

EXELON CORP
Form U-1
December 22, 2003
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As filed with the Securities and Exchange Commission on December 22, 2003 File No. 70-_____

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM U-1

APPLICATION-DECLARATION
UNDER
THE PUBLIC UTILITY HOLDING COMPANY ACT OF 1935

Exelon Corporation
Commonwealth Edison Company
10 South Dearborn Street, 37th Floor
Chicago, Illinois 60603

PECO Energy Company
2301 Market Street
Philadelphia, Pennsylvania 19101
Adwin Equipment Company; ECP Telecommunications

Exelon Generation Company, LLC
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Kennett Square, Pennsylvania 19348
Exelon New Trust Company; Exelon Services, Inc.;

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Holdings, LLC; EEI Telecommunications Holding, LLC; Exelon Thermal Development, Inc.; Exelon Energy Trading Company; Exelon Business Services Thermal Holding, Inc.; Exelon Thermal Company; Exelon Capital Partners, Inc.; Exelon Technologies, Inc.; Exelon Ventures Company, Communications Company, LLC; Exelon LLC; F&M Holdings Company, LLC; Unicom Communications Holdings, LLC; Exelon Energy Power Holdings, LLC; and Unicom Power Company; Exelon Energy Delivery Company, LLC; Marketing, Inc.

Exelon Enterprises Company, LLC; Exelon Enterprises Investments, Inc.; Exelon Enterprises Management, Inc.;

c/o Exelon Corporation

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37th Floor

Chicago, Illinois 60603

(Name of companies filing this statement and address of principal executive offices)

Exelon Corporation

(Name of top holding company parent of each applicant or declarant)

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Item 1. Description of Proposed Transaction

A. Introduction

In this Application-Declaration (this Application), Exelon Corporation (Exelon), a registered holding company under the Public Utility Holding Company Act of 1935, as amended (the Act), the Utility Subsidiaries (as hereinafter defined) and the additional companies listed on the signature page of this Application (collectively, the Applicants) seek approval pursuant to Sections 6(a), 7, 9, 10 and 12 of the Act and Rules 42, 43, 44, 45, 46, 52, 53 and 54 thereunder to engage in the various transactions set forth herein.

B. Background

Exelon and its Subsidiaries¹ received approval from the Securities and Exchange Commission (the Commission) in Docket No. 70-9693 (as amended through Amendment No. 5, the Prior Financing U-1) to engage in certain financing transactions pursuant to orders dated November 2, 2000 (Holding Co. Act Release No. 27266, the November 2 Order) and December 8, 2000 (Holding Co. Act Release No. 27296, the December 8 Order) and together with the November 2 Order, the Prior Orders).

In the November 2 Order, the Commission reserved jurisdiction over several requests including the request that Exelon be permitted to have an aggregate investment in exempt wholesale generators (EWGs) and foreign utility companies (FUCOs) of \$5.5 billion. The November 2 Order approved an aggregate investment of up to \$2 billion in EWGs and FUCOs and reserved jurisdiction over the balance of the request. Exelon has previously requested that the Commission release jurisdiction over the request for an additional \$2 billion in aggregate investment in EWGs and FUCOs and by the December 8 Order the Commission approved such request so that the aggregate investment in EWGs and FUCOs now authorized is \$4 billion. In other respects the November 2 Order remains unchanged.

Furthermore, the November 2 Order approved financing authority in the amount of \$4 billion and reserved jurisdiction over the request for an additional \$4 billion outstanding at any time through March 31, 2004, representing financing authorizations relating to equity securities, preferred securities and debt.²

¹ Each of the directly and indirectly owned subsidiaries of Exelon is referred to in this Application individually as a Subsidiary and collectively as Subsidiaries.

² Exelon filed Amendment No. 5 on August 15, 2001 requesting that the Commission further release jurisdiction over the remaining requests and seeking other relief. Exelon hereby withdraws those requests.

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A summary of the existing limitations on financing for the Exelon system is as follows:

<u>Type</u>	<u>Amount</u>
Exelon common stock, preferred securities, long-term debt, short-term debt	\$ 4 billion
Exelon short-term debt sub-limit	\$ 3 billion
Utility Subsidiaries short-term debt	\$ 2.7 billion
Genco membership interests, preferred securities, long-term debt	\$ 5.5 billion
Exelon and Genco guaranties	\$ 4.5 billion
Aggregate Investment in EWGs and FUCOs	\$ 4 billion

The Prior Orders, in summary, approved the following:

i. (a) external issuances by Exelon of common stock, preferred stock and preferred stock equivalent securities (collectively preferred securities), long-term debt, short-term debt, and other securities, (b) guarantees of obligations of affiliated or unaffiliated persons in favor of other unaffiliated persons, and (c) the entering into by Exelon of transactions to manage interest rate risk (hedging transactions⁴);

ii. issuances of securities, guarantees and the entering into of hedging transactions by the Utility Subsidiaries to the extent not exempt pursuant to Rule 52;

iii. issuances by Non-Utility Subsidiaries⁵ of securities and authority to enter into hedging transactions which are not exempt pursuant to Rule 52;

iv. the establishment of a utility money pool (the Utility Money Pool) and a non-utility money pool (the Non-Utility Money Pool) and the issuance of intra-system guarantees by Exelon and the Non-Utility Subsidiaries on behalf of the Subsidiaries;

v. the continuation of existing intra-system debt and guarantees;

vi. the ability of 50% or more owned Subsidiaries to alter their capital stock in order to engage in financing transactions with their parent company;⁶

³ The limitation on short-term debt for Exelon Generation Company, LLC (Genco) was aggregated with the Utility Subsidiary limitation on short-term debt of \$2.7 billion. Further, the overall limitation on Genco financing is aggregated with the Exelon limitation of \$4 billion, and thereby effectively limiting Genco s financing authority to \$4 billion.

⁴ Hedging transactions include only those transactions related to financing activities. Engaging in futures and other commodity related risk management by Exelon and its subsidiaries constitute part of their normal business activities and as such do not require Commission approval. See Southern Energy, Inc., Holding Co. Act Release No. 27020 (May 13, 1999); Entergy Corp., Holding Co. Act Release No. 26812 (Jan. 6, 1998); New Century Energies, Holding Co. Act Release No. 26748 (Aug. 1, 1997); National Fuel Gas Co., Holding Co. Act Release No. 2666 (Feb. 12, 1997).

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Non-Utility Subsidiaries are defined as all Subsidiaries of Exelon other than the Utility Subsidiaries and also includes all other direct and indirect subsidiaries that Exelon may hereinafter form or acquire in accordance with a Commission order or otherwise in accordance with the Act or a rule promulgated thereunder.

⁶ The Commission approved this request with respect to wholly-owned Subsidiaries and reserved jurisdiction with respect to less than wholly-owned Subsidiaries.

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- vii. the formation of financing entities and the issuance by such entities of securities otherwise authorized to be issued and sold pursuant to the Prior Orders or pursuant to applicable exemptions under the Act, including intra-system guarantees of such securities and the retention of existing financing entities;

- viii. the payment by Non-Utility Subsidiaries of dividends out of capital and unearned surplus;

- ix. the use of up to \$4 billion of the proceeds of financings for investments in EWGs and FUCOs;⁷

- x. issuance of debt or equity securities by Exelon Energy Delivery Company, LLC (Delivery), Exelon Ventures Company, LLC (Ventures) and Genco for the purpose of acting as a conduit for additional financing to their respective Subsidiaries; and

- xi. the payment by Exelon and ComEd of dividends out of capital up to an amount of \$500 million.

The approvals summarized in items (i) through (x) above are referred to as the Financing Activities. Authorization for Financing Activities under the Prior Orders expires March 31, 2004. Item (xi) is not subject to this expiration date.

C. Description of the Parties to the Transaction

Exelon has three principal operating public utility company subsidiaries (the Utility Subsidiaries⁸)

PECO Energy Company (PECO), a public utility company engaged (i) in the purchase, transmission, distribution and sale of electricity and (ii) in the purchase, distribution and sale of natural gas in Pennsylvania;

Commonwealth Edison Company (ComEd), a public utility company engaged in the purchase, transmission, distribution and sale of electricity in Illinois; and

Genco, a public utility company and a registered holding company⁹ engaged in the purchase, generation and sale of electricity in Pennsylvania, Illinois and elsewhere.

⁷ As indicated above, the Prior Orders approved the use of up to \$4 billion of financings for investments in EWGs and FUCOs and reserved jurisdiction over the remainder of the \$5.5 billion sought by Exelon.

⁸ For purposes of this filing, Utility Subsidiaries also includes Commonwealth Edison Company of Indiana, PECO Energy Power Company, Susquehanna Power Company and Susquehanna Electric Company.

⁹ Genco filed a Form U5A Notification of Registration on January 23, 2001.

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In addition, Exelon has the following other principal Subsidiaries:

Delivery, the intermediate registered holding company for ComEd and PECO;¹⁰

Exelon Business Services Company (Exelon Business Services), the service company for the Exelon System;

Ventures, a registered holding company and a first tier Subsidiary of Exelon which has as wholly-owned subsidiaries, Genco and Exelon Enterprises Company, LLC (Enterprises¹¹)and

Enterprises, the principal Subsidiary through which Exelon conducts its non-utility businesses.

Effective as of January 1, 2001, Exelon effectuated the corporate restructuring (the Restructuring) contemplated in the Commission's order approving the merger (the Merger) that created Exelon (Holding Co. Act Release No. 27256, October 19, 2000) (the Merger Order). In summary, the Restructuring consisted of the transfer of electric generating assets of ComEd and PECO to Genco and the transfer of non-utility subsidiaries of PECO and Unicom Enterprises, Inc. to be indirect subsidiaries of Ventures.

D. Overview of the Requests

The Applicants hereby request authorization to engage in the financing transactions set forth herein during the period from the effective date of the order in this proceeding through April 15, 2007 (the Authorization Period).

The authority sought herein will replace and substitute for all the authority granted by the Prior Orders with respect to Financing Activities.

The approval by the Commission of this Application will give the Applicants the flexibility that will allow them to respond quickly and efficiently to their financing needs and to changes in market conditions, allowing them to efficiently and effectively carry on business activities designed to provide benefits to customers and shareholders. Approval of this Application is consistent with the Prior Orders and existing Commission precedent.¹³

The authorizations for financing transactions and other approvals requested herein relate to:

¹⁰ Delivery filed a Form U5A Notification of Registration on June 4, 2001.

¹¹ Ventures filed a Form U5A Notification of Registration on January 23, 2001. See Docket No. 70-10107 regarding a proposed reorganization involving Ventures.

¹² Certain elements of the Restructuring were completed later in 2001.

¹³ See e.g., FirstEnergy Corp., Holding Co. Act Release No. 27694 (June 30, 2003); SCANA Corporation Holding Co. Act Release No. 27649 (February 12, 2003); E.ON AG, Holding Co. Act Release No. 27539 (June 14, 2002); First Energy Corporation, Holding Co. Act Release No. 27459 (Oct. 29 2001); Exelon Corporation, Holding Co. Act Release No. 27266 (Nov. 2, 2000); New Century Energies, Holding Co. Act Release No. 27212 (Aug. 16, 2000); Dominion Resources, Inc., Holding Co. Act Release No. 27112 (Dec. 15, 1999), Conectiv, Inc., Holding Co. Act Release No. 26833 (Feb. 26, 1998), and Ameren Corporation, Holding Co. Act Release No. 26809 (Dec. 30, 1997).

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- i. external issuances by Exelon of common stock, preferred stock, Preferred Securities (as defined below), Equity Linked Securities (as defined below), membership interests, long-term debt and short-term debt to increase Exelon's capitalization by up to \$8.0 billion over existing capitalization at the time of the order in this matter;

- ii. external issuances by Exelon of common stock, preferred stock, Preferred Securities, Equity Linked Securities, long-term debt and short-term debt to refund or replace existing securities without increasing capitalization;

- iii. external issuances of up to 21 million shares of Exelon common stock under Exelon's dividend reinvestment plan, certain incentive compensation plans and certain other employee benefit plans;

- iv. the entering into by Exelon of hedging transactions;

- v. external issuances by Genco of membership interests, preferred equity interests, Preferred Securities, Equity Linked Securities, long-term debt and short term debt to increase its capitalization, subject to the \$8 billion limitation applicable to Exelon, or to refund or replace existing securities without increasing capitalization or to assume certain pollution control obligations currently outstanding for ComEd or PECO;

- vi. the formation of financing entities and the issuance by such entities of securities otherwise authorized to be issued and sold pursuant to this Application or pursuant to applicable exemptions under the Act, including intra-system guarantees of such securities and the retention of existing financing entities;

- vii. the issuance of intra-system advances and guarantees, to the extent not exempt pursuant to Rules 45(b) and 52, by Exelon to or on behalf of its Subsidiaries and others, by the Non-Utility Subsidiaries to or on behalf of other Non-Utility Subsidiaries and others and by the Utility Subsidiaries to or on behalf of such Utility Subsidiary's direct or indirect subsidiaries and others;

- viii. issuances of short-term debt securities (including commercial paper) in an amount not to exceed \$2.7 billion issued and outstanding at any time and the entering into of hedging transactions by the Utility Subsidiaries and external issuances by the Utility Subsidiaries of long-term debt or short-term debt to refund or replace existing securities without increasing capitalization, to the extent not exempt pursuant to Rule 52;

- ix. continuation of authorization for the Utility Money Pool and the Non-Utility Money Pool (subject to modifications described herein);

- x. conduit financings through Ventures, Genco and Delivery;

- xi. the payment of dividends out of capital or unearned surplus by the Non-Utility Subsidiaries;

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xii. revision to the existing authority regarding payment of dividends out of capital up to \$500 million by Exelon and ComEd to accommodate a change in accounting method for goodwill recognized in the Merger;

xiii. the use of up to \$7.0 billion of financings for investments in EWGs and FUCOs;

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xiv. the payment of dividends out of capital by Commonwealth Edison Company of Indiana, Inc. (ComEd of Indiana); and

xv. authorization for Genco to become obligated for certain pollution control obligations of PECO and ComEd.

E. Financing Authorization

I. Parameters for Financing Authorization

Authorization is requested herein to engage in certain financing transactions during the Authorization Period for which the specific terms and conditions are not at this time known, and which may not be covered by Rule 52, without further prior approval by the Commission. The following general terms will be applicable where appropriate to the financing transactions requested to be authorized hereby:

(a) Effective Cost of Money on Financings. The effective cost of money on long-term debt of any series will not exceed at the time of issuance the greater of (i) 700 basis points over the yield to maturity of a U.S. Treasury Security having a remaining term approximately equal to the term of such series of long-term debt or (ii) a gross spread over a U.S. Treasury Security that is consistent with similar securities of comparable credit quality and maturities issued by other companies. The dividend or distribution rate on any series of preferred stock and other forms of Preferred Securities or Equity Linked Securities will not exceed at the time of issuance the greater of (i) 800 basis points over the yield to maturity of a U.S. Treasury Security having a remaining term equal to the term of such series or (ii) a rate that is consistent with similar securities of comparable credit quality and maturities (or perpetual preferred stock) issued by other companies. The effective cost of money on short-term debt will not exceed the greater of (i) 500 basis points over the comparable term London Interbank Offered Rate (LIBOR) or (ii) a gross spread over LIBOR that is consistent with similar securities of comparable credit quality and maturities issued by other companies.¹⁴

(b) Maturity. The maturity of indebtedness will not exceed 50 years. Preferred stock, Preferred Securities and Equity Linked Securities (other than perpetual preferred stock) will be redeemed no later than 50 years after the issuance thereof, unless converted into common stock.

(c) Issuance Expenses. The underwriting fees, commissions or other similar remuneration paid in connection with the non-competitive issue, sale or distribution of securities pursuant to this Application will not exceed 7% of the principal or total amount of the securities being issued.¹⁵

(d) Use of Proceeds. The proceeds from the sale of securities in external financing transactions will be used for general corporate purposes including (i) the financing, in part, of the capital expenditures of the Exelon system, (ii) the financing of working capital requirements of the Exelon system, (iii) the acquisition, retirement or redemption pursuant to Rule 42 of

¹⁴ See CenterPoint Energy, Inc., Holding Co. Act Release No. 27692 (June 30, 2003), FirstEnergy Corp., Holding Co. Act Release No. 27694 (June 30, 2003), Entergy Corporation, Holding Co. Act Release No. 27626 (Dec. 20, 2002). Calculation of the cost of money does not consider issuance expenses including underwriting commissions. See CenterPoint Energy, Inc., Holding Co. Act Release No. 27692 (June 30, 2003).

¹⁵ See SCANA Corporation, Holding Co. Act Release No. 27649 (February 12, 2003).

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securities previously issued by Exelon or its Subsidiaries or as otherwise authorized by Commission, and (iv) direct or indirect investment in companies authorized under the Act or by Commission Rule (including EWGs or FUCOs) or in a separate proceeding and (v) other lawful purposes.

The Applicants represent that no such financing proceeds will be used to acquire a new subsidiary unless such financing is consummated in accordance with an order of the Commission or an available exemption under the Act. The aggregate amount of proceeds of financings and guaranties used to fund investments in EWGs and FUCOs will not, when added to Exelon's aggregate investment in these entities at any point in time, as defined in Rule 53, exceed \$7.0 billion.

(e) Common Equity Ratio. At all times during the Authorization Period, Exelon, ComEd and Peco will each maintain common equity (as reflected in the most recent Form 10-K or Form 10-Q filed with the Commission adjusted to reflect changes in capitalization since the balance sheet date therein) of at least 30% of its consolidated capitalization (common equity, minority interests, preferred stock, short-term debt and long-term debt, excluding securitization debt, referred to herein as Consolidated Capitalization); provided that Exelon will in any event be authorized to issue common stock (including pursuant to a dividend reinvestment or employee benefit plans) to the extent authorized herein.¹⁶

Although PECO has common equity of greater than 30% of Consolidated Capitalization as used herein, PECO notes that the Commission in the Prior Orders found that PECO would work to continue to improve its equity ratio as securitization bonds are paid down. PECO continues to expect that its common equity ratio will improve as the securitization bonds are paid down and as Exelon settles the Receivable Contribution (defined below) and that PECO will reach a level of common equity of at least 30% of capitalization by December 31, 2010 (at which time all securitization bonds are expected to be retired and therefore will not be a consideration in the calculation).¹⁷

Exelon proposes that Consolidated Capitalization exclude the impact of securitization bonds outstanding for the benefit of ComEd and PECO in determining compliance with the Commission's 30% test applicable to Exelon, ComEd and Peco. All such securitization bonds are rated AAA and have dedicated revenue streams approved by the applicable state commission ensuring that they will be timely paid. Consequently, as shown by their rating, they have a very low risk of default and excluding those securities from the calculation does not adversely impact the purpose of the capitalization test for the Commission's purposes. The structure of these financings, the orders of the respective State commissions and the statutory provisions of each State ensure that there will be sufficient cash flow from a dedicated portion of payments made by utility customers to at all times provide for principal and interest on the securitization bonds. The rates paid by customers are subject to adjustment in accordance with procedures of the respective states to ensure that amounts collected are sufficient to meet debt service and other requirements under the securitization financings.¹⁸

¹⁶ Accordingly, the consequence of failing to maintain common equity of at least 30% of Consolidated Capitalization when required is that Exelon (or if such failure were only by ComEd, such company) would not be authorized to issue securities in a transaction subject to Commission approval except for securities which would result in an increase in such common equity percentage. See FirstEnergy Corp., Holding Co. Act Release No. 27694 (June 30, 2003).

¹⁷ Reliant Energy, Inc., Holding Co. Act Release No. 27548 (July 5, 2002).

¹⁸ See Utility Stranded Costs: Rating the Securitization of Transition Tariffs, Special Report, FitchIBCA (September 24, 1998) (available at www.FitchIBCA.com). Furthermore, the Commission has recognized that it is appropriate to consider the effects of securitization debt to determine compliance with its traditional test of a minimum equity component of capitalization of 30%. See West Penn Power Co., Holding Co. Act Release No. 35 27091 (Oct. 19, 1999) (exemption from 30% equity standard granted where utility's equity ratio was 15% because of transition bonds and other factors; excluding transition bonds, utility would satisfy 30% test). See also, the Prior Orders. This approach is consistent with the rating agencies analysis of the impact of securitization on a utility's capital structure. In its September 23, 1999 rating review of PECO, Moody's noted: "The major advantages of securitization from a credit perspective are the lower financing costs of higher rated securities and the greater certainty of recovery of stranded costs. As we analyze PECO post-securitization, Moody's will treat the securitized debt as fully non-recourse to the company. Moody's has grown comfortable with this analytical approach despite the

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fact that the Securities and Exchange Commission's guidelines require the debt to appear on the company's balance sheet. Under this approach, we will adjust cash flow downward to account for the setting aside of cash flows derived from collection of reimbursable transition charges to serve the fixed charges associated with the securitization bonds. This approach, we believe, better reflects the cash flow streams available for protection of PECO's traditional fixed income investors.

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Applicants request that the Commission reserve jurisdiction over the issuance of securities in those circumstances where Exelon, ComEd or PECO does not comply with the common equity criteria of 30% of Consolidated Capitalization pending completion of the record upon filing of a post-effective amendment.

(f) Investment Grade Ratings. Exelon, ComEd and PECO further represent that apart from (a) securities issued for the purpose of funding money pool operations and (b) issuances or draw-downs under existing¹⁹ credit facilities with banks or institutional lenders, no guarantees or other securities, other than common stock, may be issued in reliance upon the authorization granted by the Commission pursuant to this Application, unless (i) the security to be issued, if rated, is rated investment grade and (ii) all outstanding senior unsecured securities of the issuer that are rated are rated investment grade.

For purposes of this provision, a security will be deemed to be rated investment grade if it is rated investment grade by at least one nationally recognized statistical rating organization. The ratings test will not apply to any issuances of membership interests or to issuances of indebtedness by Genco.

Applicants request that the Commission reserve jurisdiction over the issuance of any such securities that are rated below investment grade or issuance of securities when other outstanding senior unsecured securities of the issuer are not investment grade.

(g) Authorization Period. No security will be issued pursuant to the authority sought herein after the last day of the Authorization Period (which is April 15, 2007).

¹⁹ If a credit facility was entered into at a time when the issuer of securities satisfied the ratings tests of this paragraph, the issuer may continue to borrow under that credit facility even after the ratings tests are no longer satisfied.

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2. Financial Condition

Exelon is a financially sound company with investment grade ratings from major rating agencies.²⁰ The Exelon system's ratings as of September, 2003 from Standard & Poor's, Moody's and Fitch are as follows:

<u>Company and type of rating</u>	<u>S&P</u>	<u>Moody's</u>	<u>Fitch</u>
Exelon			
Corporate	A-	N/A	N/A
Unsecured	BBB+	Baa2	BBB+
Commercial Paper	A-2	P-2	F2
ComEd			
Secured	A-	A3	A-
Unsecured	BBB+	Baa1	BBB+
Preferred Stock and Trust Securities	BBB	baa3	BBB
Commercial Paper	A-2	P-2	F2
Transitional Trust Notes	AAA	Aaa	AAA
PECO			
Secured	A	A2	A
Unsecured	BBB+	A3	A-
Preferred Stock	BBB	baa2	BBB+
Trust Securities	BBB	baa1	BBB+
Commercial Paper	A-2	P-1	F1
Transitional Trust Notes	AAA	Aaa	AAA

²⁰ Of the Utility Subsidiaries, only ComEd and PECO have retail customers such that they are subject to State regulation of rates and other matters. Genco is not subject to any State utility regulation. Genco is also sound financially, has publicly issued, rated securities and a solid capital structure. The other Utility Subsidiaries (Commonwealth Edison Company of Indiana, PECO Energy Power Company, Susquehanna Power Company and Susquehanna Electric Company) were created for various historical reasons and do not currently have any publicly issued securities or securities ratings.

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Exelon also has a sound capital structure. At September 30, 2003, Exelon's consolidated common equity as a percentage of Consolidated Capitalization (as defined above) was 45.94%.²¹ Details regarding Exelon's Consolidated Capitalization are shown in the following table:

CONDENSED CONSOLIDATED CAPITAL STRUCTURE

(Dollars in Millions)

As of September 30, 2003

	Consolidated		Including	
	Capitalization		Securitization Bonds	
	Amount	Capital Structure Percentage	Amount	Capital Structure Percentage
Common Equity (includes Retained Earnings of \$2,210)	\$ 8,327	45.94%	\$ 8,327	34.87%
Preferred and Preference Stock	87	0.48%	87	0.36%
Company Obligated Mandatorily Redeemable Preferred Securities	422	2.33%	422	1.77%
Minority Interest of Consolidated Subsidiary	1	0.01%	1	0.00%
Long-Term Debt				
Securitization Bonds			5,758	24.11%
Other	7,445	41.07%	7,445	31.17%
Current Maturities of LTD	1,435	7.92%	1,435	6.01%
Total Long-Term Debt	8,880	48.99%	14,638	61.29%
Short-Term Debt	408	2.25%	408	1.71%
Total Capital Structure	\$ 18,125	100.00%	\$ 23,883	100.00%

²¹ As stated above, Consolidated Capitalization excludes securitization bonds. If securitization bonds were included in the calculation, Exelon's equity component of consolidated capitalization would be 34.87% at September 30, 2003.

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Likewise the Utility Subsidiaries have strong capital structures. Details regarding PECO's and ComEd's Consolidated Capitalization are shown in the following table:

COM ED CAPITAL STRUCTURE

(Dollars in Millions)

As of September 30, 2003

	Consolidated		Including	
	Capitalization		Securitization Bonds	
	Amount	Capital Structure Percentage	Amount	Capital Structure Percentage
Common Equity (includes Retained Earnings of \$836)	\$ 5,942	54.90%	\$ 5,942	47.28%
Preferred and Preference Stock	7	0.06%	7	0.06%
Company Obligated Mandatorily Redeemable Preferred Securities	344	3.18%	344	2.74%
Minority Interest of Consolidated Subsidiary				
Long-Term Debt				
Securitization Bonds			1,744	13.88%
Other	4,351	40.20%	4,351	34.62%
Current Maturities of LTD	179	1.65%	179	1.62%
Total Long-Term Debt	4,530	41.86%	6,274	49.92%
Short-Term Debt				
Total Capital Structure	\$ 10,823	100.00%	\$ 22,567	100.00%

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(Dollars in Millions)

As of September 30, 2003

	Consolidated		Including	
	Capitalization		Securitization Bonds	
	Amount	Capital Structure Percentage	Amount	Capital Structure Percentage
Common Equity (includes Retained Earnings of \$517)	\$ 857	34.25%	\$ 857	13.15%
Preferred and Preference Stock	87	3.48%	87	1.34%
Company Obligated Mandatorily Redeemable Preferred Securities	78	3.12%	78	1.20%
Minority Interest of Consolidated Subsidiary				
Long-Term Debt				
Securitization Bonds			4,014	61.60%
Other	1,468	58.67%	1,468	22.53%
Current Maturities of LTD				
Total Long-Term Debt	1,468	58.67%	5,482	84.13%
Short-Term Debt	12	0.48%	12	0.18%
Total Capital Structure	\$ 2,502	100.00%	\$ 6,516	100.00%

PECO's common equity is 34.25% of Consolidated Capitalization. Concurrent with the Restructuring, effective January 1, 2001, Exelon transferred assets out of PECO as a reduction of Common Stock (i.e., paid in capital) and contributed to PECO a \$2.0 billion receivable, payable by Exelon, for the purpose of funding future tax payments resulting from collection of competitive transition charges (the Receivable Contribution).²² The Receivable Contribution was reflected as an increase to Common Stock on the PECO balance sheets. However, instead of the offsetting entry being an asset, in accordance with the Commission's Staff Accounting Bulletin 4.G., the Receivable Contribution was recorded as a negative adjustment to Shareholders' Equity identified as Receivable from Parent in the PECO balance sheets. The amount of the increase in Common Stock was equal to the amount of the reduction in shareholder's equity attributed to the Receivable from Parent. The combined effects of the three entries (reduction of Common Stock for transfer of assets, increase in Common Stock for the Receivable Contribution and decrease in Common Stock for the Receivable Contribution) is to reduce PECO's common equity, as a percentage of total capitalization calculated in accordance with generally accepted accounting principles. The effect of the Receivable Contribution is included, however, in the 34.25% ratio (see below).

²² Among other things, the Restructuring resulted in a mismatch between PECO's potential future income (because of the transfer of PECO's generating facilities) and certain of PECO's expected liabilities including obligations for income taxes on competitive transition charge collections, all of which collections are dedicated to repayment of PECO's securitization bonds. To address the cash flow mismatch between revenues and income tax obligations and to enhance PECO's common equity position, Exelon management determined it was appropriate to make the Receivable Contribution. For additional information, including a discussion of a similar receivable at ComEd, see the Exelon Form 10-Q for the quarter ended September 30, 2001 including Note 12 of Combined Notes To Condensed Consolidated Financial Statements.

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The Receivable Contribution at September 30, 2003 of \$1,661 million is non-interest bearing.²³ As Exelon makes future contributions to PECO in respect of the Receivable Contribution through 2010 in conjunction with the payment of the taxes resulting from the collection of competitive transition charges, and assuming that PECO achieves its projected levels of earnings and pays the projected level of dividends, the reduction in Stockholders' Equity will reverse, resulting in increases in overall Stockholders' Equity and increases in the proportion of common stock in total capitalization of PECO.²⁴

Excluding the effect of the Receivable Contribution and excluding securitization debt from PECO's capitalization, the equity component of PECO capitalization (calculated in the same manner as Consolidated Capitalization) at September 30, 2003 would be 60.49%. Excluding the effect of the Receivable Contribution and including securitization debt in capitalization, the equity component of PECO capitalization at September 30, 2003 would be 30.79%.

PECO notes that the Commission in the Prior Orders found that PECO would work to continue to improve its equity ratio as securitization bonds are paid down. PECO continues to expect that its common equity ratio calculated according to generally accepted accounting principles will improve as the securitization bonds are paid down and as Exelon settles the Receivable Contribution and that PECO will reach a level of common equity of at least 30% of capitalization (calculated in the same manner as Consolidated Capitalization) by December 31, 2010 (at which time all securitization bonds are expected to be retired and therefore will not be a consideration in the calculation).²⁵ Information regarding current projected capitalization is included in Exhibit J-1 filed herewith. PECO has made progress in this goal from 2001 through 2003 as shown in the following table:

PECO COMMON EQUITY COMPONENT

(%)

<u>Period</u>	<u>As Reported Including Securitization and Receivable Commitment</u>	<u>Excluding Securitization Including Receivable Commitment</u>	<u>Excluding Securitization and Receivable Commitment</u>
March 31, 2001	2.1%	6.5%	49.7%
June 30, 2001	3.6%	11.8%	55.1%
September 30, 2001	5.1%	16.6%	57.8%
December 31, 2001	4.8%	15.3%	55.1%
March 31, 2002	5.4%	16.1%	54.3%
June 30, 2002	5.8%	17.4%	54.7%
September 30, 2002	7.5%	20.1%	53.2%
December 31, 2002	9.3%	25.2%	56.2%
March 31, 2003	10.4%	26.9%	56.1%
June 30, 2003	11.3%	29.6%	56.7%
September 30, 2003	13.15%	34.25%	60.49%

²³ The Receivable Contribution is not a loan to Exelon from PECO.

²⁴ Through September 30, 2003, Exelon contributed \$322 million to PECO in settlement of the Receivable Contribution. Scheduled contributions in the future are as follows:

(Dollars in Millions)

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<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
2003	\$ 12(4 th Q)	2006	\$ 211	2009	\$ 300
2004	\$ 141	2007	\$ 238	2010	\$ 337
2005	\$ 155	2008	\$ 267		

²⁵ Reliant Energy, Inc., Holding Co. Act Release No. 27548 (July 5, 2002).

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3. Description of Specific Types of Financing

(a) Exelon External Financing

Exelon requests authorization to obtain funds externally through sales of common stock, preferred stock, Preferred Securities, Equity Linked Securities, long-term debt and short-term debt securities. With respect to common stock, Exelon also requests authority to issue common stock to third parties in consideration for the acquisition by Exelon or a Non-Utility Subsidiary of equity or debt securities of a company being acquired pursuant to an exemption under the Act (e.g., Sections 32, 33 or 34) or pursuant to Commission rule (e.g., Rule 58) or specific authorization by another Commission order. In addition, Exelon seeks the flexibility to enter into certain hedging transactions to manage interest rate risk.

i. Common Stock

The aggregate amount of financing obtained by Exelon during the Authorization Period from issuance and sale of common stock, no par value (other than for employee benefit plans or stock purchase and dividend reinvestment plans), when combined with issuances of preferred stock, Preferred Securities, Equity Linked Securities, long-term debt and short-term debt, as described in this section, and other than for refunding or replacement of securities where capitalization is not increased as a result thereof from that in place at September 30, 2003 (i.e., \$23.883 billion), shall not exceed \$8 billion for the uses set forth in Item 1.E.1. (d) above. Any refunding or replacement of securities where capitalization is not increased from that in place at September 30, 2003 will be through the issuance of securities of the type authorized in this Application.

Exelon's authority will be aggregated with that for Genco as more fully described below in Item 1. E. 3. (b)(ii).

This represents no change from the authority requested for the authorization period expiring March 31, 2004 but an increase of \$4 billion over the amount approved in the Prior Orders for such period.

a. General

Exelon may sell common stock covered by this Application in any one of the following ways: (i) through underwriters or dealers; (ii) through agents; (iii) directly to a limited number of purchasers or a single purchaser; or (iv) directly to employees (or to trusts established for their benefit), shareholders and others. Issuances of common stock under Exelon's employee benefit plans and stock purchase and dividend reinvestment plans will not count towards the limitations proposed in this section; approval to issue common stock for such plans is being sought under

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Item 1. E. 4. below. If underwriters are used in the sale of the securities, such securities will be acquired by the underwriters for their own account and may be resold from time to time in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices determined at the time of sale. The securities may be offered to the public either through underwriting syndicates (which may be represented by a managing underwriter or underwriters designated by Exelon) or directly by one or more underwriters acting alone. The securities may be sold directly by Exelon or through agents designated by Exelon from time to time. If dealers are utilized in the sale of any of the securities, Exelon will sell such securities to the dealers as principals. Any dealer may then resell such securities to the public at varying prices to be determined by such dealer at the time of resale. If common stock is being sold in an underwritten offering, Exelon may grant the underwriters thereof a green shoe option permitting the purchase from Exelon at the same price of additional shares then being offered solely for the purpose of covering over-allotments.

Public distributions may be pursuant to private negotiation with underwriters, dealers or agents as discussed above or effected through competitive bidding among underwriters. In addition, sales may be made through private placements or other non-public offerings to one or more persons. All such common stock sales will be with terms and conditions, at rates or prices and under conditions negotiated or based upon, or otherwise determined by, competitive capital markets.

b. Acquisitions

Under the terms of the Act and orders of the Commission, including the Merger Order, Exelon is authorized to acquire securities of companies engaged in energy-related businesses as described in Rule 58, exempt telecommunications companies (ETCs), EWGs and FUCOs. Historically, similar acquisitions have occasionally involved the exchange of parent company stock for securities of the company being acquired in order to provide the seller with certain tax advantages. These transactions are individually negotiated. The Exelon common stock to be exchanged may be purchased on the open market pursuant to Rule 42, or may be original issue. Original issue stock may be registered under the Securities Act of 1933, as amended (the 1933 Act), but at present it is expected that the common stock would not be registered and the common stock acquired by the third parties would be subject to resale restrictions pursuant to Rule 144 under the 1933 Act.

The ability to offer stock as consideration may make a transaction more economical for Exelon as well as for the seller of the business. The Exelon common stock would be valued at market value based upon the closing price on the day prior to the date of issuance (or, if appropriate, the date of a binding contract providing for the issuance of the common stock) or based upon average high and low prices for a period as negotiated by the parties. From the perspective of the Commission, the use of stock as consideration valued at market value should be no different than a sale of common stock on the open market and use of the proceeds to acquire securities, the acquisition of which is otherwise authorized.

ii. Preferred Stock, Preferred Securities and Equity Linked Securities

Exelon requests Commission authorization during the Authorization Period to issue preferred stock and to issue directly or indirectly through one or more Financing Subsidiaries (as defined below) preferred securities, including, specifically, trust preferred securities or

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monthly income preferred securities (Preferred Securities) and to issue equity linked securities, including units consisting of a combination of incorporated options, warrants and/or forward equity purchase contracts with debt, preferred stock or Preferred Securities (Equity Linked Securities). Equity Linked Securities will be exercisable or exchangeable for or convertible, either mandatorily or at the option of the holder, into common stock or indebtedness or allow the holder to utilize one security to satisfy its obligation to another security. Any convertible or Equity Linked Securities will be convertible into or linked to only securities that Exelon and its Subsidiaries are otherwise authorized to issue pursuant to rule or Commission order.

The aggregate amount of financing obtained by Exelon during the Authorization Period from issuance and sale of preferred stock, Preferred Securities and Equity Linked Securities, when combined with issuances of common stock (other than for employee benefit plans or stock purchase and dividend reinvestment plans), long-term debt and short-term debt, as described in this section and other than for refunding or replacement of securities where capitalization is not increased from that in place at September 30, 2003 (i.e. \$23.883 billion), shall not exceed \$8 billion for the uses set forth in Item 1. E. 1 (d) above. Any refunding or replacement of securities where capitalization is not increased from that in place at September 30, 2003 will be through the issuance of securities of the type authorized in this Application.

There are many different variations of equity-linked products offered in the marketplace. Typically, these products combine a security with a fixed obligation (e.g., preferred stock, Preferred Securities or debt) with a conversion feature that is exercisable (often mandatorily) within a relatively short period (e.g., three to six years after issuance). These instruments may also be tax advantaged. From the issuer's standpoint, an equity-linked security may offer a means to raise capital at a lower overall economic or after-tax cost than other types of long-term securities, in that the fixed obligation component may have a lower after-tax cost than straight preferred stock and all or a portion of the interest or dividends paid may be tax deductible or lock in prices at which investors are obligated to purchase common stock or other securities at a future date.. From an economic standpoint, these types of securities also generally carry a lower cost than common equity. Preferred Securities may be issued in one or more series with such rights, preferences, and priorities as may be designated in the instrument creating each such series. Dividends or distributions on Preferred Securities will be made periodically and to the extent funds are legally available for such purpose, but may be made subject to terms that allow the issuer to defer dividend payments or distributions for specified periods. Preferred Securities may be convertible or exchangeable into shares of common stock or other indebtedness and may be issued in the form of shares or units.

Preferred stock, Preferred Securities and Equity Linked Securities may be sold directly or indirectly through underwriters or dealers or in connection with an acquisition similar to that described for common stock in Item 1. F.3.(a)(i) above.

The Commission has approved the issuance of such securities on several occasions,²⁶

²⁶ CenterPoint Energy, Inc., Holding Co. Act Release No. 27692 (June 30, 2003); FirstEnergy Corp., Holding Co. Act Release No. 27694 (June 30, 2003); Ameren Corporation, Holding Co. Act Release No. 27449 (Oct. 5, 2001); The Southern Company, Holding Co. Act Release No. 27134 (Feb. 9, 2000). See NiSource, Inc., Holding Co. Act Release No. 27567 (Sept. 12, 2000) describing equity linked securities issued by that company.

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iii. Long-Term Debt

Exelon requests Commission authorization during the Authorization Period to issue unsecured, long-term debt securities in an aggregate principal amount outstanding at any time, when combined with issuances of common stock (other than for benefit plans or stock purchase and dividend reinvestment plans) preferred stock, Preferred Securities, Equity Linked Securities and short-term debt as described in this section, and other than for refunding or replacement of securities where capitalization is not increased as a result thereof from that in place at September 30, 2003 (i.e., \$23.883 billion) not to exceed \$8 billion for the uses set forth in Item 1.E. 1.(d) above. At September 30, 2003 Exelon had \$15.147 billion of consolidated long-term debt obligations outstanding. Any refunding or replacement of securities where capitalization is not increased will be through the issuance of securities of the type authorized in this Application.

Long-term debt securities may be comprised of bonds, notes, medium-term notes or debentures under one or more indentures (the Exelon Indenture) or long-term indebtedness under agreements with banks or other institutional lenders. Any long-term debt security would have such designation, aggregate principal amount, maturity, interest rate(s) or methods of determining the same, terms of payment of interest and other terms and conditions as Exelon may determine at the time of issuance. Any long-term debt (a) may be convertible into any other securities of Exelon, (b) will have maturities ranging from one to 50 years, (c) may be subject to optional and/or mandatory redemption, in whole or in part, at par or at various premiums above the principal amount thereof, (d) may be entitled to mandatory or optional sinking fund provisions, (e) may provide for reset of the coupon pursuant to a remarketing arrangement, (f) may be subject to tender to the issuer for repurchase or be subject to the obligation of the issuer to repurchase at the election of the holder or upon the occurrence of a specified event, (g) may be called from existing investors by a third party and (h) may be entitled to the benefit of positive or negative financial or other covenants. The maturity dates, interest rates, redemption and sinking fund provisions, tender or repurchase and conversion features, if any, with respect to the long-term securities of a particular series, as well as any associated placement, underwriting or selling agent fees, commissions and discounts, if any, will be established by negotiation or competitive bidding.

Borrowings from banks and other financial institutions will be pari passu with debt securities issued under the Exelon Indenture and the short-term credit facilities (as described below).

Specific terms of any borrowings will continue to be determined by Exelon at the time of issuance and will comply in all regards with the parameters on financing authorization set forth in Item 1. E.1 above.

The request for authorization for Exelon to issue long-term debt securities is consistent with the current authority under the Prior Orders and authorization that the Commission has granted to other combination gas and electric holding companies.²⁷

²⁷ See e.g., CenterPoint Energy, Inc., Holding Co. Act Release No. 27692 (June 30, 2003), FirstEnergy Corp., Holding Co. Act Release No. 27694 (June 30, 2003), SCANA Corporation, Holding Co. Act Release No. 27649 (February 12, 2003), E.ON AG, Holding Co. Act Release No. 27539 (June 14, 2002); Allegheny Energy, Inc., Holding Co. Act Release No. 27486 (Dec. 31, 2001); Exelon Corporation, Holding Co. Act Release No. 27266 (Nov. 2, 2000); New Century Energies, Holding Co. Act Release No. 27212 (Aug. 16, 2000).

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iv. Short-Term Debt

Exelon requests Commission authorization during the Authorization Period to issue and have outstanding at any one time during the Authorization Period unsecured, short-term debt securities²⁸ in an aggregate principal amount outstanding at any time, when combined with issuances of common stock (other than for benefit plans or stock purchase and dividend reinvestment plans and other than for refunding or replacement of securities where capitalization is not increased as a result thereof from that in place September 30, 2003 (i.e., \$23.883 billion)) under this Application and when combined with issuances of preferred stock, Preferred Securities and Equity Linked Securities and long-term debt, as described in this section not to exceed \$8 billion for the uses set forth in Item 1. E. 1. (d) above.

Short-term debt may include institutional borrowings, commercial paper or bid notes (all as described below) and short-term debt issued under the Exelon Indenture or otherwise. This request represents an increase over the authority previously granted in the Prior Orders as a result of eliminating the short-term debt sub-limit. However, the authorization for short-term debt is aggregated with, and not in addition to, the \$8 billion requested for common stock, preferred stock and Preferred Securities, Equity Linked Securities and long-term debt as described in Item 1.F.3. (a)(i), (ii) and (iii) above.

In the Prior Orders, the Commission imposed a requirement that Exelon limit the amount of short-term indebtedness issued under the authority of the Prior Orders to \$3 billion. Exelon recognizes that high levels of short-term debt can produce risks to the company in the event of a rapid increase in interest rates or when other conditions make refinancing of such short-term debt at maturity expensive or otherwise difficult. However, to allow Exelon financial flexibility to fund its capital needs, including potential acquisitions of major assets including EWGs or FUCOs, Exelon proposes in this filing that the short-term limitation be eliminated. Exelon believes that the most cost effective and efficient manner in which to finance a significant investment is through an initial issuance of short-term indebtedness with a term sufficient to allow it to arrange for permanent financing on the most attractive terms. Banks and other lenders are often more willing to provide favorable terms for such interim financing if it has a final term of less than one year. Consequently, the most likely means of financing such significant activity by Exelon would be through an initial short-term borrowing. Exelon will closely monitor its capital structure and would not undertake short-term financing of a significant amount unless it was confident that it had a viable strategy for permanent financing which could, in appropriate cases, include new equity as well as long-term debt to retire the short-term, interim acquisition financing.

Exelon believes that the significant levels of financial strength evidenced by its A-2/P-2 level short-term commercial paper credit ratings (see chart in Item 1. E. 2. above) justifies its ability to use short-term debt as described above. The Commission has approved general omnibus financing authority, such as that sought herein, without imposing a sub-limit on short-term debt.²⁹

²⁸ The maturity of any short-term debt issued will not exceed 364 days or, if the notional maturity is greater than 364 days, the debt security will include put options at appropriate points in time or other features to cause the security to be accounted for as a current liability under generally accepted accounting principles.

²⁹ See, e.g., E.ON AG, Holding Co. Act Release No. 27539 (June 14, 2002); Allegheny Energy, Inc., Holding Co. Act Release No. 27521 (April 17, 2002); KeySpan Corp., Holding Co. Act Release No. 27272 (Nov. 8, 2000); Scottish Power plc, Holding Co. Act Release No. 27290 (Dec. 6, 2000).

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Exelon may sell commercial paper, from time to time, in established domestic commercial paper markets. Such commercial paper would be sold to dealers at the discount rate or the coupon rate per annum prevailing at the date of issuance for commercial paper of comparable quality and maturities sold to commercial paper dealers generally. It is expected that the dealers acquiring commercial paper from Exelon will re-offer such paper at a discount to corporate and institutional investors. Institutional investors are expected to include commercial banks, insurance companies, pension funds, investment trusts, foundations, colleges and universities and finance companies.

Exelon may, without counting against the limit set forth above, maintain back-up lines of credit in connection with a commercial paper program in an aggregate amount not to exceed the amount of authorized commercial paper.

Credit lines may be set up for use by Exelon for general corporate purposes in addition to credit lines to support commercial paper as described in this subsection. Exelon will borrow and repay under such lines of credit, from time to time, as it is deemed appropriate or necessary. If Exelon enters into a credit line at a time when it meets the ratings requirements of Item 1. E. 1. (f) above, it will remain authorized to borrow or draw under such credit line during the Authorization Period notwithstanding any subsequent non-compliance with such rating requirements.

v. Financing Risk Management Devices

a. Interest Rate Risk. Exelon requests authority to enter into, perform, purchase and sell financial instruments intended to reduce or manage the volatility of interest rates, including but not limited to interest rate swaps, caps, floors, collars and forward agreements. Hedges may also include issuance of structured notes (i.e., a debt instrument in which the principal and/or interest payments are indirectly linked to the value of an underlying asset or index), or transactions involving the purchase or sale, including short sales, of U.S. Treasury or U.S. governmental agency (e.g., Fannie Mae) obligations or LIBOR based swap instruments (collectively referred to as Hedge Instruments). The transactions would be for fixed periods and stated notional amounts. Exelon would employ interest rate derivatives as a means of prudently managing the risk associated with any of its outstanding debt issued pursuant to this authorization or an applicable exemption by, in effect, synthetically (i) converting variable rate debt to fixed rate debt, (ii) converting fixed rate debt to variable rate debt and (iii) limiting the impact of changes in interest rates resulting from variable rate debt. In no case will the notional principal amount of any interest rate swap exceed the face value of the underlying debt instrument and related interest rate exposure. Transactions will be entered into for a fixed or determinable period. Thus, Exelon will not engage in speculative transactions. Exelon will only enter into agreements with counterparties (Approved Counterparties) whose senior debt ratings, as published by a national recognized rating agency, are greater than or equal to BBB, or an equivalent rating.

b. Anticipatory Hedges. In addition, Exelon requests authorization to enter into interest rate hedging transactions with respect to anticipated debt offerings (the Anticipatory Hedges), subject to certain limitations and restrictions. Such Anticipatory Hedges would only be entered into with Approved Counterparties, and would be utilized to fix and/or limit the interest rate risk associated with any new issuance through (i) a forward sale of exchange-traded Hedge Instruments (a Forward Sale), (ii) the purchase of put options on Hedge Instruments

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(a Put Options Purchase), (iii) a Put Options Purchase in combination with the sale of call options Hedge Instruments (a Zero Cost Collar), (iv) transactions involving the purchase or sale, including short sales, of Hedge Instruments, or (v) some combination of a Forward Sale, Put Options Purchase, Zero Cost Collar and/or other derivative or cash transactions, including, but not limited to, structured notes, caps and collars, appropriate for the Anticipatory Hedges. Anticipatory Hedges may be executed on-exchange (On-Exchange Trades) with brokers through the opening of futures and/or options positions traded on the Chicago Board of Trade (CBOT), the opening of over-the-counter positions with one or more counterparties (Off-Exchange Trades), or a combination of On-Exchange Trades and Off-Exchange Trades. Exelon or the appropriate Subsidiary will determine the optimal structure of each Anticipatory Hedge transaction at the time of execution. Exelon or the appropriate Subsidiary may decide to lock in interest rates and/or limit its exposure to interest rate increases.

c. Accounting Standards. Exelon will comply with Statement of Financial Accounting Standards (SFAS) 133 (Accounting for Derivative Instruments and Hedging Activities), SFAS 138 (Accounting for Certain Derivative Instruments and Certain Hedging Activities) or such other standards relating to accounting for derivative transactions as are adopted and implemented by the FASB. The Hedge Instruments and Anticipatory Hedges approved hereunder will qualify for hedge accounting treatment under the current FASB standards in effect and as determined at the date such Hedge Instruments or Anticipatory Hedges are entered into.

(b) Financing Subsidiaries

Exelon and the Subsidiaries request authority to acquire, directly or indirectly, the equity securities of one or more corporations, trusts, partnerships or other entities (Financing Subsidiaries) created specifically for the purpose of facilitating the financing of the authorized and exempt activities (including exempt and authorized acquisitions) of Exelon and the Subsidiaries through the issuance of long-term debt, Preferred Securities or Equity Linked Securities, to third parties and the transfer of the proceeds of such financings to Exelon or such Subsidiaries.³⁰ Exelon or a Subsidiary may, if required, guarantee or enter into support or expense agreements in respect of the obligations of any such Financing Subsidiaries. Such Financing Subsidiaries may pledge revenues or other assets or grant security interests solely to accommodate the conduit structure of such financings approved herein; provided such security will not consist of the assets (other than an income stream in support of such financing) or stock of any operating subsidiary of Exelon. Subsidiaries may also provide guarantees and enter into support or expense agreements, if required, on behalf of such entities pursuant to Rules 45(b)(7) and 52, as applicable.

Exelon and the Subsidiaries also request authority to issue and sell to any Financing Subsidiary, at any time or from time to time in one or more series, unsecured debentures, unsecured promissory notes or other unsecured debt instruments (individually, a Note and, collectively, the Notes) and the Financing Subsidiary will apply the proceeds of any external financing by such Financing Subsidiary plus the amount of any equity contribution made to it from time to time and other available funds to purchase Notes. The terms (e.g., interest rate, maturity, amortization, prepayment terms, default provisions, etc.) of any such Notes would generally be designed to parallel the terms of the securities issued by the Financing Subsidiary to which the Notes relate.

³⁰ The special purpose subsidiaries already in existence may be used for these purposes as well.

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Each of the Subsidiaries also requests authorization to enter into an expense agreement with its respective financing entity, pursuant to which it would agree to pay all expenses of such entity. Any amounts issued by such financing entities to third parties pursuant to this authorization will be included in the overall external financing limitation authorized herein for the immediate parent of such financing entity. However, the underlying intra-system mirror debt (including Notes) and parent guarantee shall not be so included so as to avoid double counting.³¹

(c) Utility Subsidiary Financing