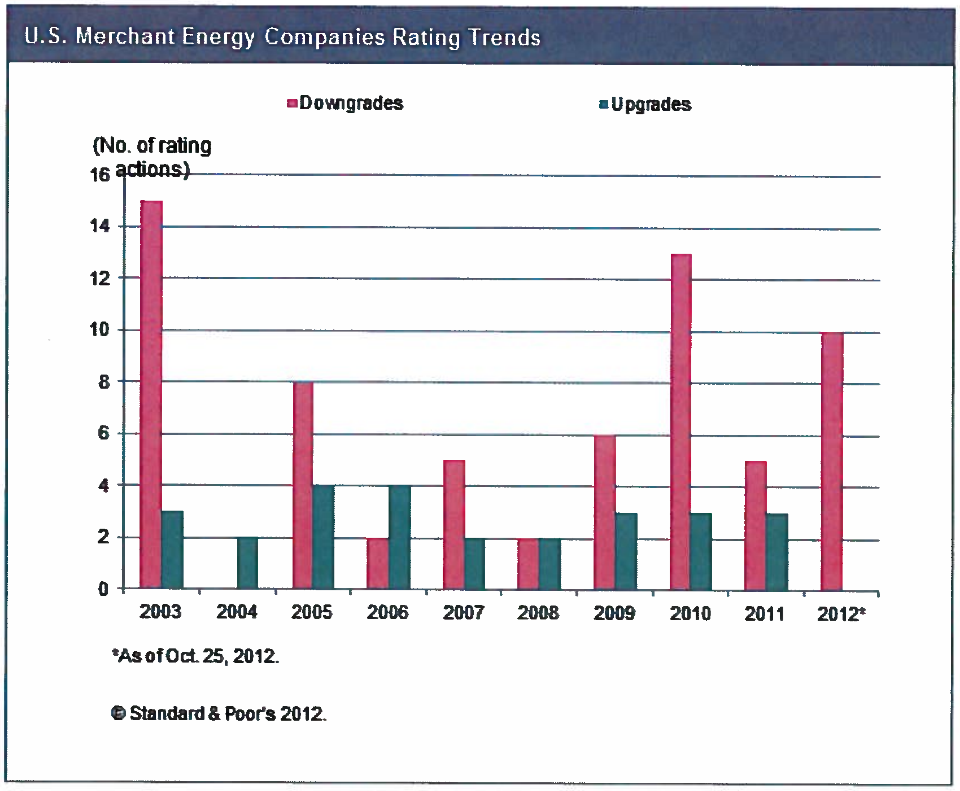

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Table 4

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

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

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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.

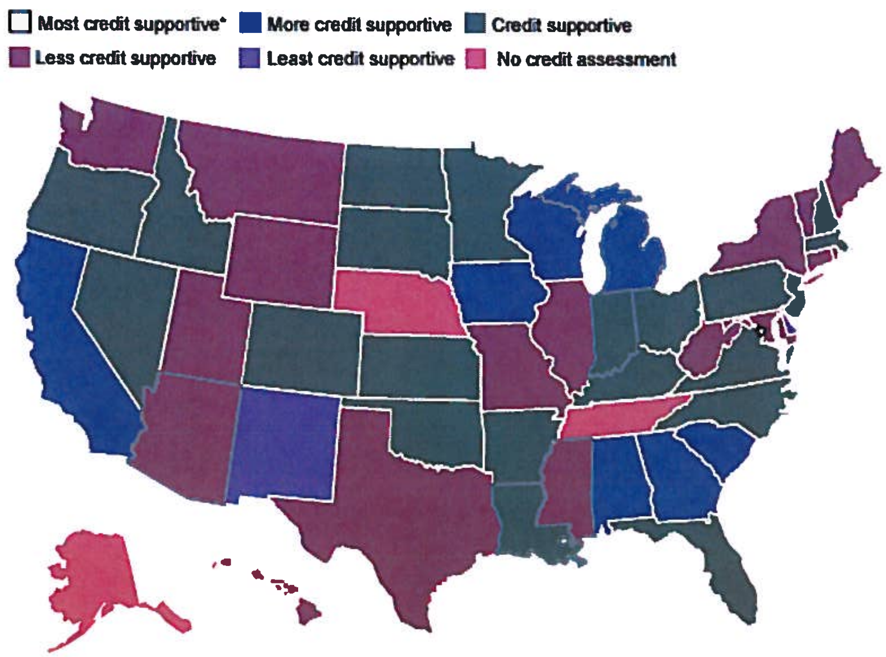
We revised our assessment of Mississippi to "Less Credit-Supportive" from "Credit-Supportive" to reflect unexpected and potentially detrimental actions on Mississippi Power Co.'s large IGCC generation facility now under construction. Regular prudence reviews and recovery of financing costs during construction (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.

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Exelon Corp.

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Table Of Contents

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