

# Sanford C. Bernstein Strategic Decisions Conference

May 29, 2014



# Cautionary Statements Regarding Forward-Looking Information

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This presentation contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, that are subject to risks and uncertainties. The factors that could cause actual results to differ materially from the forward-looking statements made by Exelon Corporation, Commonwealth Edison Company, PECO Energy Company, Baltimore Gas and Electric Company and Exelon Generation Company, LLC (Registrants) include those factors discussed herein, as well as the items discussed in (1) Exelon's 2013 Annual Report on Form 10-K in (a) ITEM 1A. Risk Factors, (b) ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and (c) ITEM 8. Financial Statements and Supplementary Data: Note 22; (2) Exelon's First Quarter 2014 Quarterly Report on Form 10-Q in (a) Part II, Other Information, ITEM 1A. Risk Factors; (b) Part 1, Financial Information, ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations and (c) Part I, Financial Information, ITEM 1. Financial Statements: Note 15; (3) the cautionary statements regarding the proposed merger with Pepco Holdings, Inc. included in Exelon's Current Reports on Form 8-K regarding the transaction filed on April 30, 2014; (4) PHI's 2013 Annual Report on Form 10-K in (a) ITEM 1A. Risk Factors, (b) ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and (c) ITEM 8. Financial Statements and Supplementary Data: Note 15; (5) PHI's First Quarter 2014 Quarterly Report on Form 10-Q in (a) PART I, ITEM 1. Financial Statements, (b) PART I, ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations and (c) PART II, ITEM 1A. and (6) other factors discussed in filings with the SEC by the Registrants. Readers are cautioned not to place undue reliance on these forward-looking statements, which apply only as of the date of this presentation. None of the Registrants undertakes any obligation to publicly release any revision to its forward-looking statements to reflect events or circumstances after the date of this presentation.

# Exelon Overview

## Exelon Generation

### Power Generation



- One of the largest merchant fleets in the nation (~35 GW of capacity)
- One of the largest and best managed nuclear fleets in the world (~19 GW)
- Significant gas generation capacity (~10 GW)
- Renewable portfolio (~1.5 GW), mostly contracted

### Constellation



- Leading competitive energy provider in the U.S.
- Customer-facing business, with ~1.1 M competitive customers and large wholesale business
- Top-notch portfolio and risk management capabilities
- Extensive suite of products including Load Response, RECs, Distributed Solar

## Exelon Utilities

### ComEd, PECO & BGE



- One of the largest electric and gas distribution companies in the nation (~7.8 M customers)
- Diversified across three utility jurisdictions – Illinois, Maryland and Pennsylvania
- Significant investments in Smart Grid technologies
- Transmission infrastructure improvement at utilities

## Competitive Business

## Regulated Business

**Exelon is one of the largest competitive integrated energy companies in the U.S.**

# Spot and Forward Market Volatility

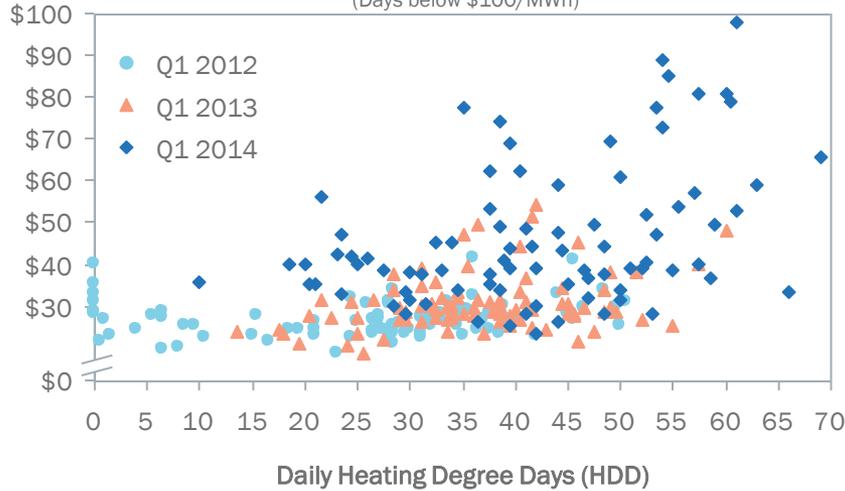
## Q1 2014 Saw Increased Volatility

### Spot Market Volatility

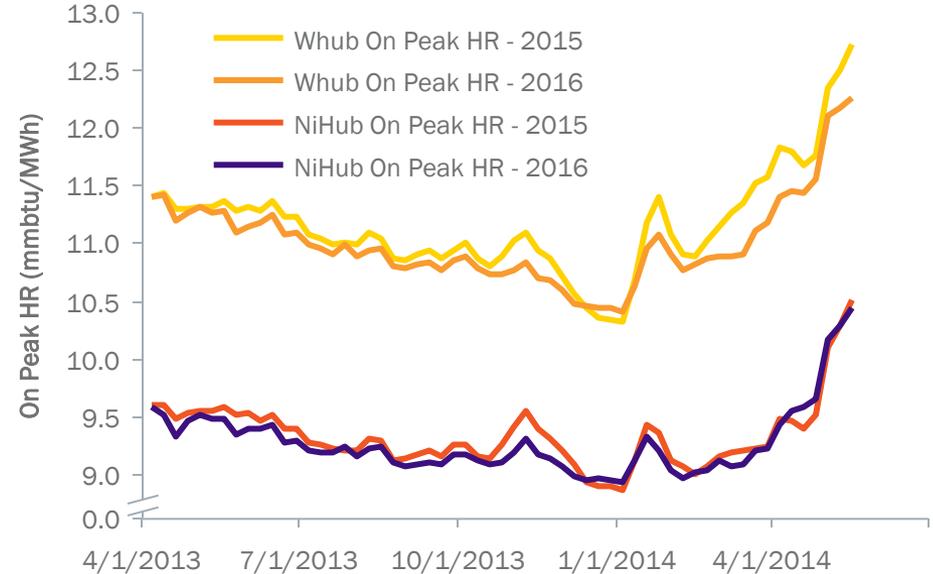
- Spot prices in 2014 have been high and have started to reflect the changing nature of the grid and reliance on different resources such as natural gas supply, demand response, and oil peakers
- Seeing higher prices at NiHub in 2014 than previous years for similar load conditions

### NiHub LMP per Daily HDD

(Days below \$100/MWh)



## Forward Markets Reacted To Spot Prices



### Impacts on Forward Markets

- Forward market power prices and heat rates have pushed higher year to date due to:
  - Higher prices in the spot markets that are now beginning to be reflected in the forward markets as the stack has changed and there is more reliance on non-baseload, higher priced resources
  - Expectation of another 15 GW of coal-fired generation to be retired between now and 2016
  - PJM Market design changes that are intended to improve price formation and locational marginal pricing (LMP) signals

# Portfolio Value and Positioning

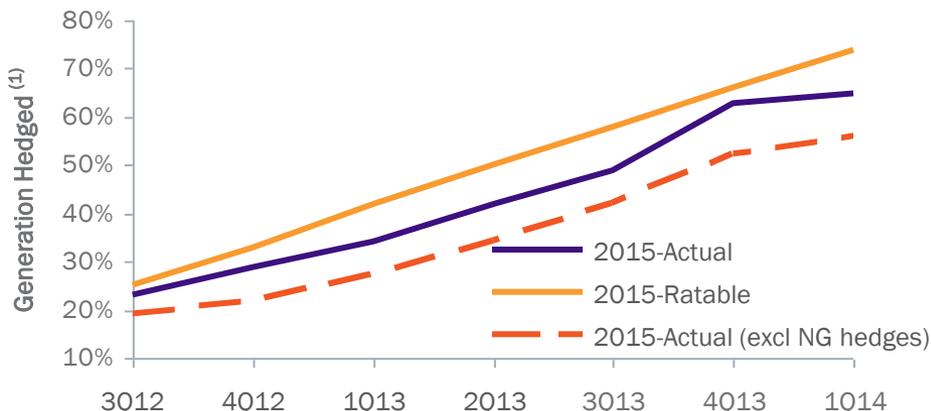
## Changes to Gross Margin Through 4/30/14

### Power prices continued to increase in April

- Since the end of Q1 and thru 4/30/2014, power prices in Mid-Atlantic and Midwest regions increased nearly \$5.00 per MWh in 2015 and 2016
- Open gross margin increase from this power price move and the removal of DOE nuclear disposal fee (~\$150M annually) is over \$1B per year for 2015 and 2016
- Net of hedges the hedged gross margin increased by \$350M and \$600M, to \$7,800M and \$8,000M respectively, in 2015 and 2016 between end of Q1 and 04/30/2014
- Impact of incremental changes in power prices in May on gross margin can be approximated using the updated portfolio sensitivities given below

Sensitivities <sup>(2)</sup> (\$MM)	2015	2016
<b>NiHub ATC Energy Price</b>		
+\$5/MWh	\$235	\$360
-\$5/MWh	\$(230)	\$(360)
<b>PJM-W ATC Energy Price</b>		
+\$5/MWh	\$90	\$195
-\$5/MWh	\$(85)	\$(190)

## 2015: Open Power Position Creating Value From Higher Prices<sup>(1)</sup>



### Impacts of our view on our hedging activity

- With the move higher in forward power prices and market implied heat rates, our behind ratable and cross commodity hedge strategies have created value.
- As of 3/31/2014, when considering both strategies, we had a significant amount of our portfolio open to moves in the power market:
  - Approximately 45% open in 2015
  - Approximately 70% open in 2016
- We are evaluating the latest market moves and the impact on our view of upside in the market. Where the market has increased, we are taking action to lock in the value that has been created from our strategies

(1) As of 3/31/2014

(2) As of 4/30/2014

# Capacity Markets Better – Opportunity for Improvement

## New England Auction

- In Q1, 17/18 auction cleared much higher than expected indicative of tighter supply/demand after unit retirement announcements

## PJM Auction

**Higher clearing prices led to higher total revenues year over year, but not enough to clear financially challenged nuclear units**

### Market design and rule changes impacted auction results

- Demand response cleared 10,975 MW; ~1,400 MW lower year over year (YoY)
  - Limited product reached constraint of 2,322 MW
- Limits on imports into RTO drove imports lower- 4,526 MW cleared; ~3,000 MW lower YoY

## What's next?

- DR rules:** Court opinion raises questions regarding demand response's (DR) ability to participate as a resource in the future
- Speculation:** FERC rejected PJM's reforms to address speculation, but agreed that PJM has identified a reliability problem. FERC instituted a proceeding to determine the appropriate changes to the PJM tariff

### **Nuclear Asset Rationalization – continue to work regulatory and stakeholder process to bring reforms**

- Exelon's nuclear units Quad Cities (U1 & U2), Byron (U1&U2) and Oyster Creek did not clear the auction
- Clearing prices higher but not adequate to provide incentives to keep these clean generation assets operational
- Incremental auctions or incremental PJM or local market reforms could provide avenues for additional capacity revenues for these units
- Exelon has committed not to make any retirement decisions about IL plants before June 2015
- IL House has joined effort by introducing resolution (HR1146) that calls for urgent reforms that recognize value of nuclear energy for its reliability and carbon free benefits

## Capacity market results

	Capacity prices \$/MW-Day	
	2016/2017	2017/2018
<b>PJM</b>		
Rest of Pool	\$59	\$120
MAAC	\$119	\$120
SWMAAC	\$119	\$120
<b>Average EXC</b>	<b>\$92</b>	<b>\$120</b>
<b>New England</b>		
NEMA	\$219	\$493
Rest of Pool	\$90	\$230
<b>Average EXC</b>	<b>\$186</b>	<b>\$425</b>

## Financial Implications

	Planning Year
	17/'18 vs '16/'17
<b>PJM<sup>(1)</sup></b>	~ \$150M
<b>New England</b>	~ \$250M
<b>Total</b>	~ \$400M

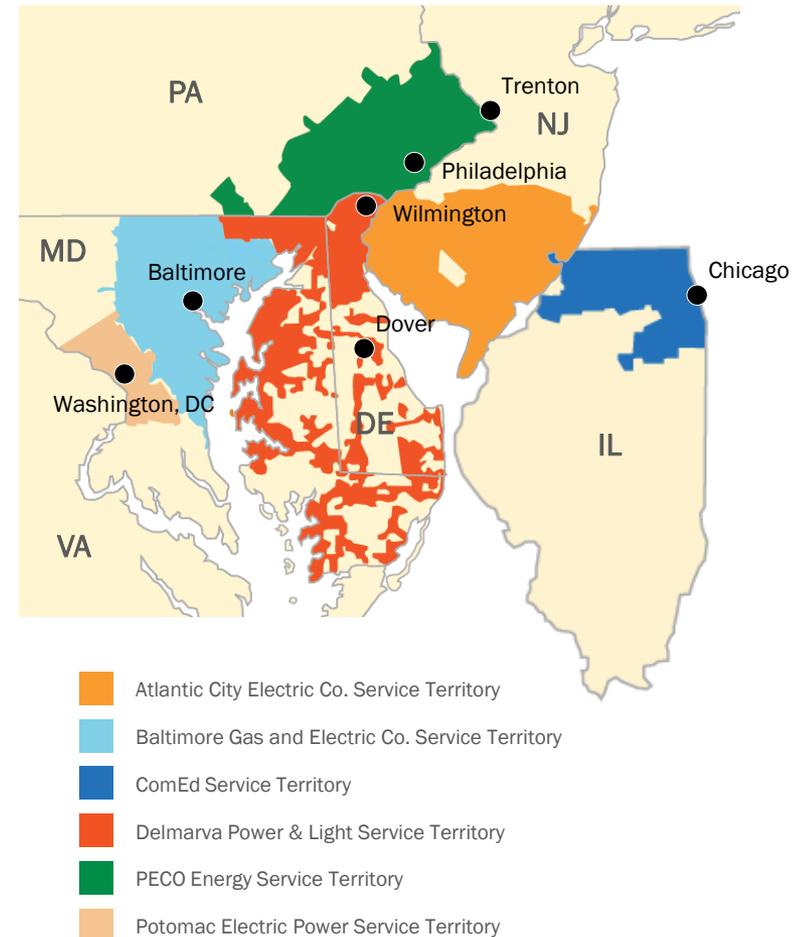
(1) PJM numbers include adjustments for PPA roll-offs

# Pepco Holdings Acquisition

On April 30, 2014, Exelon announced the acquisition of Pepco Holdings Inc. in an all cash transaction

## Strategic Rationale

- A **strategic acquisition** with a good geographic fit and economies of scale creates opportunities for cost savings, improved customer reliability and accelerated storm response.
- The combined utility businesses will serve nearly **10 million customers**, with a rate base of ~\$26 billion.
- Purchase price of **\$27.25** per share.
- Earnings composition supports **incremental leverage** and is expected to be **highly accretive** to operating earnings starting in the first full year post-close with steady-state accretion of \$0.15-\$0.20 per share starting in 2017
- Increases Exelon's **utility derived earnings and cash flows**, providing a solid base for the dividend and **maintaining the upside** from a recovery in power markets.
- Balanced financing mix allows Exelon to **maintain balance sheet strength** and provides flexibility to **continue to invest** in opportunities aligned with our growth strategy.
- The combination of Exelon and Pepco Holdings (PHI) will offer **significant benefits to customers**.



# Transaction Economics

## Earnings Accretive First Full Year <sup>(1)</sup>

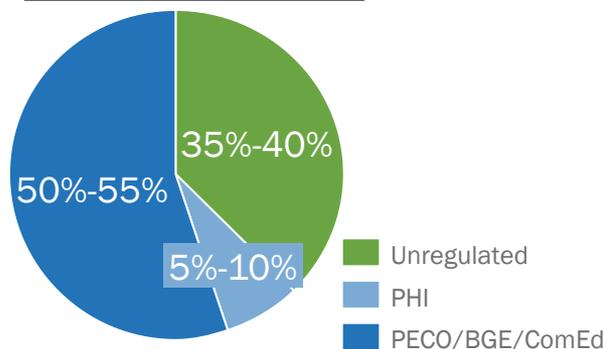


## Rate Base Growth (\$B)<sup>(2)</sup>



## 2015-2016 Operating Earnings<sup>(3)</sup>

### Pro Forma Business Mix



## Provides tangible benefits to the customers and shareholders

- Run-rate synergies of roughly \$120 - \$140 million per year
- Expect ~ 60% of synergies to return to ratepayers through rate case process and rest retained
- \$100M customer investment fund for rate credits, low income assistance and energy efficiency programs

**The transaction is significantly EPS accretive, adds to rate base growth and further strengthens our financials**

(1) Assumes funding mix of assumed debt, new debt, asset sales and equity issuance with appropriate discount to market price

(2) Reflects year end rate base  
(3) Business mix as of 3/31/14

# Exelon is positioned for a strong future

## Core Strength

## Implications and Actions

**Strong integrated business model**



With Pepco Holdings acquisition, we will have an even stronger regulated base of earnings that provides dividend support and potential increase in the future

**Power Market Upside**



Our clean, world class, merchant nuclear fleet has unparalleled upside to the current power market recovery

**Balance sheet flexibility**



We maintain flexibility in our balance-sheet to allow for incremental regulated and merchant investments

**Asset Optimization and Rationalization**



We continue to review our asset portfolio and make decisions to optimize the value of each one of them

**Public policy Advocacy**



Advocate for policies that strengthen competitive markets, limit subsidies and enhance the value of clean generation.

Diversification in assets, regions, businesses and keeping abreast of emerging technologies and macro trends in our industry is central to our long term strategy