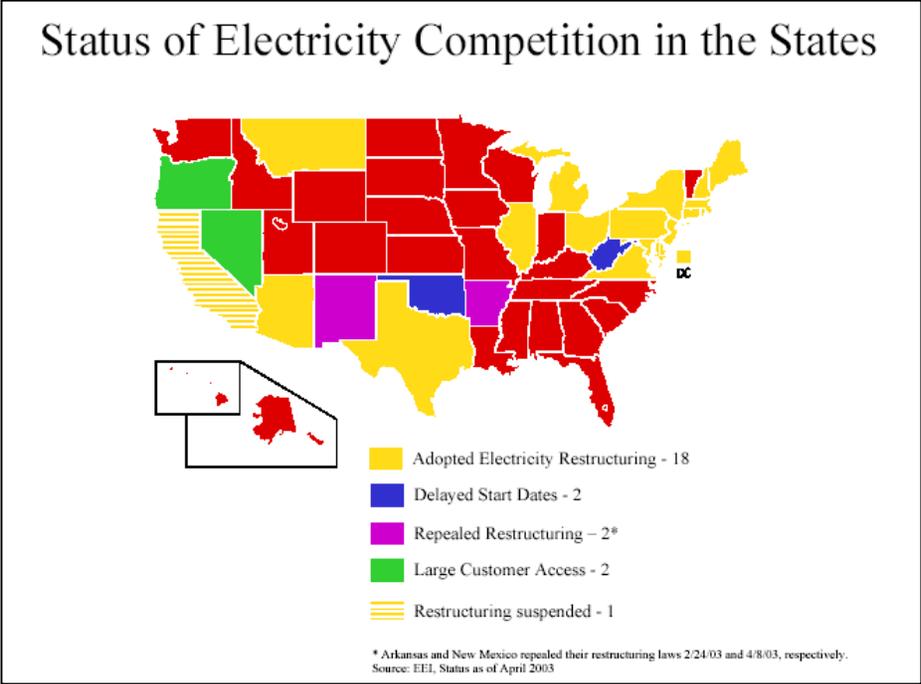

Overview of Post Transition Activities Across Various States

Electric Restructuring: The Lay of the Land



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The approaches taken by various states with respect to electric restructuring fall roughly into three categories:



Source: EEI Website, February 5

Restructured	New England, TX, PA, NY, NJ, IL, OH, VA, D.C.
Retrenching	CA, MT, NV, AZ
Regulated	Midwest, Southeast, Great Plains States, WA, ID, CO, WY

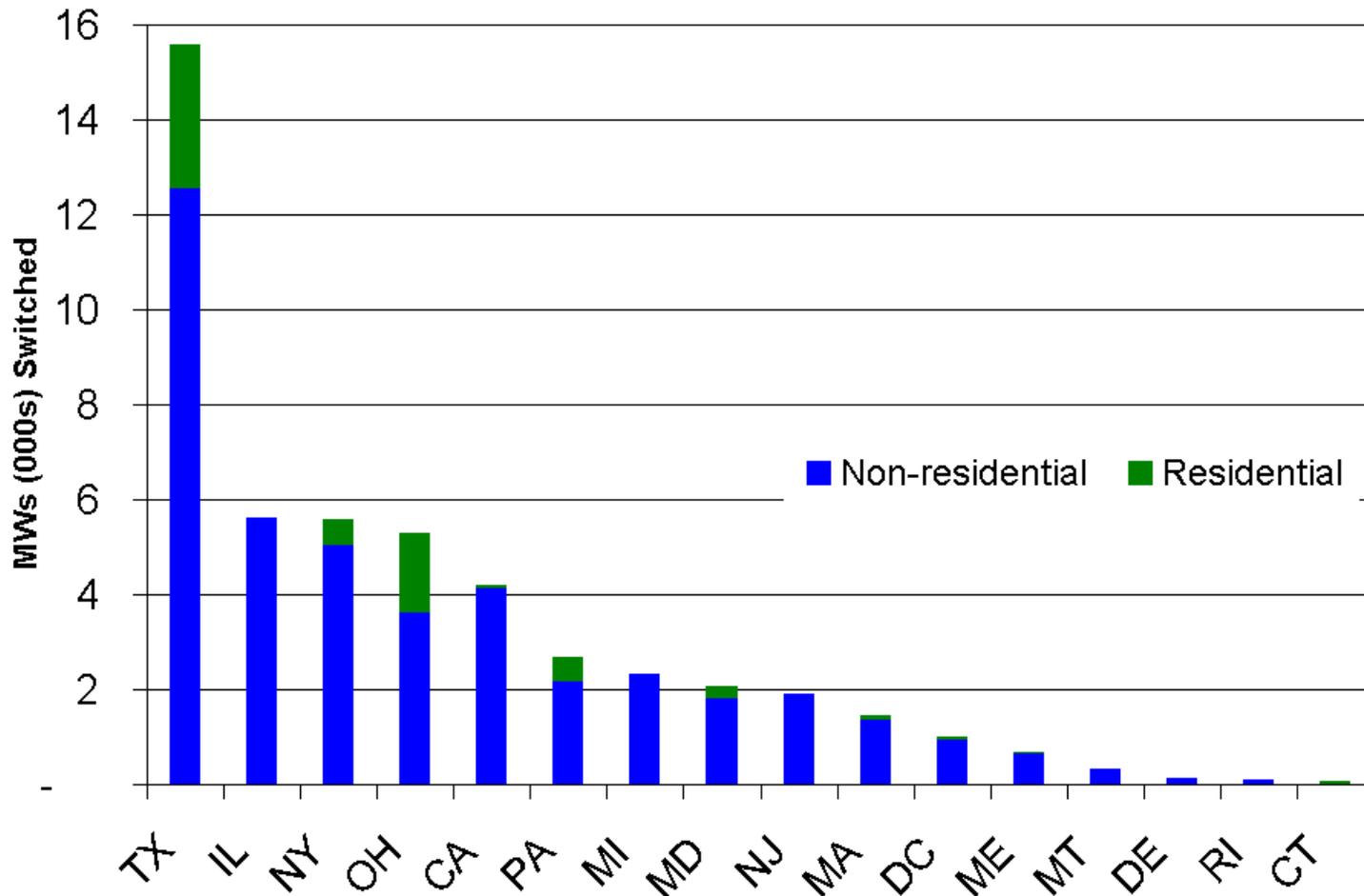
- The U.S. electric industry is a patchwork of models and is characterized by significant variation, even within the three major categories.

Retail competition has emerged primarily in the medium to large commercial / industrial customer segments



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Megawatts Switched by State, Mid-2003



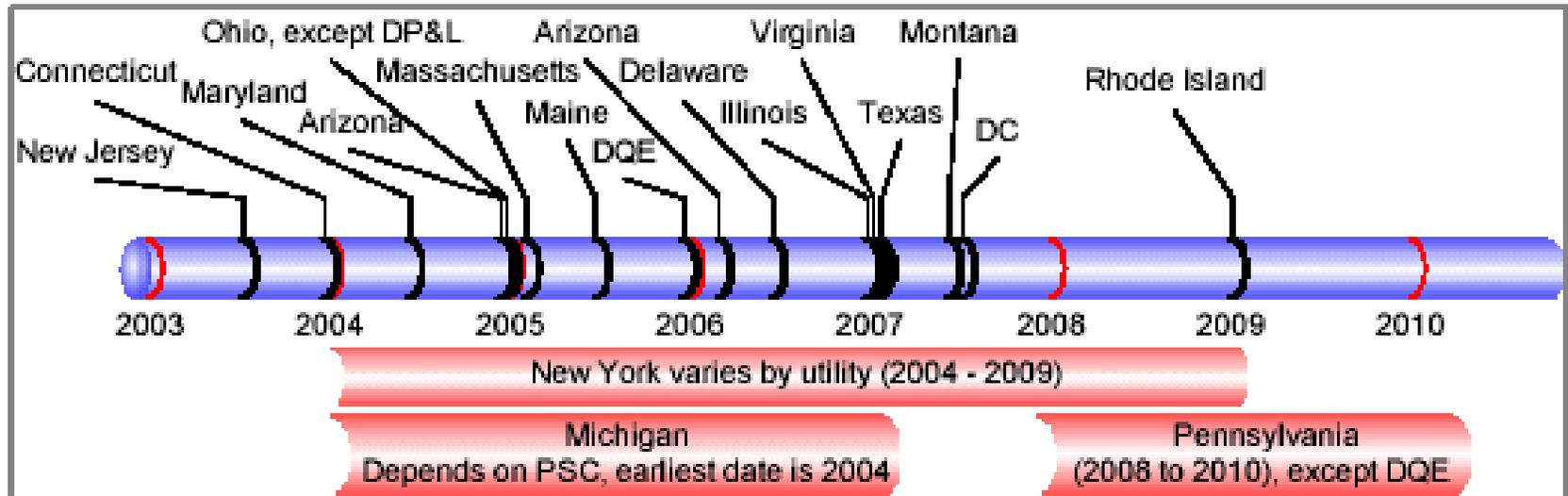
Source: XENERGY (IL figures include PPO)

While a few States have completed their transition periods, most will end over the next five years



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Electric Choice Scheduled Transition Period End-Date



Source: XENERGY.

Many of the states moving ahead with competition are coming to the end of their transition periods – and are facing a common set of issues:

- **Wholesale market are still developing**
 - RTO development slower than anticipated
 - State/Federal jurisdictional conflict
 - Concerns over concentration of generation ownership and affiliate issues
 - Merchant generators in default, high credit risk impairs market activity
 - Scaling back of trading activity, large number of players exit the business

- **Uneven development of competitive retail markets between Large and Small customers**
 - Market has proven successful for many large customers and switching activity has steadily increased
 - Competitive market has not developed for small customers who have, for most part, remained on utility supply
 - Hybrid models emerging: distinct treatment of large and small customers

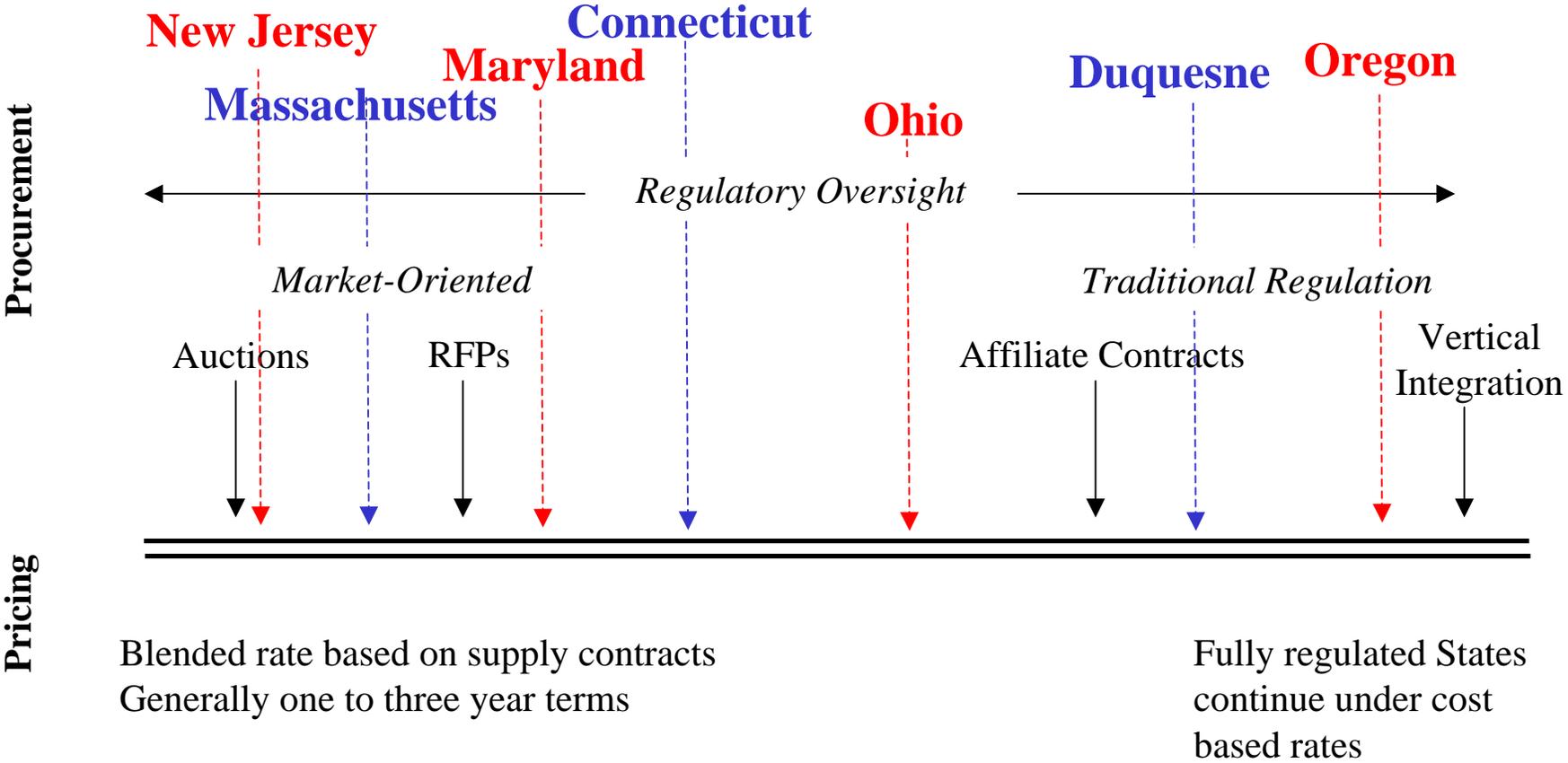
- **Difficulty in balancing policy goals of consumer protection and market development**
 - Tension over role of POLR service: Promote competition or provide a safety net?
 - Attempts to balance these interests have resulted in:
 - Competitive procurement models which produce fixed prices for small customers
 - Procurement processes which provide transparency and have varying degrees of regulatory oversight

Most restructuring jurisdictions share common policy goals of promoting market development and protecting consumers, particularly mass market consumers, but no single approach has taken hold.

Continuum of Restructuring Approaches



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Power Supply Options: Competitive Procurement



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Option	Examples	Characteristics	Pros	Cons
Request for Proposals (RFP) Method	<ul style="list-style-type: none"> • Maine • Connecticut • Maryland • Pennsylvania 	<ul style="list-style-type: none"> • Can be used to procure full requirements contracts (percentage of total requirements in every hour) or specific resources (generally for meeting load growth) • RFP process itself is usually the sole responsibility of the utilities • The PUCs and the Independent Monitor oversee it • Many states allow the utilities to charge an administration fee to handle the RFP process • Generally, the max term is three years • Some states allow changes in fuel costs to be passed through via fuel clauses in the RFP's 	<ul style="list-style-type: none"> • Product can be customized to meet specific needs • Well written contracts clarify responsibilities, risks and performance obligations • Competitive process promotes procurement transaction transparency 	<ul style="list-style-type: none"> • Can be time consuming, complicated and expensive • Open ended bids that are not well written can frustrate power providers • Bid evaluation criteria may include non-price factors, creating increased concern of after-the-fact review • Particularly sensitive to affiliate transactions • Not suitable for short-term products • One time, competitive sealed bid does not permit bidders to improve their bids

Power Supply Options: Competitive Procurement (cont.)



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Option	Example	Characteristics	Pros	Cons
Auction Method	<ul style="list-style-type: none"> New Jersey 	<ul style="list-style-type: none"> 3rd party administers the New Jersey Auction and independent consultant oversees on behalf of BPU Product offered is Full Requirements Slice of system load (a percentage of the supply obligation in every hour) Utilizes a descending clock auction Three year term with one third auctioned each year Customers pay rates determined on the basis of the blended final auction prices Requires a competitive wholesale market (including spot market) to function properly 	<ul style="list-style-type: none"> Market friendly Transparent process results in a finite result including value of risk management Local Distribution Company is neutral to supply risk After-the-fact review is limited to the auction process itself Has run successfully for three years Positive reactions from stakeholders 	<ul style="list-style-type: none"> Requires PJM type market structure to function efficiently Suppliers must have risk management capabilities To date, no suppliers have defaulted, but in that event, utility is required to buy from spot market.

Power Supply Options: Competitive Procurement (cont.)



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Option	Example	Characteristics	Pros	Cons
Spot Market pass – through method	<ul style="list-style-type: none">California Market in 2000	<ul style="list-style-type: none">All generators required to sell to and all utilities required to buy from Cal PXUtilities were at risk for any hedging	<ul style="list-style-type: none">Idea was to create a truly liquid marketProvides opportunity and incentive for competitive retail suppliers to aggressively enter market	<ul style="list-style-type: none">Resulted in California Energy Crises – Highly volatile prices to consumers

Power Supply Options: Administrative price determination



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Option	Example	Characteristics	Pros	Cons
Administrative price	<ul style="list-style-type: none">• Dayton Power and Light – (OH)	<ul style="list-style-type: none">• Extension of rate freeze thorough 2005	<ul style="list-style-type: none">• Price certainty and stability for customers• Allows further time for wholesale market development	<ul style="list-style-type: none">• Retail pricing disconnected from wholesale market pricing

Power Supply Options: Hybrid Approach



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Option	Example	Characteristics	Pros	Cons
<p>Hybrid supply (competitive bid and affiliate generation)</p>	<ul style="list-style-type: none"> • Duquesne Light Company (PA) 	<ul style="list-style-type: none"> • Duquesne has fully divested its generation, but has filed a rate plan with the Pennsylvania PUC which would fix default rates at predetermined prices through 2010 • Power supply will be accomplished through a combination of competitive procurement and contracted supply from an affiliated generator. • Duquesne would enter into a PPA from a 400MW plant which is being purchased by an affiliate for the purpose of hedging POLR obligation supply risks for Duquesne. 	<ul style="list-style-type: none"> • Price certainty and stability for customers • Competitors know price to beat for long term supply – supports retail competition • Places procurement risk on utility • No need for after-the-fact review • Fixes prices while maintaining competitive wholesale process 	<ul style="list-style-type: none"> • Actual market prices may vary significantly higher or lower