After the Transition Period: What's Next for Retail Electricity Competition?

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Change is coming

- Since 1997 the Illinois Electric industry has been transitioning from regulation to competition
  - Generation available from competitive marketplace
  - Delivery Service still regulated
- Transition period ends December 31, 2006
- Developing blueprint for industry post-transition

Restructuring Illinois

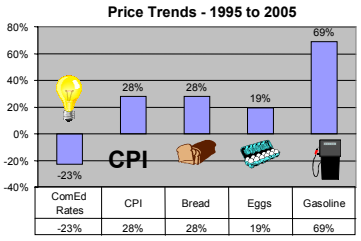
ComEd
An Exelon Company

Key Restructuring Feature:

- In 1997, residential electric rates were reduced 20 percent and frozen for all through the end of 2006
- ComEd residential customers pay some of the lowest rates for major cities in the United States

Major US Cities – (cents/kWh)	
New York (Consolidated Edison)	19.37
Boston (Boston Edison)	12.97
Los Angeles Area (So. Calf. Edison)	12.81
San Francisco/San Jose (PG&E)	12.64
Philadelphia PECO (Exelon)	12.31
Detroit (Detroit Edison)	8.96
Overall United States Average	**8.89**
Chicago (ComEd)	**8.67**
Dallas (TXU Utilities)	8.04
Houston Centerpoint Energy	8.04
Washington D.C. (Pepco)	7.85
Atlanta (Georgia Power)	7.27
St. Louis (Ameren)	6.69

Source: Edison Electric Institute, 2004



Restructuring Illinois

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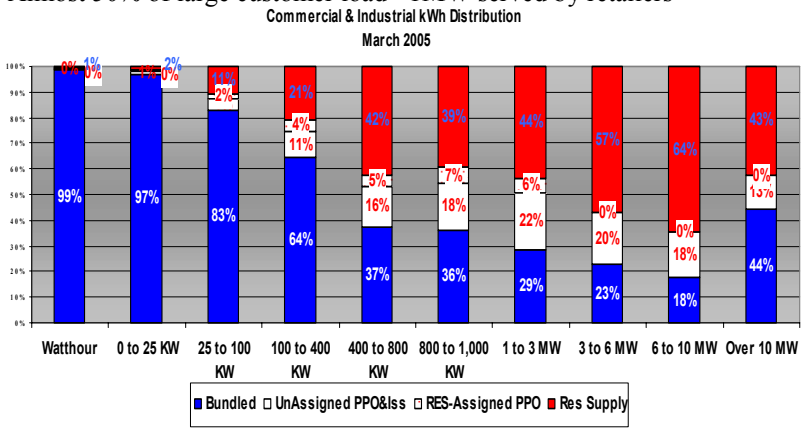
Key Restructuring Feature:

- Non-residential rates frozen through end of 2006; retail activity has been strong
- 7 suppliers serving 20,000 GWH load
- 23.5% of ComEd load served by retailers
- Almost 50% of large customer load >1MW served by retailers



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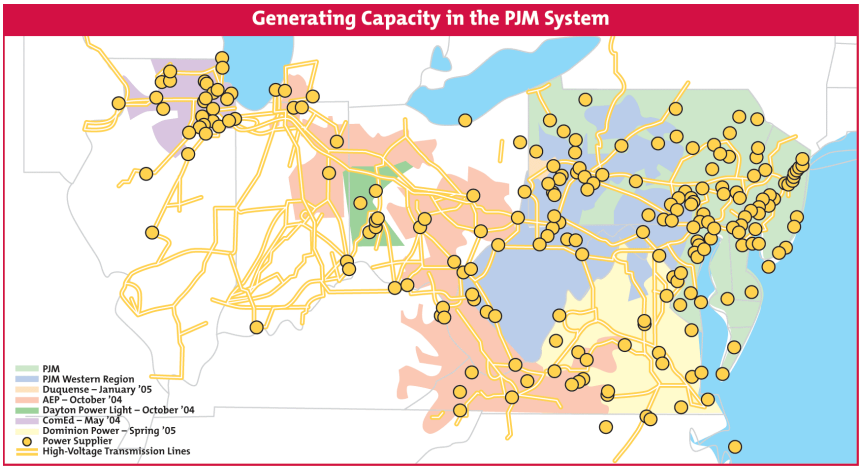
Key Restructuring Feature: PJM - Regional wholesale power markets



PJM provides 135,000 MW of power from 13 states and more than 49,000 miles of transmission wire

Restructuring Illinois

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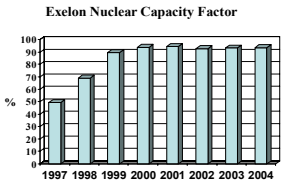
Key Restructuring Feature: Performance Improvement

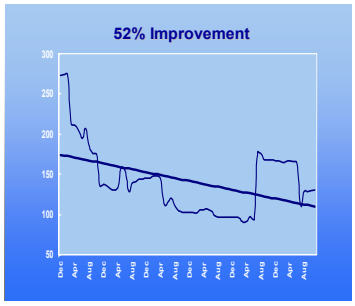
- Nuclear capacity factors have improved from 49% pre-restructuring to 93% in 2004 and are among the highest in the country



- ComEd has improved its reliability performance by substantial margins since 1999 and has invested $3 billion since 2001.

Fewer Interruptions

Shorter Interruptions



2006 – The End of Transition

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- Stranded Cost recovery ends
- Rate caps expire
- Law not specific about what happens next
  - How will utilities procure power? (They generally no longer own generation.)
  - How will rates be set?
- April 2004 – ICC launches "The Post 2006 Initiative" and announces workshop process
  - Five working groups formed
  - Alternative procurement scenarios debated
  - No single model agreed to but consensus on desired attributes

18 Desired Attributes

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Transparency	Competitive Approach
Market based rates	Opportunity for full cost recovery
Flexibility to respond to market	Maximize supplier participation
Mitigate Price volatility	Accommodate RPS & DSM
Regulatory Oversight	Can be implemented by 1/1/07
Minimize need for prudence review	Fair rate allocation of supply costs
Safeguards for credit risk	Leverage lessons learned
Stakeholder review and comment	Clear accountability / assignment of risk
Provide prompt regulatory review	Consider resource adequacy

Procurement Scenarios in Summary

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- Vertical Procurement / Full Requirements
- Horizontal Procurement / Portfolio Management
- Affiliate Purchases
- Move default supplier responsibility (Texas model)
- Rate Setting by formula
- Retreat to regulation
  - ➢ Extend the Rate Freeze
  - ➢ Re-Integrate the utility

Horizontal vs. Vertical

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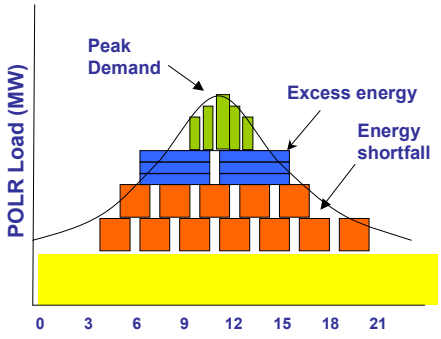
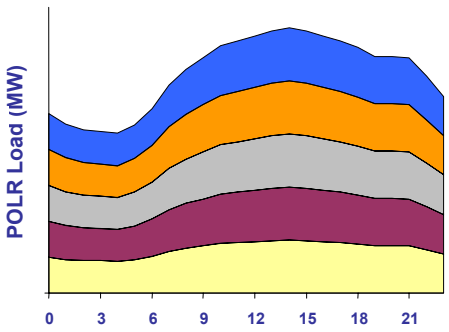
Horizontal Procurement

- Upfront regulatory planning process
- Utility procures "standard" products
- Contracts are for fixed volume
- Utility manages risks
- All decisions subject to prudence review

Vertical Procurement

- Full Requirements
- Product is % of actual load
- Suppliers assume all risk
- Fixed price including risk





Utility Perspective on the Options

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Horizontal

- Utility becomes an active portfolio manager – not simply a "wires" company
- Retail choice creates "stranded" cost risk - either for utility or customers
- Highly litigious and burdensome regulatory process
- Affiliate participation is more difficult & utility is now a marketer
- Financial risk of prudence far exceeds earnings capability of a "wires" company

Vertical

- Risk is with those best able to manage it – and it's competitive
- Rates are more stable and are virtually fixed
- Regulatory review & prudence determined upfront
- Broader supplier participation – including affiliate
- Third party manager – utility has no direct involvement in process
- Greater likelihood of full cost recovery

Reverse auction

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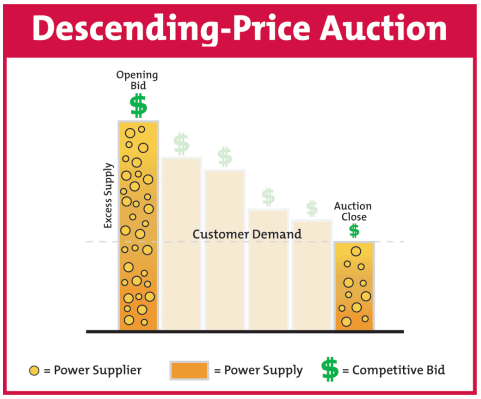
- Opening price set high enough to attract many suppliers
- Opening bids represent more than enough electricity
- Prices and supply go down each round
- Auction ends when 100 percent of supply is met



In a descending-price power auction, the independent auction manager sets the opening bid – designed to attract more supply than needed – and then manages successive rounds of descending bids until just enough supply is committed at the lowest possible price to meet customer demand.

Reverse Auction Example

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Prices Tick Down When There Is Over Supply

Round 1	EDC	Price ($/MW-day)	#bid	# to buy	over supply
	PSE&G	$80/MW-day	134	61	73
	JCP&L	$85/MW-day	37	37	0
	ACECO	$80/MW-day	8	8	0
	RECO	$80/MW-day	5	1	4

Round 2	EDC	Price ($/MW-day)	#bid	# to buy	over supply
	PSE&G	$76.00	105	61	44
	JCP&L	$85.00	55	37	18
	ACECO	$80.00	21	8	13
	RECO	$78.74	3	1	2

Reverse Auction

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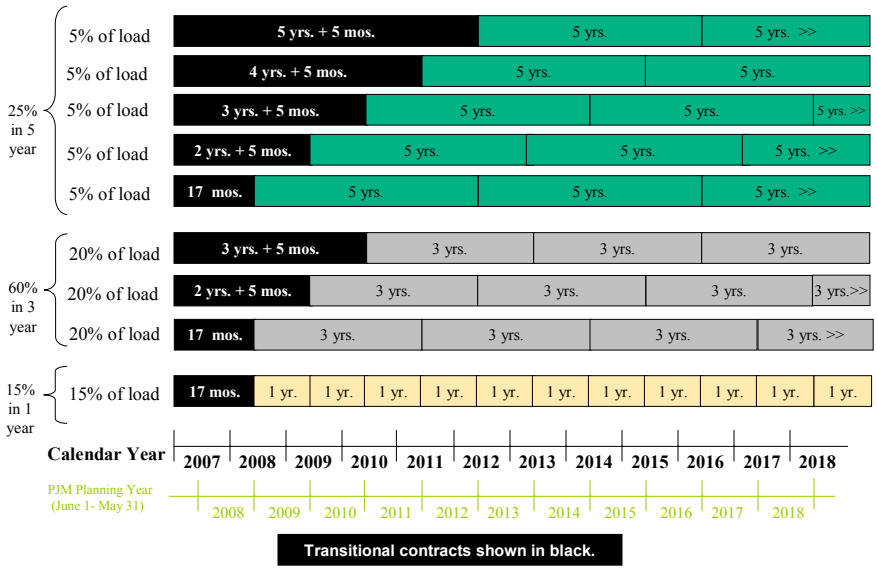

Transitional contracts shown in black.

Proposed Customer Rates

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Auction	Customers	Supply Term Structure
Full Requirements	*Fixed Price*: 1: Residential and small commercial < 400 KW	1/3/5 year Blended Term Structure
	2: 400 KW – 3 MW	1-Year Term
Capacity + Hourly Energy	*Hourly Price*: 3: Large commercial / industrial ≥ 3 MW	1-Year Capacity with spot energy pass-through

Setting Retail Rates

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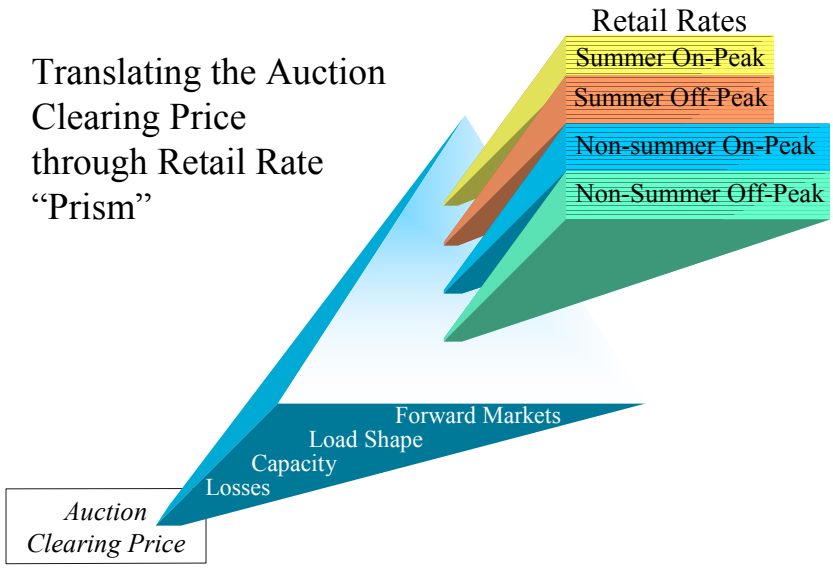
Translating the Auction Clearing Price through Retail Rate "Prism"



Rate Impact

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- Prices are expected to go up
  - ComEd's rates have been frozen at 20 percent below 1997 levels
  - Costs of other commodities have risen over that time
- Future price fluctuations will be softened
- Delivery Services rate increase will allow future investment in capital and growth
- Rates are expected to remain below the levels of 1995

PSEG Exelon

Creating the Utility Company of Tomorrow

A "Win-Win"Combination

Combined Company

- **Enhanced earnings**
- **Regulatory and market diversity**
- **Increased operating flexibility**
- **Strong, stable cash flow with commitment to solid investment grade ratings**
- **Experienced management team**

PSEG Brings

- **Excellence in transmission and distribution operations**
- **Expertise in BGS auction development and participation**
- **Strong gas LDC experience**

Exelon Brings

- **Premier nuclear operation expertise**
- **Broad platform for earnings and cash flow growth**
- **Large merger integration success**

Key Transaction Terms

Offer Price:	1.225 shares of Exelon per PSEG share
Ownership:	68% Exelon shareholders 32% PSEG shareholders
Governance:	John W. Rowe to be CEO E. James Ferland to be non-executive Chairman 18 Board members — 12 nominated by Exelon — 6 nominated by PSEG
Timing:	Expected to close within 12-15 months (from Dec. 20 announcement)
Nuclear Agreement:	Operating Services Contract started 1/05
Approvals:	Shareholders, Federal, State

The Nation's Premier Utility Company

New Company Key Facts (pro forma)

Company Name:	Exelon Electric & Gas
Headquarters:	Chicago, IL
Total Assets:	$79 billion*
US Generation Assets:	52,000 MW*
Revenues:	$27 billion*
Employees:	26,500*
Customers:	7 million electric, 2 million natural gas*

*All numbers are approximations

A Compelling New Company

- Combination of two strong industry leaders
- Increased scale and scope
- Complementary operations/business models
- Low-cost supply portfolio
- Disciplined financial policy
- Highly experienced management team