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

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

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

Source: Edison Electric Institute, 2004

Restructuring Illinois

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

Commercial & Industrial kWh Distribution
March 2005

- Bundled
- UnAssigned PPOs
- RES-Assigned PPO
- Res Supply

Price Trends - 1995 to 2005

-23% 28% 28% 19% 69%
-20% 20% 40% 60% 80%
Restructuring Illinois

**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

**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

• 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

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

- 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

**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

<table>
<thead>
<tr>
<th>Horizontal</th>
<th>Vertical</th>
</tr>
</thead>
<tbody>
<tr>
<td>Utility becomes an active portfolio manager – not simply a “wires” company</td>
<td>Risk is with those best able to manage it – and it’s competitive</td>
</tr>
<tr>
<td>Retail choice creates “stranded” cost risk - either for utility or customers</td>
<td>Rates are more stable and are virtually fixed</td>
</tr>
<tr>
<td>Highly litigious and burdensome regulatory process</td>
<td>Regulatory review &amp; prudence determined upfront</td>
</tr>
<tr>
<td>Affiliate participation is more difficult &amp; utility is now a marketer</td>
<td>Broader supplier participation – including affiliate</td>
</tr>
<tr>
<td>Financial risk of prudence far exceeds earnings capability of a “wires” company</td>
<td>Third party manager – utility has no direct involvement in process</td>
</tr>
<tr>
<td></td>
<td>Greater likelihood of full cost recovery</td>
</tr>
</tbody>
</table>

## Reverse auction

- 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
Reverse Auction Example

Prices Tick Down When There Is Over Supply

<table>
<thead>
<tr>
<th></th>
<th>Price ($/MW-day)</th>
<th>#bid</th>
<th># to buy</th>
<th>over supply</th>
</tr>
</thead>
<tbody>
<tr>
<td>Round 1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PSE&amp;G</td>
<td>$80/MW-day</td>
<td>134</td>
<td>61</td>
<td>73</td>
</tr>
<tr>
<td>JCP&amp;L</td>
<td>$85/MW-day</td>
<td>37</td>
<td>37</td>
<td>0</td>
</tr>
<tr>
<td>ACECO</td>
<td>$80/MW-day</td>
<td>8</td>
<td>8</td>
<td>0</td>
</tr>
<tr>
<td>RECO</td>
<td>$80/MW-day</td>
<td>5</td>
<td>1</td>
<td>4</td>
</tr>
</tbody>
</table>

Round 2

<table>
<thead>
<tr>
<th></th>
<th>Price ($/MW-day)</th>
<th>#bid</th>
<th># to buy</th>
<th>over supply</th>
</tr>
</thead>
<tbody>
<tr>
<td>PSE&amp;G</td>
<td>$76.00</td>
<td>105</td>
<td>61</td>
<td>44</td>
</tr>
<tr>
<td>JCP&amp;L</td>
<td>$85.00</td>
<td>55</td>
<td>37</td>
<td>18</td>
</tr>
<tr>
<td>ACECO</td>
<td>$80.00</td>
<td>21</td>
<td>8</td>
<td>13</td>
</tr>
<tr>
<td>RECO</td>
<td>$78.74</td>
<td>3</td>
<td>1</td>
<td>2</td>
</tr>
</tbody>
</table>

Reverse Auction

[Diagram showing load percentages and durations]
Proposed Customer Rates

Auction

Full Requirements

Customers

Fixed Price:
1: Residential and small commercial < 400 KW
2: 400 KW – 3 MW

Supply Term Structure

1/3/5 year Blended Term Structure
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

Translating the Auction Clearing Price through Retail Rate “Prism”

Retail Rates
Summer On-Peak
Summer Off-Peak
Non-summer On-Peak
Non-Summer Off-Peak

Forward Markets
Load Shape
Capacity
Losses

Auction Clearing Price
Rate Impact

• 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
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)

<table>
<thead>
<tr>
<th></th>
<th>Exelon Electric &amp; Gas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company Name</td>
<td>Exelon Electric &amp; Gas</td>
</tr>
<tr>
<td>Headquarters</td>
<td>Chicago, IL</td>
</tr>
<tr>
<td>Total Assets</td>
<td>$79 billion*</td>
</tr>
<tr>
<td>US Generation Assets</td>
<td>52,000 MW*</td>
</tr>
<tr>
<td>Revenues</td>
<td>$27 billion*</td>
</tr>
<tr>
<td>Employees</td>
<td>26,500*</td>
</tr>
<tr>
<td>Customers</td>
<td>7 million electric, 2 million natural gas*</td>
</tr>
</tbody>
</table>

*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