

EXELON CORP
Form 10-Q
October 30, 2015
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**
For the Quarterly Period Ended September 30, 2015

or

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

	Name of Registrant; State of Incorporation;	
Commission	Address of Principal Executive Offices; and	IRS Employer
File Number	Telephone Number	Identification
1-16169	EXELON CORPORATION (a Pennsylvania corporation)	23-2990190
	10 South Dearborn Street	
	P.O. Box 805379	
	Chicago, Illinois 60680-5379	
	(800) 483-3220	
333-85496	EXELON GENERATION COMPANY, LLC (a Pennsylvania limited liability company)	23-3064219
	300 Exelon Way	
	Kennett Square, Pennsylvania 19348-2473	
	(610) 765-5959	
1-1839	COMMONWEALTH EDISON COMPANY (an Illinois corporation)	36-0938600
	440 South LaSalle Street	

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Chicago, Illinois 60605-1028

(312) 394-4321

000-16844

PECO ENERGY COMPANY
(a Pennsylvania corporation)

23-0970240

P.O. Box 8699

2301 Market Street

Philadelphia, Pennsylvania 19101-8699

(215) 841-4000

1-1910

BALTIMORE GAS AND ELECTRIC COMPANY
(a Maryland corporation)

52-0280210

2 Center Plaza

110 West Fayette Street

Baltimore, Maryland 21201-3708

(410) 234-5000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

	Large Accelerated Filer	Accelerated Filer	Non-accelerated Filer	Smaller Reporting Company
Exelon Corporation	x			
Exelon Generation Company, LLC			x	
Commonwealth Edison Company			x	
PECO Energy Company			x	
Baltimore Gas and Electric Company			x	

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The number of shares outstanding of each registrant's common stock as of September 30, 2015 was:

Exelon Corporation Common Stock, without par value	919,564,380
Exelon Generation Company, LLC	not applicable
Commonwealth Edison Company Common Stock, \$12.50 par value	127,016,973
PECO Energy Company Common Stock, without par value	170,478,507
Baltimore Gas and Electric Company Common Stock, without par value	1,000

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GLOSSARY OF TERMS AND ABBREVIATIONS

Exelon Corporation and Related Entities

<i>Exelon</i>	Exelon Corporation
<i>Generation</i>	Exelon Generation Company, LLC
<i>ComEd</i>	Commonwealth Edison Company
<i>PECO</i>	PECO Energy Company
<i>BGE</i>	Baltimore Gas and Electric Company
<i>BSC</i>	Exelon Business Services Company, LLC
<i>Exelon Corporate</i>	Exelon's holding company
<i>CENG</i>	Constellation Energy Nuclear Group, LLC
<i>Constellation</i>	Constellation Energy Group, Inc.
<i>Antelope Valley, AVSR</i>	Antelope Valley Solar Ranch One
<i>Exelon Transmission Company</i>	Exelon Transmission Company, LLC
<i>Exelon Wind</i>	Exelon Wind, LLC and Exelon Generation Acquisition Company, LLC
<i>Ventures</i>	Exelon Ventures Company, LLC
<i>AmerGen</i>	AmerGen Energy Company, LLC
<i>BondCo</i>	RSB BondCo LLC
<i>ComEd Financing III</i>	ComEd Financing III
<i>PEC L.P.</i>	PECO Energy Capital, L.P.
<i>PECO Trust III</i>	PECO Energy Capital Trust III
<i>PECO Trust IV</i>	PECO Energy Capital Trust IV
<i>BGE Trust II</i>	BGE Capital Trust II
<i>PETT</i>	PECO Energy Transition Trust
<i>Registrants</i>	Exelon, Generation, ComEd, PECO and BGE, collectively

Other Terms and Abbreviations

<i>Note of the Exelon 2014 Form 10-K</i>	Reference to a specific Combined Note to Consolidated Financial Statements within Exelon's 2014 Annual Report on Form 10-K
<i>1998 restructuring settlement</i>	PECO's 1998 settlement of its restructuring case mandated by the Competition Act
<i>Act 11</i>	Pennsylvania Act 11 of 2012
<i>Act 129</i>	Pennsylvania Act 129 of 2008
<i>AEC</i>	Alternative Energy Credit that is issued for each megawatt hour of generation from a qualified alternative energy source
<i>AEPS</i>	Pennsylvania Alternative Energy Portfolio Standards
<i>AEPS Act</i>	Pennsylvania Alternative Energy Portfolio Standards Act of 2004, as amended
<i>AESO</i>	Alberta Electric Systems Operator
<i>AFUDC</i>	Allowance for Funds Used During Construction
<i>ALJ</i>	Administrative Law Judge
<i>AMI</i>	Advanced Metering Infrastructure
<i>AMP</i>	Advanced Metering Program
<i>ARC</i>	Asset Retirement Cost
<i>ARO</i>	Asset Retirement Obligation
<i>ARP</i>	Title IV Acid Rain Program
<i>ARRA of 2009</i>	American Recovery and Reinvestment Act of 2009
<i>Block contracts</i>	Forward Purchase Energy Block Contracts
<i>CAIR</i>	Clean Air Interstate Rule
<i>CAISO</i>	California ISO
<i>CAMR</i>	Federal Clean Air Mercury Rule

Table of Contents**GLOSSARY OF TERMS AND ABBREVIATIONS****Other Terms and Abbreviations**

<i>CERCLA</i>	Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended
<i>CFL</i>	Compact Fluorescent Light
<i>Clean Air Act</i>	Clean Air Act of 1963, as amended
<i>Clean Water Act</i>	Federal Water Pollution Control Amendments of 1972, as amended
<i>Competition Act</i>	Pennsylvania Electricity Generation Customer Choice and Competition Act of 1996
<i>CPI</i>	Consumer Price Index
<i>CPUC</i>	California Public Utilities Commission
<i>CSAPR</i>	Cross-State Air Pollution Rule
<i>CTC</i>	Competitive Transition Charge
<i>DC Circuit Court</i>	United States Court of Appeals for the District of Columbia Circuit
<i>DOE</i>	United States Department of Energy
<i>DOJ</i>	United States Department of Justice
<i>DSP</i>	Default Service Provider
<i>DSP Program</i>	Default Service Provider Program
<i>EDF</i>	Electricite de France SA
<i>EE&C</i>	Energy Efficiency and Conservation/Demand Response
<i>EGR</i>	ExGen Renewables I, LLC
<i>EGS</i>	Electric Generation Supplier
<i>EGTP</i>	ExGen Texas Power, LLC
<i>EIMA</i>	Illinois Energy Infrastructure Modernization Act
<i>EPA</i>	United States Environmental Protection Agency
<i>ERCOT</i>	Electric Reliability Council of Texas
<i>ERISA</i>	Employee Retirement Income Security Act of 1974, as amended
<i>EROA</i>	Expected Rate of Return on Assets
<i>ESPP</i>	Employee Stock Purchase Plan
<i>FASB</i>	Financial Accounting Standards Board
<i>FERC</i>	Federal Energy Regulatory Commission
<i>FRCC</i>	Florida Reliability Coordinating Council
<i>FTC</i>	Federal Trade Commission
<i>GAAP</i>	Generally Accepted Accounting Principles in the United States
<i>GDP</i>	Gross Domestic Product
<i>GHG</i>	Greenhouse Gas
<i>GRT</i>	Gross Receipts Tax
<i>GSA</i>	Generation Supply Adjustment
<i>GWh</i>	Gigawatt hour
<i>HAP</i>	Hazardous air pollutants
<i>Health Care Reform Acts</i>	Patient Protection and Affordable Care Act and Health Care and Education Reconciliation Act of 2010
<i>IBEW</i>	International Brotherhood of Electrical Workers
<i>ICC</i>	Illinois Commerce Commission
<i>ICE</i>	Intercontinental Exchange
<i>Illinois Act</i>	Illinois Electric Service Customer Choice and Rate Relief Law of 1997
<i>Illinois EPA</i>	Illinois Environmental Protection Agency
<i>Illinois Settlement Legislation</i>	Legislation enacted in 2007 affecting electric utilities in Illinois
<i>Integrys</i>	Integrys Energy Services, Inc.
<i>IPA</i>	Illinois Power Agency
<i>IRC</i>	Internal Revenue Code

Table of Contents**GLOSSARY OF TERMS AND ABBREVIATIONS****Other Terms and Abbreviations**

<i>IRS</i>	Internal Revenue Service
<i>ISO</i>	Independent System Operator
<i>ISO-NE</i>	ISO New England Inc.
<i>ISO-NY</i>	New York Independent System Operator
<i>kV</i>	Kilovolt
<i>kW</i>	Kilowatt
<i>kWh</i>	Kilowatt-hour
<i>LIBOR</i>	London Interbank Offered Rate
<i>LILO</i>	Lease-In, Lease-Out
<i>LLRW</i>	Low-Level Radioactive Waste
<i>LTIP</i>	Long-Term Incentive Plan
<i>MATS</i>	U.S. EPA Mercury and Air Toxics Standard Rule
<i>MBR</i>	Market Based Rates Incentive
<i>MDE</i>	Maryland Department of the Environment
<i>MDPSC</i>	Maryland Public Service Commission
<i>MGP</i>	Manufactured Gas Plant
<i>MISO</i>	Midcontinent Independent System Operator, Inc.
<i>mmcf</i>	Million Cubic Feet
<i>Moody's</i>	Moody's Investor Service
<i>MOPR</i>	Minimum Offer Price Rule
<i>MRV</i>	Market-Related Value
<i>MW</i>	Megawatt
<i>MWh</i>	Megawatt hour
<i>NAAQS</i>	National Ambient Air Quality Standards
<i>n.m.</i>	not meaningful
<i>NAV</i>	Net Asset Value
<i>NDT</i>	Nuclear Decommissioning Trust
<i>NEIL</i>	Nuclear Electric Insurance Limited
<i>NERC</i>	North American Electric Reliability Corporation
<i>NGS</i>	Natural Gas Supplier
<i>NJDEP</i>	New Jersey Department of Environmental Protection
<i>Non-Regulatory Agreements Units</i>	Nuclear generating units or portions thereof whose decommissioning-related activities are not subject to contractual elimination under regulatory accounting including the CENG units (Calvert Cliffs, Nine Mile Point, and R.E. Ginna), Clinton, Oyster Creek, Three Mile Island, Zion (a former ComEd unit), and portions of Peach Bottom (a former PECO unit)
<i>NOSA</i>	Nuclear Operating Services Agreement
<i>NOV</i>	Notice of Violation
<i>NPDES</i>	National Pollutant Discharge Elimination System
<i>NRC</i>	Nuclear Regulatory Commission
<i>NSPS</i>	New Source Performance Standards
<i>NWPA</i>	Nuclear Waste Policy Act of 1982
<i>NYMEX</i>	New York Mercantile Exchange
<i>OCI</i>	Other Comprehensive Income
<i>OIESO</i>	Ontario Independent Electricity System Operator
<i>OPEB</i>	Other Postretirement Employee Benefits
<i>PA DEP</i>	Pennsylvania Department of Environmental Protection
<i>PAPUC</i>	Pennsylvania Public Utility Commission
<i>PGC</i>	Purchased Gas Cost Clause

Table of Contents**GLOSSARY OF TERMS AND ABBREVIATIONS****Other Terms and Abbreviations**

<i>PHI</i>	Pepco Holdings, Inc.
<i>PJM</i>	PJM Interconnection, LLC
<i>POLR</i>	Provider of Last Resort
<i>POR</i>	Purchase of Receivables
<i>PPA</i>	Power Purchase Agreement
<i>PPL</i>	PPL Holtwood, LLC
<i>Price-Anderson Act</i>	Price-Anderson Nuclear Industries Indemnity Act of 1957
<i>PRP</i>	Potentially Responsible Parties
<i>PSEG</i>	Public Service Enterprise Group Incorporated
<i>PURTA</i>	Pennsylvania Public Realty Tax Act
<i>PV</i>	Photovoltaic
<i>RCRA</i>	Resource Conservation and Recovery Act of 1976, as amended
<i>REC</i>	Renewable Energy Credit which is issued for each megawatt hour of generation from a qualified renewable energy source
<i>Regulatory Agreement Units</i>	Nuclear generating units whose decommissioning-related activities are subject to contractual elimination under regulatory accounting including the former ComEd units (Braidwood, Bryon, Dresden, LaSalle, Quad Cities) and the former PECO units (Limerick, Peach Bottom, Salem)
<i>RES</i>	Retail Electric Suppliers
<i>RFP</i>	Request for Proposal
<i>Rider</i>	Reconcilable Surcharge Recovery Mechanism
<i>RGGI</i>	Regional Greenhouse Gas Initiative
<i>RMC</i>	Risk Management Committee
<i>ROE</i>	Return on Common Equity
<i>RPM</i>	PJM Reliability Pricing Model
<i>RPS</i>	Renewable Energy Portfolio Standards
<i>RTEP</i>	Regional Transmission Expansion Plan
<i>RTO</i>	Regional Transmission Organization
<i>S&P</i>	Standard & Poor's Ratings Services
<i>SEC</i>	United States Securities and Exchange Commission
<i>Senate Bill 1</i>	Maryland Senate Bill 1
<i>SERC</i>	SERC Reliability Corporation (formerly Southeast Electric Reliability Council)
<i>SERP</i>	Supplemental Employee Retirement Plan
<i>SGIG</i>	Smart Grid Investment Grant
<i>SGIP</i>	Smart Grid Initiative Program
<i>SILO</i>	Sale-In, Lease-Out
<i>SMP</i>	Smart Meter Program
<i>SMPPIP</i>	Smart Meter Procurement and Installation Plan
<i>SNF</i>	Spent Nuclear Fuel
<i>SOA</i>	Society of Actuaries
<i>SOS</i>	Standard Offer Service
<i>SPP</i>	Southwest Power Pool
<i>Tax Relief Act of 2010</i>	Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010
<i>Upstream</i>	Natural gas and oil exploration and production activities
<i>VIE</i>	Variable Interest Entity
<i>WECC</i>	Western Electric Coordinating Council

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FILING FORMAT

This combined Form 10-Q is being filed separately by Exelon Corporation, Exelon Generation Company, LLC, Commonwealth Edison Company, PECO Energy Company and Baltimore Gas and Electric Company (Registrants). Information contained herein relating to any individual Registrant is filed by such Registrant on its own behalf. No Registrant makes any representation as to information relating to any other Registrant.

FORWARD-LOOKING STATEMENTS

This Report 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 the Registrants include those factors discussed herein, as well as the items discussed in (1) Exelon's 2014 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) this Quarterly Report on Form 10-Q in (a) Part II, Other Information, ITEM 1A. Risk Factors, (b) Part I, 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 19; and (3) 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 Report. 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 Report.

WHERE TO FIND MORE INFORMATION

The public may read and copy any reports or other information that the Registrants file with the SEC at the SEC's public reference room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. These documents are also available to the public from commercial document retrieval services, the website maintained by the SEC at www.sec.gov and the Registrants' websites at www.exeloncorp.com. Information contained on the Registrants' websites shall not be deemed incorporated into, or to be a part of, this Report.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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Table of Contents**EXELON CORPORATION AND SUBSIDIARY COMPANIES****CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME****(Unaudited)**

(In millions, except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Operating revenues	\$ 7,401	\$ 6,912	\$ 22,746	\$ 20,173
Operating expenses				
Purchased power and fuel	3,291	2,591	10,210	8,943
Purchased power and fuel from affiliates		57		456
Operating and maintenance	1,996	1,982	6,119	6,005
Depreciation and amortization	606	577	1,818	1,732
Taxes other than income	310	306	908	887
Total operating expenses	6,203	5,513	19,055	18,023
Equity in losses of unconsolidated affiliates				(20)
Gain on sales of assets	2	339	10	356
Gain on consolidation and acquisition of businesses				261
Operating income	1,200	1,738	3,701	2,747
Other income and (deductions)				
Interest expense, net	(243)	(247)	(724)	(691)
Interest expense to affiliates	(10)	(11)	(31)	(31)
Other, net	(244)	16	(179)	346
Total other income and (deductions)	(497)	(242)	(934)	(376)
Income before income taxes	703	1,496	2,767	2,371
Income taxes	115	422	805	646
Equity in losses of unconsolidated affiliates	(1)		(3)	
Net income	587	1,074	1,959	1,725
Net income (loss) attributable to noncontrolling interest and preference stock dividends	(42)	81		121
Net income attributable to common shareholders	\$ 629	\$ 993	\$ 1,959	\$ 1,604
Comprehensive income, net of income taxes				
Net income	\$ 587	\$ 1,074	\$ 1,959	\$ 1,725
Other comprehensive income (loss), net of income taxes				
Pension and non-pension postretirement benefit plans:				
Prior service benefit reclassified to periodic benefit cost	(11)	(11)	(35)	(18)
Actuarial loss reclassified to periodic cost	55	38	165	109
Pension and non-pension postretirement benefit plans valuation adjustment		(8)	(29)	240
Unrealized gain (loss) on cash flow hedges	(3)	(19)	4	(92)
Unrealized gain (loss) on equity investments		(3)		8
Unrealized gain (loss) on foreign currency translation	(8)	(5)	(17)	(6)

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Unrealized loss on marketable securities	(1)	(3)	(2)	
Reversal of CENG equity method AOCI			(116)	
Other comprehensive income (loss)	32	(11)	88	123
Comprehensive income	\$ 619	\$ 1,063	\$ 2,047	\$ 1,848
Average shares of common stock outstanding:				
Basic	913	861	879	860
Diluted	915	863	883	863
Earnings per average common share:				
Basic	\$ 0.69	\$ 1.15	\$ 2.23	\$ 1.87
Diluted	\$ 0.69	\$ 1.15	\$ 2.22	\$ 1.86
Dividends per common share	\$ 0.31	\$ 0.31	\$ 0.93	\$ 0.93

Combined Notes to Consolidated Financial Statements

Table of Contents**EXELON CORPORATION AND SUBSIDIARY COMPANIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

(In millions)	Nine Months Ended September 30,	
	2015	2014
Cash flows from operating activities		
Net income	\$ 1,959	\$ 1,725
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation, amortization, depletion and accretion, including nuclear fuel and energy contract amortization	2,930	2,856
Impairment of long-lived assets	25	162
Gain on consolidation and acquisition of businesses		(268)
Gain on sales of assets	(10)	(356)
Deferred income taxes and amortization of investment tax credits	241	459
Net fair value changes related to derivatives	(363)	522
Net realized and unrealized (gains) losses on nuclear decommissioning trust fund investments	221	(141)
Other non-cash operating activities	856	698
Changes in assets and liabilities:		
Accounts receivable	175	198
Inventories	65	(316)
Accounts payable, accrued expenses and other current liabilities	(147)	(322)
Option premiums received, net	27	21
Counterparty collateral received (posted), net	305	(615)
Income taxes	300	72
Pension and non-pension postretirement benefit contributions	(430)	(516)
Other assets and liabilities	(480)	(536)
Net cash flows provided by operating activities	5,674	3,643
Cash flows from investing activities		
Capital expenditures	(5,443)	(4,114)
Proceeds from nuclear decommissioning trust fund sales	4,551	5,464
Investment in nuclear decommissioning trust funds	(4,737)	(5,550)
Acquisition of businesses	(28)	(67)
Proceeds from sale of long-lived assets	145	660
Proceeds from termination of direct financing lease investment		335
Proceeds from sales of investments		7
Cash and restricted cash acquired from consolidations and acquisitions		129
Change in restricted cash	(70)	(151)
Other investing activities	(107)	(89)
Net cash flows used in investing activities	(5,689)	(3,376)
Cash flows from financing activities		
Changes in short-term borrowings	230	236
Issuance of long-term debt	5,909	3,212
Retirement of long-term debt	(1,745)	(1,214)
Issuance of common stock	1,868	
Distributions to noncontrolling interest of consolidated VIE		(415)
Dividends paid on common stock	(819)	(799)
Proceeds from employee stock plans	24	25

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Other financing activities	(65)	(158)
Net cash flows provided by financing activities	5,402	887
Increase in cash and cash equivalents	5,387	1,154
Cash and cash equivalents at beginning of period	1,878	1,609
Cash and cash equivalents at end of period	\$ 7,265	\$ 2,763

See the Combined Notes to Consolidated Financial Statements

Table of Contents**EXELON CORPORATION AND SUBSIDIARY COMPANIES****CONSOLIDATED BALANCE SHEETS****(Unaudited)**

(In millions)	September 30, 2015 (Unaudited)	December 31, 2014
ASSETS		
Current assets		
Cash and cash equivalents	\$ 7,265	\$ 1,878
Restricted cash and cash equivalents	341	271
Accounts receivable, net		
Customer	3,215	3,482
Other	1,107	1,227
Mark-to-market derivative assets	1,116	1,279
Unamortized energy contract assets	135	254
Inventories, net		
Fossil fuel and emission allowances	442	579
Materials and supplies	1,074	1,024
Deferred income taxes	211	244
Regulatory assets	779	847
Assets held for sale	4	147
Other	1,178	865
Total current assets	16,867	12,097
Property, plant and equipment, net	55,814	52,087
Deferred debits and other assets		
Regulatory assets	6,000	6,076
Nuclear decommissioning trust funds	10,103	10,537
Investments	620	544
Goodwill	2,672	2,672
Mark-to-market derivative assets	801	773
Deferred income taxes	2	
Unamortized energy contracts assets	513	549
Pledged assets for Zion Station decommissioning	237	319
Other	1,499	1,160
Total deferred debits and other assets	22,447	22,630
Total assets^(a)	\$ 95,128	\$ 86,814

See the Combined Notes to Consolidated Financial Statements

Table of Contents**EXELON CORPORATION AND SUBSIDIARY COMPANIES****CONSOLIDATED BALANCE SHEETS****(Unaudited)**

(In millions)	September 30, 2015 (Unaudited)	December 31, 2014
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities		
Short-term borrowings	\$ 675	\$ 460
Long-term debt due within one year	897	1,802
Accounts payable	2,987	3,048
Accrued expenses	1,576	1,539
Payables to affiliates	8	8
Regulatory liabilities	365	310
Mark-to-market derivative liabilities	204	234
Unamortized energy contract liabilities	118	238
Other	1,017	1,123
Total current liabilities	7,847	8,762
Long-term debt		
	24,541	19,362
Long-term debt to financing trusts		
	648	648
Deferred credits and other liabilities		
Deferred income taxes and unamortized investment tax credits	13,480	13,019
Asset retirement obligations	8,405	7,295
Pension obligations	3,014	3,366
Non-pension postretirement benefit obligations	1,877	1,742
Spent nuclear fuel obligation	1,021	1,021
Regulatory liabilities	4,180	4,550
Mark-to-market derivative liabilities	360	403
Unamortized energy contract liabilities	136	211
Payable for Zion Station decommissioning	99	155
Other	2,231	2,147
Total deferred credits and other liabilities	34,803	33,909
Total liabilities ^(a)	67,839	62,681
Commitments and contingencies		
Shareholders equity		
Common stock (No par value, 2,000 shares authorized, 920 shares and 860 shares outstanding at September 30, 2015 and December 31, 2014, respectively)	18,647	16,709
Treasury stock, at cost (35 shares at both September 30, 2015 and December 31, 2014)	(2,327)	(2,327)
Retained earnings	12,046	10,910
Accumulated other comprehensive loss, net	(2,596)	(2,684)
Total shareholders equity	25,770	22,608
BGE preference stock not subject to mandatory redemption	193	193
Noncontrolling interest	1,326	1,332
Total equity	27,289	24,133

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Total liabilities and shareholders' equity	\$ 95,128	\$ 86,814
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- (a) Exelon's consolidated assets include \$8,190 million and \$8,160 million at September 30, 2015 and December 31, 2014, respectively, of certain VIEs that can only be used to settle the liabilities of the VIE. Exelon's consolidated liabilities include \$3,242 million and \$2,723 million at September 30, 2015 and December 31, 2014, respectively, of certain VIEs for which the VIE creditors do not have recourse to Exelon. See Note 3 - Variable Interest Entities.

See the Combined Notes to Consolidated Financial Statements

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EXELON CORPORATION AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited)

(In millions, shares in thousands)	Issued Shares	Common Stock	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss, net	Noncontrolling Interest	Preference Stock	Total Equity
Balance, December 31, 2014	894,568	\$ 16,709	\$ (2,327)	\$ 10,910	\$ (2,684)	\$ 1,332	\$ 193	\$ 24,133
Net income				1,959		(10)	10	1,959
Long-term incentive plan activity	1,394	47						47
Employee stock purchase plan issuances	1,083	24						24
Issuance of common stock	57,500	1,868						1,868
Tax benefit on stock compensation		(1)						(1)
Changes in equity of noncontrolling interest						4		4
Common stock dividends				(823)				(823)
Preference stock dividends							(10)	(10)
Other comprehensive income, net of income taxes					88			88
Balance, September 30, 2015	954,545	\$ 18,647	\$ (2,327)	\$ 12,046	\$ (2,596)	\$ 1,326	\$ 193	\$ 27,289

See the Combined Notes to Consolidated Financial Statements

Table of Contents**EXELON GENERATION COMPANY, LLC AND SUBSIDIARY COMPANIES****CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME****(Unaudited)**

(In millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Operating revenues				
Operating revenues	\$ 4,562	\$ 4,300	\$ 14,270	\$ 11,944
Operating revenues from affiliates	206	112	571	647
Total operating revenues	4,768	4,412	14,841	12,591
Operating expenses				
Purchased power and fuel	2,516	1,821	7,789	6,595
Purchased power and fuel from affiliates	3	59	11	476
Operating and maintenance	1,088	1,114	3,399	3,308
Operating and maintenance from affiliates	153	152	461	457
Depreciation and amortization	264	253	774	719
Taxes other than income	123	127	369	350
Total operating expenses	4,147	3,526	12,803	11,905
Equity in earnings (losses) of unconsolidated affiliates				
		1		(20)
Gain on sales of assets	1	338	7	355
Gain on consolidation and acquisition of businesses				261
Operating income	622	1,225	2,045	1,282
Other income and (deductions)				
Interest expense	(56)	(77)	(236)	(224)
Interest expense to affiliates, net	(12)	(12)	(33)	(37)
Other, net	(257)	4	(193)	306
Total other income and (deductions)	(325)	(85)	(462)	45
Income before income taxes	297	1,140	1,583	1,327
Income taxes	(36)	291	371	290
Equity in losses of unconsolidated affiliates	(1)		(4)	
Net income	332	849	1,208	1,037
Net income (loss) attributable to noncontrolling interests	(45)	78	(10)	111
Net income attributable to membership interest	\$ 377	\$ 771	\$ 1,218	\$ 926
Comprehensive income, net of income taxes				
Net income	\$ 332	\$ 849	\$ 1,208	\$ 1,037
Other comprehensive income (loss), net of income taxes				
Unrealized loss on cash flow hedges	(3)	(16)	(7)	(86)
Unrealized gain (loss) on equity investments		(3)		8
Unrealized loss on foreign currency translation	(8)	(5)	(17)	(6)

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Unrealized loss on marketable securities	(2)	(2)	(3)	
Reversal of CENG equity method AOCI			(116)	
Other comprehensive loss	(13)	(26)	(24)	(203)
Comprehensive income	\$ 319	\$ 823	\$ 1,184	\$ 834

See the Combined Notes to Consolidated Financial Statements

Table of Contents**EXELON GENERATION COMPANY, LLC AND SUBSIDIARY COMPANIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

(In millions)	Nine Months Ended September 30,	
	2015	2014
Cash flows from operating activities		
Net income	\$ 1,208	\$ 1,037
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation, amortization, depletion and accretion, including nuclear fuel and energy contract amortization	1,887	1,853
Impairment of long-lived assets	1	138
Gain on consolidation and acquisitions of businesses		(268)
Gain on sales of assets	(7)	(355)
Deferred income taxes and amortization of investment tax credits	21	154
Net fair value changes related to derivatives	(252)	509
Net realized and unrealized (gains) losses on nuclear decommissioning trust fund investments	221	(141)
Other non-cash operating activities	227	251
Changes in assets and liabilities:		
Accounts receivable	252	153
Receivables from and payables to affiliates, net	16	72
Inventories	69	(286)
Accounts payable, accrued expenses and other current liabilities	(156)	(311)
Option premiums received, net	27	21
Counterparty collateral received (posted), net	376	(634)
Income taxes	(70)	172
Pension and non-pension postretirement benefit contributions	(189)	(214)
Other assets and liabilities	(425)	(367)
Net cash flows provided by operating activities	3,206	1,784
Cash flows from investing activities		
Capital expenditures	(2,774)	(1,961)
Proceeds from nuclear decommissioning trust fund sales	4,551	5,464
Investment in nuclear decommissioning trust funds	(4,737)	(5,550)
Acquisition of businesses	(28)	(67)
Proceeds from sale of long-lived assets	144	660
Change in restricted cash	(84)	(116)
Changes in Exelon intercompany money pool		44
Cash and restricted cash acquired from consolidations and acquisitions		129
Other investing activities	(92)	(34)
Net cash flows used in investing activities	(3,020)	(1,431)
Cash flows from financing activities		
Change in short-term borrowings		7
Issuance of long-term debt	1,307	1,112
Retirement of long-term debt	(64)	(552)
Retirement of long-term debt to affiliate	(550)	
Changes in Exelon intercompany money pool	1,205	
Distribution to member	(2,368)	(440)
Distributions to noncontrolling interest of consolidated VIE		(415)
Contribution from member	55	55

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Other financing activities	(6)	(67)
Net cash flows used in financing activities	(421)	(300)
Increase (decrease) in cash and cash equivalents	(235)	53
Cash and cash equivalents at beginning of period	780	1,258
Cash and cash equivalents at end of period	\$ 545	\$ 1,311

See the Combined Notes to Consolidated Financial Statements

Table of Contents**EXELON GENERATION COMPANY, LLC AND SUBSIDIARY COMPANIES****CONSOLIDATED BALANCE SHEETS****(Unaudited)**

(In millions)	September 30, 2015 (Unaudited)	December 31, 2014
ASSETS		
Current assets		
Cash and cash equivalents	\$ 545	\$ 780
Restricted cash and cash equivalents	242	158
Accounts receivable, net		
Customer	2,056	2,295
Other	487	318
Mark-to-market derivative assets	1,116	1,276
Receivables from affiliates	84	113
Unamortized energy contract assets	135	254
Inventories, net		
Fossil fuel and emission allowances	357	465
Materials and supplies	863	847
Deferred income taxes	201	327
Assets held for sale	4	147
Other	960	658
Total current assets	7,050	7,638
Property, plant and equipment, net	24,982	22,945
Deferred debits and other assets		
Nuclear decommissioning trust funds	10,103	10,537
Investments	197	104
Goodwill	47	47
Mark-to-market derivative assets	764	771
Prepaid pension asset	1,703	1,704
Pledged assets for Zion Station decommissioning	237	319
Unamortized energy contract assets	513	549
Deferred income taxes	2	3
Other	881	731
Total deferred debits and other assets	14,447	14,765
Total assets^(a)	\$ 46,479	\$ 45,348

See the Combined Notes to Consolidated Financial Statements

Table of Contents**EXELON GENERATION COMPANY, LLC AND SUBSIDIARY COMPANIES****CONSOLIDATED BALANCE SHEETS****(Unaudited)**

(In millions)	September 30, 2015 (Unaudited)	December 31, 2014
LIABILITIES AND EQUITY		
Current liabilities		
Short-term borrowings	\$ 21	\$ 36
Long-term debt due within one year	97	58
Long-term debt to affiliates due within one year		556
Accounts payable	1,676	1,759
Accrued expenses	835	886
Payables to affiliates	106	107
Borrowings from Exelon intercompany money pool	1,205	
Mark-to-market derivative liabilities	182	214
Unamortized energy contract liabilities	118	238
Other	546	605
Total current liabilities	4,786	4,459
Long-term debt	7,964	6,709
Long-term debt to affiliate	935	943
Deferred credits and other liabilities		
Deferred income taxes and unamortized investment tax credits	6,030	6,034
Asset retirement obligations	8,254	7,146
Non-pension postretirement benefit obligations	926	915
Spent nuclear fuel obligation	1,021	1,021
Payables to affiliates	2,538	2,880
Mark-to-market derivative liabilities	139	105
Unamortized energy contract liabilities	136	211
Payable for Zion Station decommissioning	99	155
Other	727	719
Total deferred credits and other liabilities	19,870	19,186
Total liabilities^(a)	33,555	31,297
Commitments and contingencies		
Equity		
Member s equity		
Membership interest	9,006	8,951
Undistributed earnings	2,653	3,803
Accumulated other comprehensive loss, net	(60)	(36)
Total member s equity	11,599	12,718
Noncontrolling interest	1,325	1,333
Total equity	12,924	14,051
Total liabilities and equity	\$ 46,479	\$ 45,348

- (a) Generation s consolidated assets include \$8,130 million and \$8,119 million at September 30, 2015 and December 31, 2014, respectively, of certain VIEs that can only be used to settle the liabilities of the VIE. Generation s consolidated liabilities include \$3,070 million and \$2,507 million at September 30, 2015 and December 31, 2014, respectively, of certain VIEs for which the VIE creditors do not have recourse to Generation. See Note 3 Variable Interest Entities.

See the Combined Notes to Consolidated Financial Statements

Table of Contents**EXELON GENERATION COMPANY, LLC AND SUBSIDIARY COMPANIES****CONSOLIDATED STATEMENT OF CHANGES IN EQUITY****(Unaudited)**

(In millions)	Member s Equity				Total Equity
	Membership Interest	Undistributed Earnings	Accumulated Other Comprehensive Loss, net	Noncontrolling Interest	
Balance, December 31, 2014	\$ 8,951	\$ 3,803	\$ (36)	\$ 1,333	\$ 14,051
Net income		1,218		(10)	1,208
Changes in equity of noncontrolling interest				2	2
Allocation of tax benefit from member	55				55
Distribution to member		(2,368)			(2,368)
Other comprehensive loss, net of income taxes			(24)		(24)
Balance, September 30, 2015	\$ 9,006	\$ 2,653	\$ (60)	\$ 1,325	\$ 12,924

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COMMONWEALTH EDISON COMPANY AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(Unaudited)

(In millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Operating revenues				
Operating revenues	\$ 1,375	\$ 1,221	\$ 3,706	\$ 3,482
Operating revenues from affiliates	1	1	3	2
Total operating revenues	1,376	1,222	3,709	3,484
Operating expenses				
Purchased power	388	325	974	741
Purchased power from affiliate	2	1	17	174
Operating and maintenance	353	320	1,023	923
Operating and maintenance from affiliate	51	39	143	117
Depreciation and amortization	176	174	528	521
Taxes other than income	79	76	225	225
Total operating expenses	1,049	935	2,910	2,701
Operating income	327	287	799	783
Other income and (deductions)				
Interest expense, net	(80)	(78)	(238)	(231)
Interest expense to affiliates	(3)	(3)	(10)	(10)
Other, net	4	4	14	14
Total other income and (deductions)	(79)	(77)	(234)	(227)
Income before income taxes	248	210	565	556
Income taxes	99	84	226	221
Net income	149	126	339	335
Comprehensive income	\$ 149	\$ 126	\$ 339	\$ 335

See the Combined Notes to Consolidated Financial Statements

Table of Contents**COMMONWEALTH EDISON COMPANY AND SUBSIDIARY COMPANIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

(In millions)	Nine Months Ended September 30,	
	2015	2014
Cash flows from operating activities		
Net income	\$ 339	\$ 335
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation, amortization and accretion	528	521
Deferred income taxes and amortization of investment tax credits	107	154
Other non-cash operating activities	312	116
Changes in assets and liabilities:		
Accounts receivable	(114)	(109)
Receivables from and payables to affiliates, net	(23)	(55)
Inventories	(23)	(12)
Accounts payable, accrued expenses and other current liabilities	(20)	59
Income taxes	389	15
Pension and non-pension postretirement benefit contributions	(142)	(237)
Other assets and liabilities	(7)	62
Net cash flows provided by operating activities	1,346	849
Cash flows from investing activities		
Capital expenditures	(1,670)	(1,173)
Proceeds from sales of investments		7
Change in restricted cash	2	(2)
Other investing activities	22	20
Net cash flows used in investing activities	(1,646)	(1,148)
Cash flows from financing activities		
Changes in short-term borrowings	300	344
Issuance of long-term debt	400	650
Retirement of long-term debt	(260)	(617)
Contributions from parent	75	168
Dividends paid on common stock	(226)	(230)
Other financing activities	(4)	(8)
Net cash flows provided by financing activities	285	307
Increase (decrease) in cash and cash equivalents	(15)	8
Cash and cash equivalents at beginning of period	66	36
Cash and cash equivalents at end of period	\$ 51	\$ 44

See the Combined Notes to Consolidated Financial Statements

Table of Contents**COMMONWEALTH EDISON COMPANY AND SUBSIDIARY COMPANIES****CONSOLIDATED BALANCE SHEETS****(Unaudited)**

(In millions)	September 30, 2015 (Unaudited)	December 31, 2014
ASSETS		
Current assets		
Cash and cash equivalents	\$ 51	\$ 66
Restricted cash	2	4
Accounts receivable, net		
Customer	557	477
Other	334	648
Receivables from affiliates	14	14
Inventories, net	148	125
Regulatory assets	232	349
Other	84	40
Total current assets	1,422	1,723
Property, plant and equipment, net		
	17,001	15,793
Deferred debits and other assets		
Regulatory assets	913	852
Goodwill	2,625	2,625
Receivables from affiliates	2,336	2,571
Prepaid pension asset	1,537	1,551
Other	295	277
Total deferred debits and other assets	7,706	7,876
Total assets	\$ 26,129	\$ 25,392

See the Combined Notes to Consolidated Financial Statements

Table of Contents**COMMONWEALTH EDISON COMPANY AND SUBSIDIARY COMPANIES****CONSOLIDATED BALANCE SHEETS****(Unaudited)**

(In millions)	September 30, 2015 (Unaudited)	December 31, 2014
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities		
Short-term borrowings	\$ 604	\$ 304
Long-term debt due within one year	665	260
Accounts payable	693	598
Accrued expenses	337	331
Payables to affiliates	60	84
Customer deposits	130	128
Regulatory liabilities	144	125
Deferred income taxes		63
Mark-to-market derivative liability	22	20
Other	68	73
Total current liabilities	2,723	1,986
Long-term debt	5,435	5,698
Long-term debt to financing trust	206	206
Deferred credits and other liabilities		
Deferred income taxes and unamortized investment tax credits	4,677	4,498
Asset retirement obligations	110	103
Non-pension postretirement benefits obligations	262	263
Regulatory liabilities	3,441	3,655
Mark-to-market derivative liability	221	187
Other	954	889
Total deferred credits and other liabilities	9,665	9,595
Total liabilities	18,029	17,485
Commitments and contingencies		
Shareholders equity		
Common stock	1,588	1,588
Other paid-in capital	5,548	5,468
Retained earnings	964	851
Total shareholders equity	8,100	7,907
Total liabilities and shareholders equity	\$ 26,129	\$ 25,392

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COMMONWEALTH EDISON COMPANY AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited)

(In millions)	Common Stock	Other Paid- In Capital	Retained Deficit Unappropriated	Retained Earnings Appropriated	Total Shareholders Equity
Balance, December 31, 2014	\$ 1,588	\$ 5,468	\$ (1,639)	\$ 2,490	\$ 7,907
Net income			339		339
Appropriation of retained earnings for future dividends			(339)	339	
Common stock dividends				(226)	(226)
Contribution from parent		75			75
Parent tax matter indemnification		5			5
Balance, September 30, 2015	\$ 1,588	\$ 5,548	\$ (1,639)	\$ 2,603	\$ 8,100

See the Combined Notes to Consolidated Financial Statements

Table of Contents**PECO ENERGY COMPANY AND SUBSIDIARY COMPANIES****CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME****(Unaudited)**

(In millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Operating revenues				
Operating revenues	\$ 739	\$ 693	\$ 2,385	\$ 2,342
Operating revenues from affiliates	1		1	1
Total operating revenues	740	693	2,386	2,343
Operating expenses				
Purchased power and fuel	217	228	782	798
Purchased power from affiliate	61	27	171	162
Operating and maintenance	166	181	529	597
Operating and maintenance from affiliates	30	23	80	71
Depreciation and amortization	68	59	198	176
Taxes other than income	44	42	125	122
Total operating expenses	586	560	1,885	1,926
Gain on sale of assets			1	
Operating income	154	133	502	417
Other income and (deductions)				
Interest expense, net	(25)	(26)	(75)	(76)
Interest expense to affiliates	(3)	(3)	(9)	(9)
Other, net	1	2	3	5
Total other income and (deductions)	(27)	(27)	(81)	(80)
Income before income taxes	127	106	421	337
Income taxes	37	25	122	82
Net income attributable to common shareholder	90	81	299	255
Comprehensive income	\$ 90	\$ 81	\$ 299	\$ 255

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Table of Contents**PECO ENERGY COMPANY AND SUBSIDIARY COMPANIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

(In millions)	Nine Months Ended September 30,	
	2015	2014
Cash flows from operating activities		
Net income	\$ 299	\$ 255
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation, amortization and accretion	198	176
Deferred income taxes and amortization of investment tax credits	11	7
Other non-cash operating activities	69	70
Changes in assets and liabilities:		
Accounts receivable	(15)	63
Receivables from and payables to affiliates, net		(20)
Inventories	8	5
Accounts payable, accrued expenses and other current liabilities	(17)	19
Income taxes	69	16
Pension and non-pension postretirement benefit contributions	(37)	(12)
Other assets and liabilities	(18)	(75)
Net cash flows provided by operating activities	567	504
Cash flows from investing activities		
Capital expenditures	(435)	(461)
Change in restricted cash	(1)	
Other investing activities	11	9
Net cash flows used in investing activities	(425)	(452)
Cash flows from financing activities		
Issuance of long-term debt		300
Contributions from parent	16	24
Change in Exelon intercompany money pool	55	
Dividends paid on common stock	(209)	(240)
Other financing activities	(2)	(7)
Net cash flows provided by (used in) financing activities	(140)	77
Increase in cash and cash equivalents	2	129
Cash and cash equivalents at beginning of period	30	217
Cash and cash equivalents at end of period	\$ 32	\$ 346

See the Combined Notes to Consolidated Financial Statements

Table of Contents**PECO ENERGY COMPANY AND SUBSIDIARY COMPANIES****CONSOLIDATED BALANCE SHEETS****(Unaudited)**

(In millions)	September 30, 2015 (Unaudited)	December 31, 2014
ASSETS		
Current assets		
Cash and cash equivalents	\$ 32	\$ 30
Restricted cash and cash equivalents	3	2
Accounts receivable, net		
Customer	283	320
Other	122	141
Receivables from affiliates	4	3
Inventories, net		
Fossil fuel	43	57
Materials and supplies	28	22
Deferred income taxes	69	69
Prepaid utility taxes	42	10
Regulatory assets	32	29
Other	25	31
Total current assets	683	714
Property, plant and equipment, net	7,027	6,801
Deferred debits and other assets		
Regulatory assets	1,557	1,529
Investments	28	31
Receivable from affiliates	388	490
Prepaid pension asset	353	344
Other	36	34
Total deferred debits and other assets	2,362	2,428
Total assets	\$ 10,072	\$ 9,943

See the Combined Notes to Consolidated Financial Statements

Table of Contents**PECO ENERGY COMPANY AND SUBSIDIARY COMPANIES****CONSOLIDATED BALANCE SHEETS****(Unaudited)**

(In millions)	September 30, 2015 (Unaudited)	December 31, 2014
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities		
Accounts payable	\$ 298	\$ 337
Accrued expenses	123	91
Payables to affiliates	53	52
Borrowings from Exelon intercompany money pool	55	
Customer deposits	56	52
Regulatory liabilities	104	90
Other	30	31
Total current liabilities	719	653
Long-term debt		
Long-term debt to financing trusts	2,246	2,246
Deferred credits and other liabilities	184	184
Deferred income taxes and unamortized investment tax credits		
Asset retirement obligations	2,752	2,671
Non-pension postretirement benefits obligations	26	29
Regulatory liabilities	288	287
Other	536	657
Total deferred credits and other liabilities	94	95
Total liabilities	3,696	3,739
Commitments and contingencies		
Shareholder s equity		
Common stock	2,455	2,439
Retained earnings	771	681
Accumulated other comprehensive income, net	1	1
Total shareholder s equity	3,227	3,121
Total liabilities and shareholder s equity	\$ 10,072	\$ 9,943

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PECO ENERGY COMPANY AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER S EQUITY

(Unaudited)

(In millions)	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income, net	Total Equity
Balance, December 31, 2014	\$ 2,439	\$ 681	\$ 1	\$ 3,121
Net income		299		299
Allocation of tax benefit from parent	16			16
Common stock dividends		(209)		(209)
Balance, September 30, 2015	\$ 2,455	\$ 771	\$ 1	\$ 3,227

See the Combined Notes to Consolidated Financial Statements

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BALTIMORE GAS AND ELECTRIC COMPANY AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(Unaudited)

(In millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Operating revenue				
Operating revenue	\$ 722	\$ 694	\$ 2,378	\$ 2,383
Operating revenue from affiliates	3	3	10	21
Total operating revenues	725	697	2,388	2,404
Operating expenses				
Purchased power and fuel	170	216	664	808
Purchased power from affiliate	141	81	373	286
Operating and maintenance	138	142	412	468
Operating and maintenance from affiliates	31	23	87	73
Depreciation and amortization	79	78	271	275
Taxes other than income	57	55	169	168
Total operating expenses	616	595	1,976	2,078
Gain on sale of assets	1		1	
Operating income	110	102	413	326
Other income and (deductions)				
Interest expense, net	(21)	(22)	(62)	(69)
Interest expense to affiliates	(4)	(4)	(11)	(12)
Other, net	4	4	13	14
Total other income and (deductions)	(21)	(22)	(60)	(67)
Income before income taxes	89	80	353	259
Income taxes	35	31	141	103
Net income	54	49	212	156
Preference stock dividends	3	3	10	10
Net income attributable to common shareholder	51	46	202	146
Comprehensive income	\$ 54	\$ 49	\$ 212	\$ 156

See the Combined Notes to Consolidated Financial Statements

Table of Contents**BALTIMORE GAS AND ELECTRIC COMPANY AND SUBSIDIARY COMPANIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

(In millions)	Nine Months Ended September 30,	
	2015	2014
Cash flows from operating activities		
Net income	\$ 212	\$ 156
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation, amortization and accretion	271	275
Deferred income taxes and amortization of investment tax credits	79	57
Other non-cash operating activities	111	129
Changes in assets and liabilities:		
Accounts receivable	62	101
Receivables from and payables to affiliates, net	(8)	(11)
Inventories	10	(21)
Accounts payable, accrued expenses and other current liabilities	49	(50)
Counterparty collateral (posted) received, net	(27)	16
Income taxes	(6)	53
Pension and non-pension postretirement benefit contributions	(14)	(13)
Other assets and liabilities	(43)	(67)
Net cash flows provided by operating activities	696	625
Cash flows from investing activities		
Capital expenditures	(506)	(458)
Change in restricted cash	2	(37)
Other investing activities	13	15
Net cash flows used in investing activities	(491)	(480)
Cash flows from financing activities		
Changes in short-term borrowings	(70)	(115)
Retirement of long-term debt	(37)	(35)
Contributions from parent	6	
Dividends paid on preference stock	(10)	(10)
Dividends paid on common stock	(116)	
Other financing activities	(15)	11
Net cash flows used in financing activities	(242)	(149)
Decrease in cash and cash equivalents	(37)	(4)
Cash and cash equivalents at beginning of period	64	31
Cash and cash equivalents at end of period	\$ 27	\$ 27

See the Combined Notes to Consolidated Financial Statements

Table of Contents**BALTIMORE GAS AND ELECTRIC COMPANY AND SUBSIDIARY COMPANIES****CONSOLIDATED BALANCE SHEETS****(Unaudited)**

(In millions)	September 30, 2015 (Unaudited)	December 31, 2014
ASSETS		
Current assets		
Cash and cash equivalents	\$ 27	\$ 64
Restricted cash and cash equivalents	48	50
Accounts receivable, net		
Customer	318	390
Other	77	82
Receivables from affiliates	1	
Inventories, net		
Gas held in storage	42	57
Materials and supplies	35	30
Deferred income taxes	8	6
Prepaid utility taxes	4	59
Regulatory assets	257	214
Other	5	5
Total current assets	822	957
Property, plant and equipment, net	6,459	6,204
Deferred debits and other assets		
Regulatory assets	485	510
Investments	12	12
Prepaid pension asset	331	370
Other	25	25
Total deferred debits and other assets	853	917
Total assets^(a)	\$ 8,134	\$ 8,078

See the Combined Notes to Consolidated Financial Statements

Table of Contents**BALTIMORE GAS AND ELECTRIC COMPANY AND SUBSIDIARY COMPANIES****CONSOLIDATED BALANCE SHEETS****(Unaudited)**

(In millions)	September 30, 2015 (Unaudited)	December 31, 2014
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities		
Short-term borrowings	\$ 50	\$ 120
Long-term debt due within one year	77	75
Accounts payable	201	215
Accrued expenses	159	131
Deferred income taxes	63	52
Payables to affiliates	47	66
Customer deposits	99	92
Regulatory liabilities	69	44
Other	32	51
Total current liabilities	797	846
Long-term debt	1,828	1,867
Long-term debt to financing trust	258	258
Deferred credits and other liabilities		
Deferred income taxes and unamortized investment tax credits	1,937	1,865
Asset retirement obligations	15	17
Non-pension postretirement benefits obligations	209	212
Regulatory liabilities	186	200
Other	59	60
Total deferred credits and other liabilities	2,406	2,354
Total liabilities ^(a)	5,289	5,325
Commitments and contingencies		
Shareholders' equity		
Common stock	1,366	1,360
Retained earnings	1,289	1,203
Total shareholders' equity	2,655	2,563
Preference stock not subject to mandatory redemption	190	190
Total equity	2,845	2,753
Total liabilities and shareholders' equity	\$ 8,134	\$ 8,078

(a) BGE's consolidated assets include \$49 million and \$24 million at September 30, 2015 and December 31, 2014, respectively, of BGE's consolidated VIE that can only be used to settle the liabilities of the VIE. BGE's consolidated liabilities include \$162 million and \$197 million at September 30, 2015 and December 31, 2014, respectively, of BGE's consolidated VIE for which the VIE creditors do not have

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recourse to BGE. See Note 3 Variable Interest Entities.
See the Combined Notes to Consolidated Financial Statements

Table of Contents**BALTIMORE GAS AND ELECTRIC COMPANY AND SUBSIDIARY COMPANIES****CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY****(Unaudited)**

(In millions)	Common Stock	Retained Earnings	Total Shareholders Equity	Preference Stock Not Subject to Mandatory Redemption	Total Equity
Balance, December 31, 2014	\$ 1,360	\$ 1,203	\$ 2,563	\$ 190	\$ 2,753
Net income		212	212		212
Allocation of tax benefit from parent	6		6		6
Preference stock dividends		(10)	(10)		(10)
Common stock dividends		(116)	(116)		(116)
Balance, September 30, 2015	\$ 1,366	\$ 1,289	\$ 2,655	\$ 190	\$ 2,845

See the Combined Notes to Consolidated Financial Statements

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COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions, except per share data, unless otherwise noted)

Index to Combined Notes to Consolidated Financial Statements

The notes to the consolidated financial statements that follow are a combined presentation. The following list indicates the registrants to which the footnotes apply:

Applicable Notes

Registrant	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	
Exelon Corporation
Exelon Generation Company, LLC
Commonwealth Edison Company
PECO Energy Company
Baltimore Gas And Electric Company

1. Basis of Presentation (Exelon, Generation, ComEd, PECO and BGE)

Exelon is a utility services holding company engaged through its principal subsidiaries in the energy generation and energy distribution businesses.

The energy generation business includes:

Generation: Physical delivery and marketing of owned and contracted electric generation capacity and provision of renewable and other energy-related products and services, and natural gas exploration and production activities. Generation has six reportable segments consisting of the Mid-Atlantic, Midwest, New England, New York, ERCOT and Other Power Regions.

The energy delivery businesses include:

ComEd: Purchase and regulated retail sale of electricity and the provision of distribution and transmission services in northern Illinois, including the City of Chicago.

PECO: Purchase and regulated retail sale of electricity and the provision of distribution and transmission services in southeastern Pennsylvania, including the City of Philadelphia, and the purchase and regulated retail sale of natural gas and the provision of distribution services in the Pennsylvania counties surrounding the City of Philadelphia.

BGE: Purchase and regulated retail sale of electricity and the provision of distribution and transmission services in central Maryland, including the City of Baltimore, and the purchase and regulated retail sale of natural gas and the provision of distribution services in central Maryland, including the City of Baltimore.

Each of the Registrant's consolidated financial statements includes the accounts of its subsidiaries. All intercompany transactions have been eliminated. As a result of the Registrants' 2014 divestiture of certain unconsolidated affiliates considered integral to their operations and the consolidation of CENG during 2014, all Equity in earnings (losses) from unconsolidated affiliates have been presented below Income taxes in the Registrants' Consolidated Statements of Operations and Comprehensive Income starting in the first quarter of 2015.

For the three months ended September 30, 2015, Generation recorded a \$52 million (pre-tax) correcting adjustment to decrease mark-to-market income level 3 derivative contract valuations, of which \$12 million (pre-tax) was originally recorded during 2014 and \$40 million (pre-tax) was

originally recorded during the first

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COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in millions, except per share data, unless otherwise noted)

and second quarter of 2015. Exelon and Generation have concluded that this correcting adjustment is not material to their respective results of operations for the three and nine months ended September 30, 2015 or cash flows for the nine months ended September 30, 2015 or any prior period presented. Exelon and Generation do not expect this correcting adjustment to have a material impact on their respective results of operations or cash flows for the year ended December 31, 2015.

The accompanying consolidated financial statements as of September 30, 2015 and 2014 and for the nine months then ended are unaudited but, in the opinion of the management of each Registrant include all adjustments that are considered necessary for a fair statement of the Registrants respective financial statements in accordance with GAAP. All adjustments are of a normal, recurring nature, except as otherwise disclosed. The December 31, 2014 Consolidated Balance Sheets were obtained from audited financial statements. Financial results for interim periods are not necessarily indicative of results that may be expected for any other interim period or for the fiscal year ending December 31, 2015. These Combined Notes to Consolidated Financial Statements have been prepared pursuant to the rules and regulations of the SEC for Quarterly Reports on Form 10-Q. Certain information and note disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. These notes should be read in conjunction with the Combined Notes to Consolidated Financial Statements of all Registrants included in ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA of their respective 2014 Form 10-K Reports.

2. New Accounting Pronouncements (Exelon, Generation, ComEd, PECO and BGE)

The following recently issued accounting standard was effective for the Registrants during 2015.

Application of Normal Purchases Normal Sales Exception to Power Contracts in Nodal Energy Markets

In August 2015, the FASB issued authoritative guidance addressing the ability of entities to elect the normal purchase normal sales (NPNS) scope exception when the contract for the purchase or sale of electricity on a forward basis is delivered to a nodal energy market or transmitted through a nodal energy market. The NPNS scope exception allows entities to treat certain contracts that qualify as derivatives as contracts that do not require recognition at fair value. The guidance specifies that the use of locational marginal pricing by an independent system operator in such transactions does not constitute net settlement of a contract for the purchase or sale of electricity, even in scenarios in which legal title to the associated electricity is conveyed to the independent system operator during transmission. Consequently, the use of locational marginal pricing by the independent system operator does not cause that contract to fail to meet the physical delivery criterion of the NPNS scope exception. If the physical delivery criterion is met, along with all of the other criteria of the NPNS scope exception, an entity may elect to designate that contract as NPNS. The guidance is effective upon issuance and should be applied prospectively. The adoption of this guidance had no impact on the Registrants' financial positions, results of operations, cash flows and disclosures.

The following recently issued accounting standards are not yet required to be reflected in the combined financial statements of the Registrants.

Simplifying the Accounting for Measurement-Period Adjustments

In September 2015, the FASB issued authoritative guidance that requires an acquirer in a business combination to recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined and to record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at

Table of Contents**COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Dollars in millions, except per share data, unless otherwise noted)**

the acquisition date. The guidance is effective for periods beginning after December 15, 2015. The guidance is required to be applied prospectively to adjustments to provisional amounts that occur after the effective date with earlier application permitted for financial statements that have not been issued. The Registrants expect to early adopt the standard in the fourth quarter of 2015. The adoption of this guidance will have no impact on the Registrants' financial positions, results of operations, cash flows and disclosures.

Simplifying the Measurement of Inventory

In July 2015, the FASB issued authoritative guidance that requires inventory to be measured at the lower of cost or net realizable value. The new guidance defines net realizable value as the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. This definition is consistent with existing authoritative guidance. Current guidance requires inventory to be measured at the lower of cost or market where market could be replacement cost, net realizable value or net realizable value less an approximately normal profit margin. The guidance is effective for periods beginning after December 15, 2016 with early adoption permitted. The guidance is required to be applied prospectively. The Registrants are currently assessing the impacts this guidance may have on their financial positions, results of operations, cash flows and disclosures as well as the potential to early adopt the guidance.

Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share

In May 2015, FASB issued authoritative guidance that removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. Investments measured at net asset value per share using the practical expedient will be presented as a reconciling item between the fair value hierarchy disclosure and the investment line item on the statement of financial position. The guidance also removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using the practical expedient. The guidance is effective for the Registrants for fiscal years beginning after December 15, 2015 with early adoption permitted. The guidance is required to be applied retrospectively to all prior periods presented. The Registrants are currently assessing the impacts this guidance may have on their disclosures as well as the potential to early adopt the guidance. There will be no impact to their financial position, results of operations or cash flows.

Customer's Accounting for Fees Paid in a Cloud Computing Arrangement

In April 2015, the FASB issued authoritative guidance that clarifies the circumstances under which a cloud computing customer would account for the arrangement as a license of internal-use software. A cloud computing arrangement would include a software license if (1) the customer has a contractual right to take possession of the software at any time during the hosting period without significant penalty and (2) it is feasible for the customer to either run the software on its own hardware or contract with another party unrelated to the vendor to host the software. If the arrangement does not contain a software license, it would be accounted for as a service contract. The guidance is effective for the Registrants for fiscal years beginning after December 15, 2015. Early adoption is permitted. The guidance can be applied retrospectively to each prior reporting period presented or prospectively to arrangements entered into, or materially modified, after the effective date. The Registrants do not expect that this guidance will have a significant impact on their financial positions, results of operations, cash flows and disclosures. The Registrants expect to apply the standard prospectively to arrangements entered into, or materially modified, after the standard becomes effective for the Registrants on January 1, 2016. The Registrants do not plan to early adopt the standard.

Table of Contents**COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Dollars in millions, except per share data, unless otherwise noted)*****Simplifying the Presentation of Debt Issuance Costs***

In April 2015, the FASB issued authoritative guidance that changes the presentation of debt issuance costs in financial statements. The new guidance requires entities to present such costs in the balance sheet as a direct reduction to the related debt liability rather than as a deferred cost (i.e., an asset) as required by current guidance. The new standard does not change the recognition or measurement of debt issuance costs. The guidance is effective for the Registrants for fiscal years beginning after December 15, 2015. Early adoption is permitted for financial statements that have not been previously issued. The guidance is required to be applied retrospectively to all prior periods presented. The Registrants are currently assessing the impact this guidance may have on their financial positions and disclosures. The standard will not impact the results of operations and cash flows of the Registrants. The Registrants expect to complete their assessment by the fourth quarter of 2015 and early adopt the standard at that time.

In August 2015, the FASB issued clarifying authoritative guidance for debt issuance costs incurred in connection with line-of-credit arrangements as such costs were not addressed within the guidance simplifying the presentation of debt issuance costs issued in April 2015. The guidance clarifies that an entity can defer and present debt issuance costs as an asset and subsequently amortize the deferred debt issuance costs ratably over the term of the line-of-credit arrangement. The adoption of this guidance will have no impact on the Registrants' financial positions, results of operations, cash flows and disclosures.

Amendments to the Consolidation Analysis

In February 2015, the FASB issued authoritative guidance that amends the consolidation analysis for variable interest entities (VIEs) as well as voting interest entities. The new guidance primarily (1) changes the assessment of limited partnerships as VIEs, (2) amends the effect that fees paid to a decision maker or service provider have on the VIE analysis, (3) amends how variable interests held by a reporting entity's related parties and de facto agents impact its consolidation conclusion, (4) clarifies how to determine whether equity holders (as a group) have power over an entity and (5) provides a scope exception for registered and similar unregistered money market funds. The guidance is effective for the Registrants for the first interim period beginning on or after December 15, 2015. Early adoption is permitted. The guidance can be applied retrospectively to each prior reporting period presented (full retrospective method) or retrospectively with a cumulative effect adjustment to retained earnings for initial application of the guidance at the date of adoption (modified retrospective method). The Registrants are currently assessing the impact this guidance may have on their financial positions, results of operations, cash flows and disclosures as well as the transition method that they will use to adopt the guidance. The Registrants do not plan to early adopt the standard.

Revenue from Contracts with Customers

In May 2014, the FASB issued authoritative guidance that changes the criteria for recognizing revenue from a contract with a customer. The new guidance replaces existing guidance on revenue recognition, including most industry specific guidance, with a five step model for recognizing and measuring revenue from contracts with customers. The objective of the new standard is to provide a single, comprehensive revenue recognition model for all contracts with customers to improve comparability within industries, across industries and across capital markets. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The guidance also requires a number of disclosures regarding the nature, amount, timing and uncertainty of revenue and the related cash flows. The guidance can be applied retrospectively to each prior reporting period presented (full retrospective method) or retrospectively with a cumulative effect adjustment to retained earnings for initial application of the guidance at the date of initial adoption (modified retrospective method).

Table of Contents**COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Dollars in millions, except per share data, unless otherwise noted)**

method). The Registrants are currently assessing the impacts this guidance may have on their financial positions, results of operations, cash flows and disclosures as well as the transition method that they will use to adopt the guidance. In August 2015, the FASB issued an amendment to provide a one year deferral of the effective date to annual reporting periods beginning on or after December 15, 2017, as well as an option to early adopt the standard for annual periods beginning on or after December 15, 2016. The Registrants do not plan to early adopt the standard.

3. Variable Interest Entities (Exelon, Generation, ComEd, PECO and BGE)

A VIE is a legal entity that possesses any of the following characteristics: an insufficient amount of equity at risk to finance its activities, equity owners who do not have the power to direct the significant activities of the entity (or have voting rights that are disproportionate to their ownership interest), or equity owners who do not have the obligation to absorb expected losses or the right to receive the expected residual returns of the entity. Companies are required to consolidate a VIE if they are its primary beneficiary, which is the enterprise that has the power to direct the activities that most significantly affect the entity's economic performance.

At September 30, 2015 and December 31, 2014, Exelon, Generation, and BGE collectively consolidated seven and six VIEs or VIE groups, respectively, for which the applicable Registrant was the primary beneficiary (*see Consolidated Variable Interest Entities below*). As of September 30, 2015 and December 31, 2014, the Registrants had significant interests in eight and six other VIEs, respectively, for which the Registrants do not have the power to direct the entities' activities and, accordingly, were not the primary beneficiary (*see Unconsolidated Variable Interest Entities below*).

During the second quarter of 2015 Generation added a new group of consolidated VIEs named a group of companies formed by Generation to build, own, and operate other generating facilities. The new group is comprised of a biomass fueled, combined heat and power facility and a backup generator company for which Generation is the primary beneficiary. Generation provides parental guarantees for up to \$275 million in support of the payment obligations related to the Engineering, Procurement and Construction contract for Albany Green Energy, LLC (*see Note 11 Debt and Credit Agreements for additional details*).

Consolidated Variable Interest Entities

Exelon, Generation and BGE's consolidated VIEs consist of:

BondCo, a special purpose bankruptcy remote limited liability company formed by BGE to acquire, hold, issue and service bonds secured by rate stabilization property,

a retail gas group formed by Generation to enter into a collateralized gas supply agreement with a third-party gas supplier

a group of solar project limited liability companies formed by Generation to build, own and operate solar power facilities,

several wind project companies designed by Generation to develop, construct and operate wind generation facilities,

a group of companies formed by Generation to build, own and operate other generating facilities,

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certain retail power and gas companies for which Generation is the sole supplier of energy, and

CENG.

As of September 30, 2015 and December 31, 2014, ComEd and PECO do not have any material consolidated VIEs.

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COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in millions, except per share data, unless otherwise noted)

As of September 30, 2015 and December 31, 2014, Exelon, Generation, and BGE provided the following support to their respective consolidated VIEs:

In the case of BondCo, BGE is required to remit all payments it receives from all residential customers through non-bypassable, rate stabilization charges to BondCo. During the three and nine months ended September 30, 2015, BGE remitted \$21 million and \$63 million to BondCo, respectively. During the three and nine months ended September 30, 2014, BGE remitted \$21 million and \$63 million to BondCo, respectively.

Generation provides operating and capital funding to the solar and wind entities for ongoing construction, operations and maintenance of the solar and wind power facilities and there is limited recourse to Generation related to the Antelope Valley project.

Generation and Exelon, where indicated, provide the following support to CENG (see Note 6 Investment in Constellation Energy Nuclear Group, LLC, and Note 25 Related Party Transactions, of the Exelon 2014 Form 10-K for additional information regarding Generation's and Exelon's transactions with CENG):

under the NOSA, Generation conducts all activities related to the operation of the CENG nuclear generation fleet owned by CENG subsidiaries (the CENG fleet) and provides corporate and administrative services for the remaining life and decommissioning of the CENG nuclear plants as if they were a part of the Generation nuclear fleet, subject to the CENG member rights of EDF Inc. (EDFI) (a subsidiary of EDF),

under the Power Services Agency Agreement (PSAA), Generation provides scheduling, asset management, and billing services to the CENG fleet for the remaining operating life of the CENG nuclear plants,

under power purchase agreements with CENG, Generation will purchase 50.01% of the available output generated by the CENG nuclear plants not subject to other contractual agreements from January 2015 through the end of the operating life of each respective plant. However, pursuant to amendments dated March 31, 2015, the energy obligations under the Ginna Nuclear Power Plant (Ginna) PPAs have been suspended during the term of the expected Reliability Support Services Agreement (RSSA). Ginna originally entered into an agreement with Rochester Gas and Electric Corporation (RG&E) on February 13, 2015; however, final terms and conditions are currently under negotiation. The obligations under the RSSA are expected to commence retroactive back to April 1, 2015 and run through March 31, 2017 (see Note 5 Regulatory Matters for additional details),

Generation provided a \$400 million loan to CENG. As of September 30, 2015, the remaining obligation is \$296 million including accrued interest, which reflects the principal payment made in January 2015 (see Note 5 Investment in Constellation Energy Nuclear Group, LLC of the Exelon 2014 Form 10-K for additional details),

Generation executed an Indemnity Agreement pursuant to which Generation agreed to indemnify EDF and its affiliates against third-party claims that may arise from any future nuclear incident (as defined in the Price-Anderson Act) in connection with the CENG nuclear plants or their operations. Exelon guarantees Generation's obligations under this Indemnity

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Agreement. (See Note 19 Commitments and Contingencies for more details),

in connection with CENG's severance obligations, Generation has agreed to reimburse CENG for a total of approximately \$6 million of the severance benefits paid or to be paid in 2014 through 2016. As of September 30, 2015, the remaining obligation is approximately \$1 million,

Table of Contents**COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Dollars in millions, except per share data, unless otherwise noted)**

Generation and EDFI share in the \$637 million of contingent payment obligations for the payment of contingent retrospective premium adjustments for the nuclear liability insurance (see Note 19 Commitments and Contingencies for more details),

Generation provides a guarantee of approximately \$7 million associated with hazardous waste management facilities and underground storage tanks. In addition, EDFI executed a reimbursement agreement that provides reimbursement to Exelon for 49.99% of any amounts paid by Generation under this guarantee,

Generation and EDFI are the members-insured with Nuclear Electric Insurance Limited (NEIL) and have assigned the loss benefits under the insurance and the NEIL premium costs to CENG and guarantee the obligations of CENG under these insurance programs in proportion to their respective member interests (see Note 19 Commitments and Contingencies for more details), and

Exelon has executed an agreement to provide up to \$245 million to support the operations of CENG as well as a \$165 million guarantee of CENG's cash pooling agreement with its subsidiaries.

Generation provides approximately \$11 million in credit support for the retail power and gas companies for which Generation is the sole supplier of energy, and

Generation provides a \$75 million parental guarantee to the third-party gas supplier in support of its retail gas group. For each of the consolidated VIEs, except as otherwise noted:

the assets of the VIEs are restricted and can only be used to settle obligations of the respective VIE;

Exelon, Generation and BGE did not provide any additional material financial support to the VIEs;

Exelon, Generation and BGE did not have any material contractual commitments or obligations to provide financial support to the VIEs; and

the creditors of the VIEs did not have recourse to Exelon's, Generation's or BGE's general credit. The carrying amounts and classification of the consolidated VIEs' assets and liabilities included in Exelon's, Generation's, and BGE's consolidated financial statements at September 30, 2015 and December 31, 2014 are as follows:

	September 30, 2015			December 31, 2014		
	Exelon ^(a)	Generation	BGE	Exelon ^(a)	Generation	BGE
Current assets	\$ 1,108	\$ 1,057	\$ 46	\$ 1,271	\$ 1,242	\$ 21

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Noncurrent assets	7,736	7,728	3	7,580	7,566	3
Total assets	\$ 8,844	\$ 8,785	\$ 49	\$ 8,851	\$ 8,808	\$ 24
Current liabilities	\$ 494	\$ 408	\$ 81	\$ 611	\$ 526	\$ 77
Noncurrent liabilities	2,859	2,773	81	2,730	2,600	120
Total liabilities	\$ 3,353	\$ 3,181	\$ 162	\$ 3,341	\$ 3,126	\$ 197

(a) Includes certain purchase accounting adjustments not pushed down to the BGE standalone entity.

Table of Contents**COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Dollars in millions, except per share data, unless otherwise noted)

Assets and Liabilities of Consolidated VIEs

Included within the balances above are assets and liabilities of certain consolidated VIEs for which the assets can only be used to settle obligations of those VIEs, and liabilities that creditors, or beneficiaries, do not have recourse to the general credit of the Registrants. As of September 30, 2015 and December 31, 2014, these assets and liabilities primarily consisted of the following:

	September 30, 2015			December 31, 2014		
	Exelon	Generation	BGE	Exelon	Generation	BGE
Cash and cash equivalents	\$ 330	\$ 330	\$	\$ 392	\$ 392	\$
Restricted cash	193	146	46	117	96	21
Accounts receivable, net						
Customer	186	186		297	297	
Other	32	32		57	57	
Mark-to-market derivatives assets	116	116		171	171	
Inventory						
Materials and supplies	180	180		172	172	
Other current assets	48	43		33	26	
Total current assets	1,085	1,033	46	1,239	1,211	21
Property, plant and equipment, net	4,932	4,932		4,638	4,638	
Nuclear decommissioning trust funds	1,973	1,973		2,097	2,097	
Goodwill	47	47		47	47	
Mark-to-market derivatives assets	53	53		44	44	
Other noncurrent assets	100	92	3	95	82	3
Total noncurrent assets	7,105	7,097	3	6,921	6,908	3
Total assets	\$ 8,190	\$ 8,130	\$ 49	\$ 8,160	\$ 8,119	\$ 24
Long-term debt due within one year	\$ 108	\$ 26	\$ 77	\$ 87	\$ 5	\$ 75
Accounts payable	266	266		292	292	
Accrued expenses	92	88	4	111	108	2
Mark-to-market derivative liabilities				24	24	
Unamortized energy contract liabilities	10	10		22	22	
Other current liabilities	15	15		25	25	
Total current liabilities	491	405	81	561	476	77
Long-term debt	729	643	81	212	81	120
Asset retirement obligations	1,906	1,906		1,763	1,763	
Pension obligation ^(a)	9	9		9	9	
Unamortized energy contract liabilities	42	42		51	51	
Other noncurrent liabilities	65	65		127	127	
Noncurrent liabilities	2,751	2,665	81	2,162	2,031	120

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Total liabilities	\$ 3,242	\$ 3,070	\$ 162	\$ 2,723	\$ 2,507	\$ 197
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- (a) Includes CNEG retail gas pension obligation, which is presented as a net asset balance within the Prepaid Pension asset line item on Generation s balance sheet. See Note 14 Retirement Benefits for additional details.

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COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in millions, except per share data, unless otherwise noted)

Unconsolidated Variable Interest Entities

Exelon's and Generation's variable interests in unconsolidated VIEs generally include equity investments and energy purchase and sale contracts. For the equity investments, the carrying amount of the investments is reflected on Exelon's and Generation's Consolidated Balance Sheets in Investments. For the energy purchase and sale contracts and the fuel purchase commitments (commercial agreements), the carrying amount of assets and liabilities in Exelon's and Generation's Consolidated Balance Sheets that relate to their involvement with the VIEs are predominately related to working capital accounts and generally represent the amounts owed by, or owed to, Exelon and Generation for the deliveries associated with the current billing cycles under the commercial agreements. Further, Exelon and Generation have not provided material debt or equity support, liquidity arrangements or performance guarantees associated with these commercial agreements.

The Registrants' unconsolidated VIEs consist of:

Energy purchase and sale agreements with VIEs for which Generation has concluded that consolidation is not required.

Asset sale agreement with ZionSolutions, LLC and EnergySolutions, Inc. in which Generation has a variable interest but has concluded that consolidation is not required.

Equity investments in energy development projects, distributed energy companies, and energy generating facilities for which Generation has concluded that consolidation is not required.

As of September 30, 2015 and December 31, 2014, Exelon and Generation had significant unconsolidated variable interests in eight and six VIEs, respectively, for which Exelon or Generation, as applicable, was not the primary beneficiary; including certain equity investments and certain commercial agreements. The increase in the number of unconsolidated VIEs is due to the execution of an energy purchase and sale agreement with a new unconsolidated VIE and an equity investment in a new unconsolidated VIE.

In June 2015, 2015 ESA Investco, LLC, a wholly owned subsidiary of Generation, entered into an arrangement to purchase a 90% equity interest and 99% of the tax attributes of a distributed energy company. Equity will be contributed incrementally over an eighteen month period and will total approximately \$250 million (see Note 19 - Commitments and Contingencies for additional details). Generation provides a parental guarantee of up to \$275 million in support of 2015 ESA Investco, LLC's obligation to make equity contributions to the VIE. The investment was evaluated and it was determined to be a VIE for which Generation is not the primary beneficiary. Separate from the equity investment, Generation provided \$27 million in cash to the other (10%) equity holder in the distributed energy company in exchange for a convertible promissory note. In July 2014, Generation entered into another arrangement with the same equity holder for the purchase of a 90% equity interest and 90% of the tax attributes of another distributed energy company. Generation's total equity commitment in this arrangement was \$91 million and is paid incrementally over an approximate two year period (see Note 19 - Commitments and Contingencies for additional details). This arrangement did not meet the definition of a VIE and is recorded as an equity method investment. Both distributed energy companies are considered related parties.

Table of Contents**COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Dollars in millions, except per share data, unless otherwise noted)

The following tables present summary information about Exelon and Generation's significant unconsolidated VIE entities:

	Commercial Agreement VIEs	Equity Investment VIEs	Total
September 30, 2015			
Total assets ^(a)	\$ 253	\$ 131	\$ 384
Total liabilities ^(a)	10	66	76
Exelon's ownership interest in VIE ^(b)		19	19
Other ownership interests in VIE ^(a)	243	46	289
Registrants' maximum exposure to loss:			
Carrying amount of equity method investments		27	27
Contract intangible asset	9		9
Debt and payment guarantees		3	3
Net assets pledged for Zion Station decommissioning ^(b)	20		20

	Commercial Agreement VIEs	Equity Investment VIEs	Total
December 31, 2014			
Total assets ^(a)	\$ 114	\$ 91	\$ 205
Total liabilities ^(a)	3	49	52
Exelon's ownership interest in VIE ^(b)		9	9
Other ownership interests in VIE ^(a)	111	33	144
Registrants' maximum exposure to loss:			
Carrying amount of equity method investments		13	13
Contract intangible asset	9		9
Debt and payment guarantees		3	3
Net assets pledged for Zion Station decommissioning ^(b)	27		27

(a) These items represent amounts on the unconsolidated VIE balance sheets, not on Exelon's or Generation's Consolidated Balance Sheets. These items are included to provide information regarding the relative size of the unconsolidated VIEs. Exelon corrected an error in the December 31, 2014 balances within Commercial Agreement VIEs for an overstatement of Total assets, Total liabilities and Other ownership interests in VIE of \$392 million, \$234 million and \$158 million, respectively. The error is not considered material to any prior period.

(b) These items represent amounts on Exelon's and Generation's Consolidated Balance Sheets related to the asset sale agreement with ZionSolutions, LLC. The net assets pledged for Zion Station decommissioning include, gross pledged assets of \$237 million and \$319 million as of September 30, 2015 and December 31, 2014, respectively; offset by payables to ZionSolutions, LLC of \$217 million and \$292 million as of September 30, 2015 and December 31, 2014, respectively. These items are included to provide information regarding the relative size of the ZionSolutions, LLC unconsolidated VIE.

For each of the unconsolidated VIEs, Exelon and Generation has assessed the risk of a loss equal to their maximum exposure to be remote and, accordingly, Exelon and Generation have not recognized a liability associated with any portion of the maximum exposure to loss. In addition, there are no material agreements with, or commitments by, third parties that would affect the fair value or risk of their variable interests in these VIEs.

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COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in millions, except per share data, unless otherwise noted)

4. Mergers, Acquisitions, and Dispositions (Exelon and Generation)

Proposed Merger with Pepco Holdings, Inc. (Exelon)

Description of Transaction

On April 29, 2014, Exelon and Pepco Holdings, Inc. (PHI) signed an agreement and plan of merger (as subsequently amended and restated as of July 18, 2014, the Merger Agreement) to combine the two companies in an all cash transaction. The resulting company will retain the Exelon name and be headquartered in Chicago. Under the Merger Agreement, PHI's shareholders will receive \$27.25 of cash in exchange for each share of PHI common stock. Based on the outstanding shares of PHI's common stock as of September 30, 2015, PHI shareholders would receive \$6.9 billion in total cash. In addition, in connection with the Merger Agreement, Exelon entered into a subscription agreement under which it has purchased \$180 million of a class of nonvoting, nonconvertible and nontransferable preferred securities of PHI. The preferred securities are included in Other non-current assets on Exelon's Consolidated Balance Sheet. PHI has the right to redeem the preferred securities at its option for the purchase price paid plus accrued dividends, if any.

On September 9, 2014, Exelon and PHI filed a Notification and Report Form with DOJ under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (HSR Act). The HSR Act waiting period expired on December 22, 2014, and the HSR Act no longer precludes completion of the merger. Although the DOJ allowed the waiting period under the HSR Act to expire without taking any action with respect to the merger, the DOJ has not advised Exelon or PHI that it has concluded its investigation. Under the HSR Act, if the merger is not completed before December 23, 2015, Exelon and PHI are required to file again under the HSR Act and observe the required waiting period, which is 30 days from the new filing (and longer if the DOJ requests additional information), unless the DOJ terminates the waiting period earlier. Exelon and PHI intend to withdraw our pending HSR application and refile under the HSR Act on November 2, 2015. This will trigger a new 30-day waiting period. Unless a request for additional information is issued by DOJ during that waiting period, the waiting period will expire on December 2, 2015, and the parties will be free to close on or after December 2.

To date, the PHI stockholders, the Virginia State Corporation Commission, the New Jersey Board of Public Utilities (NJBPU), the Delaware Public Service Commission (DPSC), the Maryland Public Service Commission (MDPSC) and the FERC have approved the merger of PHI and Exelon. The Federal Communications Commission has also approved the transfer of certain PHI communications licenses.

On February 11, 2015, the NJBPU approved the proposed merger and the previously filed settlement signed and filed by Exelon, PHI, Atlantic City Electric (ACE), NJBPU staff, and the Independent Energy Coalition. The settlement provides a package of benefits to ACE customers and the state of New Jersey. This package of benefits includes the establishment of customer rate credit programs, with an aggregate value of \$62 million for ACE customers and energy efficiency programs that will provide savings for ACE customers of \$15 million. The March 6, 2015, order by the NJBPU approving the merger required that the consummation of the merger must take place no later than November 1, 2015 unless otherwise extended by the Board. On October 15, 2015, the NJBPU extended the November 1, 2015 date to June 30, 2016.

On February 13, 2015, Exelon and PHI announced that they had reached a settlement agreement in the proceeding before the DPSC to review the proposed merger. The settlement, which was amended on April 7, 2015, was signed and filed by Exelon, PHI, Delmarva Power & Light Company (DPL), the DPSC Staff, the Delaware Public Advocate, the Delaware Department of Natural Resources and Environment Control, the Delaware Sustainable Energy Utility, the Mid-Atlantic Renewable Energy Coalition and the Clean Air Council. As part of this settlement, Exelon and PHI proposed a package of benefits to DPL customers and the state of Delaware including the establishment of customer rate credits of \$40 million for DPL customers in Delaware, \$2

Table of Contents**COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Dollars in millions, except per share data, unless otherwise noted)**

million of funding for energy efficiency programs for DPL low income customers, and \$2 million of funding for workforce development. On June 2, 2015, the DPSC issued an order accepting the settlement and approving the merger between Exelon and PHI.

On March 17, 2015, Exelon and PHI announced that they had reached settlements with multiple parties in the Maryland proceeding to review the proposed merger after filing a Request for Adoption of Settlements with the MDPSC. The settlements were signed and filed by Exelon, PHI, Montgomery County, Prince George's County, The Alliance for Solar Choice, the National Consumer Law Center, National Housing Trust, the Maryland Affordable Housing Coalition, the Housing Association of Nonprofit Developers, and a consortium of recreational trail advocacy organizations led by the Mid-Atlantic Off-Road Enthusiasts. On May 15, 2015, the MDPSC approved the merger after modifying a number of the conditions in the settlements, resulting in total rate credits of \$66 million, funding for energy efficiency programs of \$43.2 million, a Green Sustainability Fund of \$14.4 million, 20 MWs of renewable generation development, ring-fencing, financial reporting conditions and increased penalties related to reliability commitments. On May 18, 2015, Exelon and PHI accepted and committed to fulfill the conditions.

On June 11, 2015, the Maryland Office of People's Counsel (OPC), the Sierra Club, and the Chesapeake Climate Action Network filed Petitions for Judicial Review of the MDPSC's approval of the merger with the Circuit Court for Queen Anne's County. On June 23, 2015, Public Citizen, Inc. filed its Petition for Judicial Review with the Circuit Court for Queen Anne's County. On July 10, 2015, Exelon and PHI filed a response in opposition to the Petitions for Review.

On July 21, 2015, the OPC filed a motion to stay the MDPSC order approving the merger and to set a schedule for discovery and presentation of new evidence. On July 29, 2015, Public Citizen, Inc. filed a response supporting OPC's motion to stay, and on July 31, 2015 the Sierra Club and the Chesapeake Climate Action Network filed a joint motion to stay. In July and August, Exelon, PHI, the MDPSC, Prince George's County and Montgomery County filed responses opposing the motions to stay. The presiding judge issued an order denying the motions for stay on August 12, 2015. A hearing on the underlying Petitions for Review is scheduled for December 8, 2015.

On August 27, 2015, the District of Columbia Public Service Commission (DCPSC) issued an Opinion and Order denying approval of the merger, asserting that the merger was not in the public's interest. Exelon and PHI filed an Application for Reconsideration with the DCPSC on September 28, 2015. On October 6, 2015, Exelon, PHI, the District of Columbia Government, the Office of Peoples Counsel, the District of Columbia Water and Sewer Authority, the National Consumer Law Center, National Housing Trust and National Housing Trust Enterprise Preservation Corporation, and the Apartment and Office Building Association of Metropolitan Washington (collectively, Settling Parties) entered into a Nonunanimous Full Settlement Agreement and Stipulation (Settlement Agreement) with respect to the merger. Exelon and PHI subsequently filed a motion of joint applicants requesting the DCPSC to reopen the approval application to allow for consideration of the Settlement Agreement and granting additional requested relief. The new package of benefits totals \$78 million and includes commitments to provide relief of residential customer base rate increases of \$26 million, one-time direct bill credits of \$14 million, low-income energy assistance of \$16 million, improved reliability, a cleaner and greener D.C. through funding energy efficiency programs and development of renewable energy, and investment in local jobs and the local economy through workforce development of \$5 million. It also guarantees charitable contributions totaling \$19 million over 10 years.

On October 28, 2015, the DCPSC at a public meeting agreed to reopen the approval application to allow for consideration of the Settlement Agreement and set a procedural schedule which would allow for completion of the merger in the first quarter of 2016. If the DCPSC does not approve the Settlement Agreement within the 150 day period after it was filed, either Exelon or PHI may terminate the Settlement Agreement.

Table of Contents**COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Dollars in millions, except per share data, unless otherwise noted)**

The settlements reached and commission orders received to date in Delaware, Maryland and New Jersey include a most favored nation provision which, generally speaking, requires allocation of merger benefits proportionately across all the jurisdictions. When applying the most favored nation provision to the settlement terms and other conditions established in the merger approvals received to date, and as proposed in the Settlement Agreement filed with the DCPSC, Exelon and PHI currently estimate direct benefits of \$430 million or more on a net present value basis (excluding charitable contributions and renewable generation commitments) will be provided, including rate credits, funding for energy efficiency programs, sustainability funds and other required commitments. Exelon and PHI anticipate substantially all of such amounts will be charged to earnings at the time of merger close and will be paid by the end of 2017. An additional \$50 million will be charged to earnings for charitable contributions, which are required to be paid over a period of 10 years. Commitments to develop renewable generation, which are expected to be primarily capital in nature, will be recognized as incurred. Upon completion of the merger, the actual nature, amount, timing and financial reporting treatment for these commitments may be materially different from the current projection.

Exelon has been named in suits filed in the Delaware Chancery Court alleging that individual directors of PHI breached their fiduciary duties by entering into the proposed merger transaction and Exelon aided and abetted the individual directors' breaches. The suits seek to enjoin PHI from completing the merger or seek rescission of the merger if completed. In addition, they also seek unspecified damages and costs. Exelon was also named in a federal court suit making similar claims. In September 2014, the parties reached a proposed settlement that would resolve all claims, which is subject to court approval. Final court approval of the proposed settlement is not anticipated until approximately 90 days after merger close. Exelon does not believe these suits will impact the completion of the transaction, and they are not expected to have a material impact on Exelon's results of operations.

Including 2014 and through September 30, 2015, Exelon has incurred approximately \$226 million of expense associated with the proposed merger. Of the total costs incurred, \$110 million is primarily related to acquisition and integration costs and \$116 million is for costs incurred to finance the transaction. The financing costs include a net loss of \$64 million related to the settlement of forward-starting interest-rate swaps. These swaps were terminated in connection with the \$4.2 billion issuance of debt; refer to Note 10 Derivative Financial Instruments and Note 11 Debt and Credit Agreements for more information. The financing costs exclude costs to issue debt and equity.

During the three months ended September 30, 2015, Exelon, Generation, ComEd, PECO and BGE incurred acquisition and integration costs, including financing costs, of \$21 million, \$9 million, \$3 million, \$2 million and \$2 million, respectively. During the nine months ended September 30, 2015, Exelon, Generation, ComEd, PECO and BGE incurred acquisition and integration costs of \$47 million, \$24 million, \$10 million, \$4 million and \$5 million, respectively.

During the three months ended September 30, 2014, Exelon, Generation, ComEd, PECO and BGE incurred acquisition and integration costs, including financing costs, of \$32 million, \$3 million, \$1 million, \$1 million and \$1 million, respectively. During the nine months ended September 30, 2014, Exelon, Generation, ComEd, PECO and BGE incurred acquisition and integration costs of \$57 million, \$4 million, \$1 million, \$1 million and \$1 million, respectively.

The costs incurred are classified primarily within Operating and maintenance expense in the Registrants' respective Consolidated Statement of Operations and Comprehensive Income, with the exception of the financing costs, which are included within Interest expense.

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The Merger Agreement also provides for termination rights for both parties. Exelon and PHI have entered into a Letter Agreement related to the Settlement Agreement which has the practical effect of suspending their rights to terminate the Merger Agreement until November 20, 2015 if no schedule has been set by the DCPSC allowing for approval of the settlement by March 4, 2016, or until March 4, 2016, if a schedule is set for approval by March 4, 2016, but approval does not occur by that date. Under certain circumstances, if the Merger Agreement is terminated, PHI may be required to pay Exelon a termination fee ranging from \$259 million to \$293 million plus certain expenses. If the Merger Agreement is terminated due to a regulatory failure, Exelon may be required to pay PHI a termination fee equal to \$180 million (the amount of purchased nonvoting preferred securities of PHI described above), through the redemption by PHI of the outstanding nonvoting preferred securities for no consideration other than the nominal par value of the stock, plus reimbursement of PHIs documented out-of-pocket expenses up to a maximum of \$40 million.

Merger Financing

As of September 30, 2015, through the issuance of \$5.4 billion of debt (including \$1.15 billion of junior subordinated notes in the form of 23 million equity units), the issuance of \$1.9 billion of common stock, and cash proceeds of \$1.8 billion from asset sales primarily at Generation (after-tax proceeds of approximately \$1.4 billion), Exelon has sufficient cash to fund the all-cash purchase price, acquisition and integration related costs, and merger commitments. See Note 11 Debt and Credit Agreements and Note 17 Common Stock for further information on the debt and equity issuances. See Note 4 Merger and Acquisitions of the Exelon 2014 Form 10-K for further information on the asset sales.

Asset Divestitures (Exelon and Generation)

On January 21, 2015, Generation closed on the sale of the Quail Run generating facility. Generation has sold generating assets for total pre-tax proceeds of \$1.8 billion (after-tax proceeds of \$1.4 billion), including Quail Run and Safe Harbor, which are expected to be used primarily to finance a portion of the acquisition and related costs and expenses of PHI.

On August 8, 2014 Generation closed on the sale of its 67% economic equity interest in the 417 MW Safe Harbor Water Power Corporation hydroelectric facility on the Susquehanna River in Pennsylvania for a purchase price of approximately \$615 million. Generation recorded a pre-tax gain on the sale of approximately \$329 million within Gain on sales of assets on Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income.

5. Regulatory Matters (Exelon, Generation, ComEd, PECO and BGE)***Regulatory and Legislative Proceedings (Exelon, Generation, ComEd, PECO and BGE)***

Except for the matters noted below, the disclosures set forth in Note 3 Regulatory Matters of the Exelon 2014 Form 10-K appropriately represent, in all material respects, the current status of regulatory and legislative proceedings of the Registrants. The following is an update to that discussion.

Illinois Regulatory Matters

Energy Infrastructure Modernization Act (Exelon and ComEd). Since 2011, ComEd's distribution rates are established through a performance-based rate formula, pursuant to EIMA. EIMA also provides a structure for substantial capital investment by utilities to modernize Illinois' electric utility infrastructure. EIMA was scheduled to sunset, ending ComEd's performance based rate formula and investment commitment, at December 31, 2017, unless approved to continue through 2022 by the Illinois General Assembly. On April 3, 2015, the Governor signed legislation extending the EIMA sunset from 2017 to 2019.

Table of Contents**COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Dollars in millions, except per share data, unless otherwise noted)**

Participating utilities are required to file an annual update to the performance-based formula rate tariff on or before May 1, with resulting rates effective in January of the following year. This annual formula rate update is based on prior year actual costs and current year projected capital additions. The update also reconciles any differences between the revenue requirement(s) in effect for the prior year and actual costs incurred for that year. Throughout each year, ComEd records regulatory assets or regulatory liabilities and corresponding increases or decreases to operating revenues for any differences between the revenue requirement(s) in effect and ComEd's best estimate of the revenue requirement expected to be approved by the ICC for that year's reconciliation. As of September 30, 2015, and December 31, 2014, ComEd had recorded a net regulatory asset associated with the distribution formula rate of \$240 million and \$371 million, respectively. The regulatory asset associated with distribution true-up is amortized to Operating revenues as the associated amounts are recovered through rates.

On April 15, 2015, ComEd filed its annual distribution formula rate with the ICC. The filing establishes the revenue requirement used to set the rates that will take effect in January 2016 after the ICC's review and approval, which is due by December 2015. The revenue requirement requested is based on 2014 actual costs plus projected 2015 capital additions as well as an annual reconciliation of the revenue requirement in effect in 2014 to the actual costs incurred that year. ComEd's 2015 filing request includes a total decrease to the revenue requirement of \$50 million, reflecting an increase of \$92 million for the initial revenue requirement for 2016 and a decrease of \$142 million related to the annual reconciliation for 2014. The revenue requirement for 2016 provides for a weighted average debt and equity return on distribution rate base of 7.05% inclusive of an allowed ROE of 9.14%, reflecting the average rate on 30-year treasury notes plus 580 basis points. The annual reconciliation for 2014 provided for a weighted average debt and equity return on distribution rate base of 7.02% inclusive of an allowed ROE of 9.09%, reflecting the average rate on 30-year treasury notes plus 580 basis points less a performance metrics penalty of 5 basis points.

On October 19, 2015, the ALJ issued its proposed order in ComEd's current distribution formula rate proceeding, recommending a total decrease to the revenue requirement of \$68 million as compared to ComEd's requested decrease of \$50 million discussed above. The \$18 million reduction consisted of a \$8 million decrease to the initial 2016 revenue requirement and a decrease of \$10 million related to the 2014 annual reconciliation. The ALJ's proposed order has no independent legal effect as the ICC must vote on a final order by mid December 2015, which may materially vary from the findings and conclusions in the proposed order. If the ICC provides significant changes to ComEd's filed revenue requirement request, it could have a material impact on ComEd's current and future results of operations and cash flows.

Participating utilities are also required to file an annual update on their AMI implementation progress. On April 1, 2015, ComEd filed an annual progress report on its AMI Implementation Plan with the ICC, which allows for the installation of more than 4 million smart meters throughout ComEd's service territory by 2018. To date, over 1.6 million smart meters have been installed in the Chicago area.

Grand Prairie Gateway Transmission Line (Exelon and ComEd). On December 2, 2013, ComEd filed a request to obtain the ICC's approval to construct a 60-mile overhead 345kV transmission line that traverses Ogle, DeKalb, Kane and DuPage Counties in Northern Illinois. On May 28, 2014, in a separate proceeding, FERC issued an order granting ComEd's request to include 100% of the capital costs recorded to construction work in progress during construction of the line in ComEd's transmission rate base. If the project is cancelled or abandoned for reasons beyond ComEd's control, FERC approved the ability for ComEd to recover 100% of its prudent costs incurred after May 21, 2014 and 50% of its costs incurred prior to May 21, 2014 in ComEd's transmission rate base. The costs incurred for the project prior to May 21, 2014 were immaterial. On October 22, 2014, the ICC issued an order approving ComEd's Grand Prairie Gateway Project over the objection of numerous landowners and the City of Elgin. On January 15, 2015, the City of Elgin and other parties filed a Notice of Appeal in the Illinois Appellate Court. On April 8, 2015, the ICC issued a rehearing order denying the

Table of Contents**COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Dollars in millions, except per share data, unless otherwise noted)**

proposals filed by certain landowners to consider an alternate route for a three-mile segment of the transmission line. The rehearing order affirmed the route approved within the ICC's October 22, 2014 order. On July 8, 2015, the ICC approved ComEd's request for eminent domain to involuntarily acquire easements across 28 land parcels. On September 28, 2015, ComEd filed a petition with the ICC to acquire an additional eight parcels through eminent domain. ComEd began construction of the line during the second quarter of 2015 with an in-service date expected in the second quarter of 2017.

Pennsylvania Regulatory Matters

2015 Pennsylvania Electric Distribution Rate Case (Exelon and PECO). On March 27, 2015, PECO filed a petition with the PAPUC requesting an increase of \$190 million to its annual service revenues for electric delivery, which requested an ROE of 10.95%. On September 10, 2015, PECO and interested parties filed with the PAPUC a petition for joint settlement for an increase of \$127 million in annual distribution service revenue. No overall ROE was specified in the settlement. On October 28, 2015, the ALJ issued a Recommended Decision to the PAPUC that the joint settlement be approved. A final ruling from the PAPUC is expected by December 2015, and if approved, the new electric delivery rates will take effect on January 1, 2016.

Pennsylvania Procurement Proceedings (Exelon and PECO). On October 12, 2012, the PAPUC issued its Opinion and Order approving PECO's second DSP Program, which was filed with the PAPUC in January 2012. The program, which had a 24-month term from June 1, 2013 through May 31, 2015, complies with electric generation procurement guidelines set forth in Act 129. In the second DSP Program, PECO entered into contracts with PAPUC-approved bidders, including Generation, to procure electric supply for its default electric customers through five competitive procurements.

In addition, the second DSP Program included a number of retail market enhancements recommended by the PAPUC in its previously issued Retail Markets Intermediate Work Plan Order. PECO was also directed to submit a plan to allow its low-income Customer Assistance Program (CAP) customers to purchase their generation supply from EGSs beginning in April 2014. In May 2013, PECO filed its CAP Shopping Plan with the PAPUC. By Order entered on January 24, 2014, the PAPUC approved PECO's plan, with modifications, to make CAP shopping available beginning April 15, 2014. On March 20, 2014, the Office of Consumer Advocate (OCA) and low-income advocacy groups filed an appeal and emergency request for a stay with the Pennsylvania Commonwealth Court (the Court), claiming that the PAPUC-ordered CAP Shopping plan does not contain sufficient protections for low-income customers. On July 14, 2015, the Court issued opinions on the OCA and low-income advocacy group appeal. Specifically, the Court remanded the issue to the PAPUC with instructions that it approve a rule revision to the PECO CAP Shopping Plan that would prohibit CAP customers from entering into contracts with an EGS that would impose early cancellation/termination fees. PECO does not have information at this time as to what action it may be required to take following remand to the PAPUC.

On December 4, 2014, the PAPUC approved PECO's third DSP Program. The program has a 24-month term from June 1, 2015 through May 31, 2017, and complies with electric generation procurement guidelines set forth in Act 129. Under the program, PECO is procuring electric supply through four competitive procurements for fixed price full requirements contracts of two years or less for the residential classes and small and medium commercial classes and spot market price full requirement contracts for the large commercial and industrial class load. As of September 30, 2015, PECO entered into contracts with PAPUC-approved bidders, including Generation, resulting from the first two of its four scheduled procurements. Charges incurred for electric supply procured through contracts with Generation are included in purchased power from affiliates on PECO's Statement of Operations and Comprehensive Income.

On March 12, 2015, PECO settled the CAP Design with the Office of Consumer Advocates (OCA) and Low Income Advocates, and filed the proposed plan with the PAPUC on March 20, 2015. The program design

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changes the rate structure of PECO's CAP to make the bills more affordable to customers enrolled in the assistance program. The CAP discounts continue to be recovered through PECO's universal service fund cost. On July 8, 2015, the CAP Design was approved by the PAPUC. PECO plans to implement the program changes in October 2016.

Smart Meter and Smart Grid Investments (Exelon and PECO). In April 2010, pursuant to Act 129 and the follow-on Implementation Order of 2009, the PAPUC approved PECO's Smart Meter Procurement and Installation Plan (SMPPI). PECO is currently in the second phase of the SMPPI, under which PECO will deploy substantially all remaining smart meters, for a total of 1.7 million smart meters, on an accelerated basis by the end of 2015. In total, PECO currently expects to spend up to \$591 million, excluding the cost of the original meters, on its smart meter infrastructure and approximately \$155 million on smart grid investments through final deployment of which \$200 million was primarily funded by SGIG. As of September 30, 2015, PECO has spent \$579 million and \$155 million on smart meter and smart grid infrastructure, respectively, not including the DOE reimbursements received.

For further information on the SGIG and Smart Meter and Smart Grid program, see Note 3 – Regulatory Matters of the Exelon 2014 Form 10-K.

Pennsylvania Act 11 of 2012 (Exelon and PECO). In February 2012, Act 11 was signed into law, which seeks to clarify the PAPUC's authority to approve alternative ratemaking mechanisms, allowing for the implementation of a distribution system improvement charge (DSIC) in rates designed to recover capital project costs incurred to repair, improve or replace utilities' aging electric and natural gas distribution systems in Pennsylvania. Prior to recovering costs pursuant to a DSIC, the PAPUC's implementation order requires a utility to have a Long Term Infrastructure Improvement Plan (LTIIP) approved by the Commission, which outlines how the utility is planning to increase its investment for repairing, improving, or replacing aging infrastructure.

On May 7, 2015, the PAPUC approved PECO's modified natural gas LTIIP. In accordance with the approved LTIIP, PECO plans to spend \$534 million through 2022 to further accelerate the replacement of existing gas mains and to relocate meters from indoors to outside in accordance with recent PAPUC rulemaking. In addition, on March 20, 2015, PECO filed a petition with the PAPUC for approval of its gas DSIC mechanism for recovery of gas LTIIP expenditures. On September 11, 2015, the PAPUC entered its Opinion and Order approving PECO's petition for a gas DSIC.

On March 27, 2015, PECO filed a petition with the PAPUC for approval of its proposed electric DSIC and LTIIP. In accordance with the LTIIP (System 2020 plan), PECO plans to spend \$275 million over the next five years to modernize and storm-harden its electric distribution system, making it more weather resistant and less vulnerable to damage. The DSIC will allow PECO the opportunity to recover the costs, subject to certain criteria, incurred to repair, improve or replace its electric distribution property between rate cases. On October 22, 2015, the PAPUC entered its Opinion and Order approving PECO's proposed petition for its electric LTIIP and DSIC.

Maryland Regulatory Matters

2013 Maryland Electric and Gas Distribution Rate Case (Exelon and BGE). On May 17, 2013, and as amended on August 23, 2013, BGE filed for electric and gas base increases with the MDPSC, ultimately requesting increases of \$83 million and \$24 million, respectively. In addition to these requested rate increases, BGE's application included a request for recovery of incremental capital expenditures and operating costs associated with BGE's proposed short-term reliability improvement plan (the ERI initiative) in response to a MDPSC order through a surcharge separate from base rates.

On December 13, 2013, the MDPSC issued an order in BGE's 2013 electric and natural gas distribution rate case for increases in annual distribution service revenue of \$34 million and \$12 million, respectively, and an allowed return on equity of 9.75% and 9.60%, respectively. Rates became effective for services rendered on or

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after December 13, 2013. The MDPSC also authorized BGE to recover through a surcharge mechanism costs associated with five ERI initiative programs designed to accelerate electric reliability improvements premised upon the condition that the MDPSC approve specific projects in advance of cost recovery. On March 31, 2014, after reviewing comments filed by the parties and conducting a hearing on the matter, the MDPSC approved all but one project proposed for completion in 2014 as part of the ERI initiative. The ERI initiative surcharge became effective June 1, 2014. On November 3, 2014, BGE filed a surcharge update including a true-up of cost estimates included in the 2014 surcharge, along with its work plan and cost estimates for 2015, to be included in the 2015 surcharge. At its December 17, 2014 weekly Administrative Meeting, the MDPSC approved BGE's 2014 annual report, 2015 work plan and the 2015 surcharge.

In January 2014, the residential consumer advocate in Maryland filed an appeal to the order issued by the MDPSC on December 13, 2013 in BGE's 2013 electric and gas distribution rate cases. The residential consumer advocate filed its related legal memorandum on August 22, 2014, challenging the MDPSC's approval of the ERI initiative surcharge. BGE submitted a response to the appeal on October 15, 2014, and a hearing was held on November 17, 2014. BGE cannot predict the outcome of this appeal. If the residential consumer advocate's appeal is successful, BGE could recover ERI expenditures through other regulatory mechanisms.

Smart Meter and Smart Grid Investments (Exelon and BGE). In August 2010, the MDPSC approved a comprehensive smart grid initiative for BGE that included the planned installation of 2 million residential and commercial electric and gas smart meters at an expected total cost of \$480 million of which \$200 million was funded by SGIG. The MDPSC's approval ordered BGE to defer the associated incremental costs, depreciation and amortization, and an appropriate return, in a regulatory asset until such time as a cost-effective advanced metering system is implemented. As of September 30, 2015 and December 31, 2014, BGE recorded a regulatory asset of \$179 million and \$128 million, respectively, representing incremental costs, depreciation and amortization, and a debt return on fixed assets related to its AMI program. As part of the settlement in BGE's 2014 electric and gas distribution rate case, the cost of the retired non-AMI meters will be amortized over 10 years.

The Maryland Strategic Infrastructure Development and Enhancement Program (Exelon and BGE). In February 2013, the Maryland General Assembly passed legislation intended to accelerate gas infrastructure replacements in Maryland by establishing a mechanism for gas companies to recover promptly reasonable and prudent costs of eligible infrastructure replacement projects separate from base rate proceedings. On May 2, 2013, the Governor of Maryland signed the legislation into law; which took effect June 1, 2013. Under the new law, following a proceeding before the MDPSC and with the MDPSC's approval of the eligible infrastructure replacement projects along with a corresponding surcharge, BGE could begin charging gas customers a monthly surcharge for infrastructure costs incurred after June 1, 2013. The legislation includes caps on the monthly surcharges to residential and non-residential customers, and would require an annual true-up of the surcharge revenues against actual expenditures. Investment levels in excess of the cap would be recoverable in a subsequent gas base rate proceeding at which time all costs for the infrastructure replacement projects would be rolled into gas distribution rates. Irrespective of the cap, BGE is required to file a gas rate case every five years under this legislation. On August 2, 2013, BGE filed its infrastructure replacement plan and associated surcharge. On January 29, 2014, the MDPSC issued a decision conditionally approving the first five years of BGE's plan and surcharge. On March 26, 2014, the MDPSC approved as filed BGE's proposed 2014 project list, tariff and associated surcharge amounts, with a surcharge that became effective April 1, 2014. On November 17, 2014, BGE filed a surcharge update to be effective January 1, 2015 including a true-up of cost estimates included in the 2014 surcharge, along with its 2015 project list and projected capital estimates of \$78 million to be included in the 2015 surcharge calculation. At its December 17, 2014 weekly Administrative Meeting, the MDPSC approved BGE's 2015 project list and the proposed surcharge for 2015, which included the true-up of the 2014 charge. As of September 30, 2015, BGE recorded a regulatory liability of \$1 million, representing the difference between the surcharge revenues and program costs.

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In February 2014, the residential consumer advocate in Maryland filed an appeal with the Baltimore City Circuit Court to the decision issued by the MDPSC on BGE's infrastructure replacement plan. On September 5, 2014, the Baltimore City Circuit Court affirmed the MDPSC decision on BGE's infrastructure replacement plan and associated surcharge. On October 10, 2014, the residential consumer advocate noticed its appeal to the Maryland Court of Special Appeals from the judgment entered by the Baltimore City Circuit Court. During the third quarter of 2015, the residential consumer advocate, MDPSC and BGE filed briefs. The Court of Special Appeals has set oral argument in this matter for November 3, 2015. BGE cannot predict the outcome of this appeal. However, if the consumer advocates appeal is successful, BGE could seek recovery of infrastructure replacement costs through other regulatory mechanisms.

New York Regulatory Matters

GINNA Nuclear Power Plant Reliability Support Services Agreement (Exelon and Generation). Ginna Nuclear Power Plant's (Ginna) prior period fixed-price PPA contract with Rochester Gas & Electric Company (RG&E) expired in June 2014. In light of the expiration of the agreement, Ginna advised the New York Public Service Commission (NYPSC) and ISO-NY that in absence of a reliability need, Ginna management would make a recommendation, subject to approval by the CENG board, that Ginna be retired as soon as practicable. A formal study conducted by the ISO-NY and RG&E concluded that the Ginna nuclear plant needs to remain in operation to maintain the reliability of the transmission grid in the Rochester region through 2018 when planned transmission system upgrades are expected to be completed. In November 2014, in response to a petition filed by Ginna, the NYPSC directed Ginna and RG&E to negotiate a Reliability Support Services Agreement (RSSA). On February 13, 2015, regulatory filings, including RSSA terms negotiated between Ginna and RG&E, to support the continued operation of Ginna for reliability purposes were made with the NYPSC and with FERC for their approval. Although the RSSA contract is still subject to regulatory approvals, on April 1, 2015, Ginna began delivering power and capacity into ISO-NY consistent with the provisions of the proposed RSSA contract. In the event that Ginna continues to operate beyond the RSSA term, Ginna would be required to make a specified refund payment to RG&E. The FERC issued an order on April 14, 2015, directing Ginna to make a compliance filing to ensure that the RSSA does not allow Ginna to receive revenues above its full cost-of-service and rejecting any extension of the RSSA beyond its initial term, rather requiring any extension be subject to the rules currently being developed by ISO-NY. The FERC order also set the RSSA for hearing and settlement procedures. In response to the FERC's April 14, 2015 order, on May 14, 2015, Ginna submitted a compliance filing to FERC containing proposed revisions to the RSSA addressing FERC's requirements and maintaining the April 1, 2015 proposed effective date. On July 13, 2015, FERC accepted Ginna's compliance filing effective April 1, 2015. The FERC accepted Ginna's proposal for market revenue sharing subject to a cap effective April 1, 2015, and rejected requests for rehearing by parties on a number of matters related to jurisdiction, the reliability need, RSSA term, and possible price suppression. In late August, Ginna reached a settlement in principle with interested parties modifying certain terms and conditions in the originally negotiated agreement. The proposed RSSA under the settlement preserves the value of the contract originally negotiated with RG&E, but shortens the term to March 31, 2017 and requires RG&E to complete a new transmission reliability study to determine if an interim reliability solution is required beyond March 31, 2017. The reliability study is expected to be completed by the end of 2015. If there continues to be a reliability need beyond March 31, 2017, RG&E has the right until June 30, 2016 to select Ginna as an ongoing reliability solution. If Ginna is not selected for continued reliability service and does not plan to retire shortly after RSSA expiration, Ginna is required to file a notice with the NYPSC no later than September 30, 2016. The settlement was filed at the NYPSC and at FERC on October 21, 2015 and remains subject to review and approval by both agencies, which do not expect to be completed until the first quarter of 2016.

Until final regulatory approvals are received, Generation will recognize revenue based on market prices for energy and capacity delivered by Ginna into ISO-NY. Upon receiving regulatory approvals, under the RSSA

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contract terms, Generation would record an adjustment to recognize revenue based on the final approved pricing contained in the contract as of the April 1, 2015 effective date. While the RSSA is expected to receive regulatory approvals and, therefore, permit Ginna to continue operating through the RSSA term, there is still a risk that, for economic reasons, including adjustments to the revenue Ginna would be entitled to under the RSSA, Ginna could be retired before the end of its operating license period. In absence of such an agreement and in the event the plant is retired before the current license term ends in 2029, Exelon's and Generation's results of operations could be adversely affected by increased depreciation rates, impairment charges, severance costs, and accelerated future decommissioning costs, among other items. However, it is not expected that such impacts would be material to Exelon's or Generation's results of operations.

Federal Regulatory Matters

Transmission Formula Rate (Exelon, ComEd and BGE). ComEd's and BGE's transmission rates are each established based on a FERC-approved formula. ComEd and BGE are required to file an annual update to the FERC-approved formula on or before May 15, with the resulting rates effective on June 1 of the same year. The annual formula rate update is based on prior year actual costs and current year projected capital additions. The update also reconciles any differences between the revenue requirement in effect beginning June 1 of the prior year and actual costs incurred for that year. ComEd and BGE record regulatory assets or regulatory liabilities and corresponding increases or decreases to operating revenues for any differences between the revenue requirement in effect and ComEd's and BGE's best estimate of the revenue requirement expected to be approved by the FERC for that year's reconciliation. As of September 30, 2015 and December 31, 2014, ComEd had recorded a net regulatory asset associated with the transmission formula rate of \$26 million and \$21 million, respectively. As of September 30, 2015 and December 31, 2014, BGE recorded a net regulatory asset associated with the transmission formula rate of \$5 million and \$1 million, respectively. The regulatory asset associated with the transmission true-up is amortized to Operating revenues as the associated amounts are recovered through rates.

On April 15, 2015 (and revised on May 19), ComEd filed its annual transmission formula rate update with the FERC. The filing establishes the revenue requirement used to set rates that took effect in June 2015, subject to review by the FERC and other parties, which is due by fourth quarter 2015. ComEd's 2015 annual update includes a total increase to the revenue requirement of \$86 million, reflecting an increase of \$68 million for the initial revenue requirement and an increase of \$18 million related to the annual reconciliation. The revenue requirement provides for a weighted average debt and equity return on transmission rate base of 8.61%, inclusive of an allowed ROE of 11.50%, a decrease from the 8.62% average debt and equity return previously authorized.

In April 2015, BGE filed its annual transmission formula rate update with the FERC. The filing establishes the revenue requirement used to set rates that took effect in June 2015, subject to review by other parties, which is due by October 2015. BGE's 2015 annual update includes a total increase to the revenue requirement of \$10 million, reflecting an increase of \$13 million for the initial revenue requirement and a decrease of \$3 million related to the annual reconciliation. The revenue requirement provides for a weighted average debt and equity return on transmission rate base of 8.46%, inclusive of an allowed ROE of 11.30%, a decrease from the 8.53% average debt and equity return previously authorized.

FERC Transmission Complaint (Exelon and BGE). On February 27, 2013, consumer advocates and regulators from the District of Columbia, New Jersey, Delaware and Maryland, and the Delaware Electric Municipal Cooperatives (the parties), filed a complaint at FERC against BGE and PHI companies relating to their respective transmission formula rates. BGE's formula rate includes a 10.8% base rate of ROE and a 50 basis point incentive for participating in PJM (the latter of which is conditioned upon crediting the first 50 basis points of any incentive ROE adders). The parties seek a reduction in the base ROE to 8.7% and changes to the formula

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rate process. FERC docketed the matter and set April 3, 2013 as the deadline for interventions, protests and answers. Under FERC rules, the revenues subject to refund are limited to a fifteen month period and the earliest date from which the base ROE could be adjusted and refunds required is the date of the complaint. On March 19, 2013, BGE filed a motion to dismiss or sever the complaint.

On August 21, 2014, FERC issued an order in the BGE and PHI companies' proceeding, which established hearing and settlement judge procedures for the complaint, and set a refund effective date of February 27, 2013. BGE, the PHI companies and the parties began settlement discussions under the guidance of a FERC administrative law judge on September 23, 2014. On November 24, 2014, the Settlement Judge informed FERC and the Chief Judge that the parties had reached an impasse and determined that a settlement was not possible. On November 26, 2014, the Chief Judge issued an order terminating the settlement proceeding, designating a presiding judge at the hearings and directing that an initial decision be issued by November 25, 2015.

On December 8, 2014, various state agencies in Delaware, Maryland, New Jersey, and D.C. filed a second complaint against BGE regarding the base ROE of the transmission business seeking a reduction from 10.8% to 8.8%. The filing of the second complaint creates a second refund window. By order issued on February 9, 2015, FERC established a hearing on the second complaint with the complainants' requested refund effective date of December 8, 2014. On February 20, 2015, the Chief Judge issued an order consolidating the two complaint proceedings and established an Initial Decision issuance deadline of February 29, 2016. On March 2, 2015, the Presiding Administrative Law Judge issued an order establishing a procedural schedule for the consolidated proceedings that provides for the hearing to commence on October 20, 2015. On September 14, 2015, the complainants and respondents filed a joint motion to suspend the hearing schedule because they have reached a settlement in principle to resolve the ROE issue. On September 15, 2015, the Chief Administrative Law Judge issued an order granting the motion, and setting October 15, 2015 as the date for the moving parties to either file a settlement or file a status report detailing the timetable for filing a settlement which was subsequently extended to October 30, 2015.

On October 30, 2015, the parties filed a status report stating their intent to either file a settlement or file another status report during the fourth quarter of 2015.

Based on the current status of the complaint filings, BGE believes it is probable that BGE's base ROE rate will be adjusted, and that a refund to customers of transmission revenue for the two maximum fifteen month periods will be required. BGE has established a reserve, which management believes is adequate for what it considers to be the most likely outcome. The estimated annual ongoing reduction in revenues if FERC approves the ROEs as originally requested by the parties in their initial filings is approximately \$11 million. If FERC were to order a reduction of BGE's base ROE to 8.7% and 8.8% as sought in the first and second complaints, respectively (while retaining the 50 basis points of any incentives that were credited to the base ROE for certain new transmission investment), the result would be a refund to customers of approximately \$13 million and \$14 million, for the first and second fifteen month refund windows, respectively, for a total refund to customers of approximately \$27 million.

PJM Transmission Rate Design and Operating Agreements (Exelon, ComEd, PECO and BGE). PJM Transmission Rate Design specifies the rates for transmission service charged to customers within PJM. Currently, ComEd, PECO and BGE incur costs based on the existing rate design, which charges customers based on the cost of the existing transmission facilities within their load zone and the cost of new transmission facilities based on those who benefit from those facilities. In April 2007, FERC issued an order concluding that PJM's current rate design for existing facilities is just and reasonable and should not be changed. In the same order, FERC held that the costs of new facilities 500 kV and above should be socialized across the entire PJM footprint and that the costs of new facilities less than 500 kV should be allocated to the customers of the new facilities who caused the need for those facilities. A number of parties appealed to the U.S. Court of Appeals for the Seventh Circuit.

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In August 2009, the court issued its decision affirming the FERC's order with regard to the existing facilities, but remanded to FERC the issue of the cost allocation associated with the new facilities 500 kV and above (Cost Allocation Issue) for further consideration by the FERC. On remand, FERC reaffirmed its earlier decision to socialize the costs of new facilities 500 kV and above. A number of parties filed appeals of these orders. In June 2014, the court again remanded the Cost Allocation Issue to FERC. On December 18, 2014, FERC issued an order setting an evidentiary hearing and settlement proceeding regarding the Cost Allocation Issue. The hearing only concerns new facilities approved by the PJM Board prior to February 1, 2013. As of September 30, 2015, settlement discussions are continuing.

Because a new cost allocation had been adopted for projects approved by the PJM Board on or after February 1, 2013, this latest remand only involves the cost allocation for facilities 500 kV and above approved prior to that date. ComEd anticipates that all impacts of any rate design changes effective after December 31, 2006, should be recoverable through retail rates and, thus, the rate design changes are not expected to have a material impact on ComEd's results of operations, cash flows or financial position. PECO anticipates that all impacts of any rate design changes should be recoverable through the transmission service charge rider approved in PECO's 2010 electric distribution rate case settlement and, thus, the rate design changes are not expected to have a material impact on PECO's results of operations, cash flows or financial position. To the extent any rate design changes are retroactive to periods prior to January 1, 2011, there may be an impact on PECO's results of operations. BGE anticipates that all impacts of any rate design changes effective after the implementation of its standard offer service programs in Maryland should be recoverable through retail rates and, thus, the rate design changes are not expected to have a material impact on BGE's results of operations, cash flows or financial position.

Demand Response Resource Order (Exelon, Generation, ComEd, PECO, BGE). On May 23, 2014, the D.C. Circuit Court issued an opinion vacating the FERC Order No. 745 (D.C. Circuit Decision). Order No. 745 established uniform compensation levels for demand response resources that participate in the day ahead and real-time wholesale energy markets. Under Order No. 745, buyers in ISO and RTO markets were required to pay demand response resources the full Locational Marginal Price when the demand response replaced a generation resource and was cost-effective.

In addition to invalidating the compensation structure established by Order No. 745, the D.C. Circuit Court, in broad language, explained that demand response is part of the retail market and FERC is restricted from regulating retail markets. After the D.C. Circuit denied rehearing in September 2014, the FERC sought to appeal the decision to the U.S. Supreme Court in January 2015. The U.S. Supreme Court agreed to consider the appeal. Oral argument was held at the U.S. Supreme Court on October 14, 2015. A decision is expected to be issued by the U.S. Supreme Court before the end of the term ending on June 30, 2016.

In addition, contemporaneously with the D.C. Circuit Court's decision on May 23, 2014, FirstEnergy filed a complaint at the FERC asking the FERC to direct PJM to remove all PJM Tariff provisions that allow or require PJM to compensate demand response providers as a form of supply in the PJM capacity market effective May 23, 2014. FirstEnergy also asked the FERC to declare the results of PJM's May 2014 Base Residual Auction for the 2017/2018 Delivery Year, void and illegal to the extent that demand response resources cleared that auction. On November 14, 2014, the New England Power Generators Association, Inc. (NEPGA) filed a similar complaint at the FERC asking the FERC to disqualify demand response from the upcoming capacity auction in New England and to revise the New England tariff to remove demand response from participation in the capacity market. The FERC's response to the FirstEnergy complaint and the NEPGA complaint and its response to address the D.C. Circuit Court's decision in all markets could preclude demand response resources from receiving any future capacity market revenues and also subject such resources to refund obligations depending on how the U.S. Supreme Court resolves the matter. In addition, there is uncertainty as to how the FERC might treat already settled capacity market auctions as well as future auctions, both for demand response resources and generation resources, again depending on the U.S. Supreme Court resolution. Due to these uncertainties, the Registrants are

Table of Contents**COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Dollars in millions, except per share data, unless otherwise noted)**

unable to predict the outcome of these proceedings, and the final outcome is not expected for several months. Nonetheless, the final decision and its implementation by FERC and the RTOs and ISOs, could be material to Exelon, Generation, ComEd, PECO and BGE's results of operations and cash flows.

New England Capacity Market Results (Exelon and Generation). Each year, ISO New England, Inc. (ISO-NE) files the results of its annual capacity auction at the FERC which is required to include documentation regarding the competitiveness of the auction. Consistent with this requirement, on February 27, 2015, ISO-NE filed the results of its ninth capacity auction (covering the June 1, 2018 through May 31, 2019 delivery period). On June 18, 2015, the FERC accepted the results of the ninth capacity auction. On July 20, 2015, a union representing utility workers sought rehearing of that decision. While it is unlikely that the FERC would alter its decision on rehearing, Exelon and Generation cannot predict with certainty what future actions the FERC may take concerning the results of the auction. Adverse action by the FERC could ultimately be material to Exelon's and Generation's expected revenues from the auction.

On February 28, 2014, ISO-NE filed the results of its eighth capacity auction (covering the June 1, 2017 through May 31, 2018 delivery period). On June 27, 2014, the FERC issued a letter to ISO-NE noting that ISO-NE's February 28, 2014 filing was deficient and that ISO-NE must file additional information before the FERC can process the filing. ISO-NE filed the information on July 17, 2014, and the ISO-NE's filings became effective by operation of law pursuant to a notice issued by the secretary of FERC on September 16, 2014. Several parties sought rehearing of the secretary's notice which was effectively denied in October 2014 and have since appealed the matter to the D.C. Circuit Court. On April 7, 2015 the D.C. Circuit Court issued an order referring the matter to a merits panel where issues raised by parties challenging the FERC decision will be heard as well as FERC's Motion to Dismiss the challenges. It is not clear whether the court will decide ultimately on the merits of the case or whether it will dismiss the case as FERC urges based on the fact that there is no action by the FERC to be considered. Nonetheless, while any change in the auction results is thought to be unlikely, Exelon and Generation cannot predict with certainty what further action the court may take concerning the results of that auction, but any court action could be material to Exelon's and Generation's expected revenues from the capacity auction.

License Renewals (Exelon and Generation). On August 29, 2012 and August 30, 2012, Generation submitted hydroelectric license applications to FERC for 46-year licenses for the Conowingo Hydroelectric Project (Conowingo) and the Muddy Run Pumped Storage Project (Muddy Run), respectively.

Generation is working with stakeholders to resolve water quality licensing issues with the MDE for Conowingo, including: (1) water quality, (2) fish passage and habitat, and (3) sediment. On January 30, 2014, Generation filed a water quality certification application pursuant to Section 401 of the CWA with MDE for Conowingo, addressing these and other issues, although Generation cannot currently predict the conditions that ultimately may be imposed. MDE indicated that it believed it did not have sufficient information to process Generation's application. As a result, on December 5, 2014, Generation withdrew its pending application for a water quality certification. FERC policy requires that an applicant resubmit its request for a water quality certification within 90 days of the date of withdrawal. Accordingly, on March 3, 2015, Generation refiled its application for a water quality certification. In addition, Generation has entered into an agreement with MDE to work with state agencies in Maryland, the U.S. Army Corps of Engineers, the U.S. Geological Survey, the University of Maryland Center for Environmental Science and the U.S. Environmental Protection Agency Chesapeake Bay Program to design, conduct and fund an additional multi-year sediment study. Generation has agreed to contribute up to \$3.5 million to fund the additional study. On August 7, 2015, US Fish and Wildlife Service (USFWS) submitted its modified fishway prescription to FERC in the Conowingo licensing proceedings. On September 11, 2015, Exelon filed a request for an administrative hearing and proposed an alternative prescription to challenge USFWS's preliminary prescription. Resolution of these issues relating to Conowingo may have a material effect on Exelon's and Generation's results of operations and financial position through an increase in capital expenditures and operating costs.

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On June 3, 2014, and subsequently modified December 9, 2014, the PA DEP issued its water quality certificate for Muddy Run, which is a necessary step in the FERC licensing process and included certain commitments made by Generation. On March 2, 2015, Generation and USFWS submitted to FERC an executed settlement agreement resolving all outstanding issues related to Muddy Run. The financial impact associated with these commitments is estimated to be in the range of \$25 million to \$35 million, and will include both capital expenditures and operating expenses, primarily relating to fish passage and habitat improvement projects.

The FERC licenses for Muddy Run and Conowingo expired on August 31, 2014 and September 1, 2014 respectively. Under the Federal Power Act, FERC is required to issue annual licenses for the facilities until the new licenses are issued. On September 10, 2014, FERC issued annual licenses for Conowingo and Muddy Run, effective as of the expiration of the previous licenses. If FERC does not issue new licenses prior to the expiration of annual licenses, the annual licenses will renew automatically. On March 11, 2015, FERC issued the final Environmental Impact Statement for Muddy Run and Conowingo.

The stations are currently being depreciated over their estimated useful lives, which includes the license renewal period. As of September 30, 2015, \$43 million of direct costs associated with licensing efforts have been capitalized.

Regulatory Assets and Liabilities (Exelon, ComEd, PECO and BGE)

Exelon, ComEd, PECO and BGE each prepare their consolidated financial statements in accordance with the authoritative guidance for accounting for certain types of regulation. Under this guidance, regulatory assets represent incurred costs that have been deferred because of their probable future recovery from customers through regulated rates. Regulatory liabilities represent the excess recovery of costs or accrued credits that have been deferred because it is probable such amounts will be returned to customers through future regulated rates or represent billings in advance of expenditures for approved regulatory programs.

The following tables provide information about the regulatory assets and liabilities of Exelon, ComEd, PECO and BGE as of September 30, 2015 and December 31, 2014. For additional information on the specific regulatory assets and liabilities, refer to Note 3 Regulatory Matters of the Exelon 2014 Form 10-K.

September 30, 2015	Exelon	ComEd	PECO	BGE
Regulatory assets				
Pension and other postretirement benefits	\$ 3,138	\$	\$	\$
Deferred income taxes	1,589	66	1,446	77
AMI programs	373	130	64	179
Under-recovered distribution service costs ^(a)	240	240		
Debt costs	50	48	2	8
Fair value of BGE long-term debt	170			
Severance	10			10
Asset retirement obligations	106	66	22	18
MGP remediation costs ^(g)	289	256	32	1
Under-recovered uncollectible accounts	54	54		
Renewable energy	243	243		
Energy and transmission programs ^{(b)(c)}	67	33		34
Deferred storm costs ^(g)	2			2
Electric generation-related regulatory asset ^(g)	23			23
Rate stabilization deferral	101			101
Energy efficiency and demand response programs	271			271
Merger integration costs	6			6
Conservation voltage reduction	1			1

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September 30, 2015	Exelon	ComEd	PECO	BGE
Under-recovered revenue decoupling ^(f)	7			7
Other	39	9	23	4
Total regulatory assets	6,779	1,145	1,589	742
Less: current portion	779	232	32	257
Total noncurrent regulatory assets	\$ 6,000	\$ 913	\$ 1,557	\$ 485

September 30, 2015	Exelon	ComEd	PECO	BGE
Regulatory liabilities				
Other postretirement benefits	\$ 65	\$	\$	\$
Nuclear decommissioning	2,538	2,150	388	
Removal costs	1,545	1,342		203
Energy efficiency and demand response programs ^(d)	46	44	2	
DLC Program Costs	9		9	
Energy efficiency phase II	38		38	
Electric distribution tax repairs	97		97	
Gas distribution tax repairs	30		30	
Energy and transmission programs ^{(b)(c)(e)}	134	46	70	18
Over-recovered electric universal service fund costs	3		3	
Over-recovered revenue decoupling ^(f)	27			27
Other	13	3	3	7
Total regulatory liabilities	4,545	3,585	640	255
Less: current portion	365	144	104	69
Total noncurrent regulatory liabilities	\$ 4,180	\$ 3,441	\$ 536	\$ 186

December 31, 2014	Exelon	ComEd	PECO	BGE
Regulatory assets				
Pension and other postretirement benefits	\$ 3,256	\$	\$	\$
Deferred income taxes	1,542	64	1,400	78
AMI programs	296	91	77	128
Under-recovered distribution service costs ^(a)	371	371		
Debt costs	57	53	4	9
Fair value of BGE long-term debt	190			
Severance	12			12
Asset retirement obligations	116	74	26	16
MGP remediation costs	257	219	37	1
Under-recovered uncollectible accounts	67	67		
Renewable energy	207	207		
Energy and transmission programs ^{(b)(c)}	48	33		15

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Deferred storm costs	3			3
Electric generation-related regulatory asset	30			30
Rate stabilization deferral	160			160
Energy efficiency and demand response programs	248			248
Merger integration costs	8			8
Conservation voltage reduction	2			2
Under recovered electric revenue decoupling ^(f)	7			7
Other	46	22	14	7
Total regulatory assets	6,923	1,201	1,558	724
Less: current portion	847	349	29	214
Total noncurrent regulatory assets	\$ 6,076	\$ 852	\$ 1,529	\$ 510

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(Dollars in millions, except per share data, unless otherwise noted)

December 31, 2014	Exelon	ComEd	PECO	BGE
Regulatory liabilities				
Other postretirement benefits	\$ 88	\$	\$	\$
Nuclear decommissioning	2,879	2,389	490	
Removal costs	1,566	1,343		223
Energy efficiency and demand response programs ^(d)	27	25	2	
DLC Program Costs	10		10	
Energy efficiency phase II	32		32	
Electric distribution tax repairs	102		102	
Gas distribution tax repairs	49		49	
Energy and transmission programs ^{(b)(c)(e)}	84	19	58	7
Over-recovered electric universal service fund costs	2		2	
Revenue subject to refund	3	3		
Over-recovered revenue decoupling ^(f)	12			12
Other	6	1	2	2
Total regulatory liabilities	4,860	3,780	747	244
Less: current portion	310	125	90	44
Total noncurrent regulatory liabilities	\$ 4,550	\$ 3,655	\$ 657	\$ 200

- (a) As of September 30, 2015, ComEd's regulatory asset of \$240 million was comprised of \$184 million for the applicable annual reconciliations and \$56 million related to significant one-time events including \$43 million of deferred storm costs and \$13 million of Constellation merger and integration related costs. As of December 31, 2014, ComEd's regulatory asset of \$371 million was comprised of \$286 million for the applicable annual reconciliations and \$85 million related to significant one-time events, including \$66 million of deferred storm costs and \$19 million of Constellation merger and integration related costs. See Note 4 Mergers, Acquisitions, and Dispositions of the Exelon 2014 Form 10-K for further information.
- (b) As of September 30, 2015, ComEd's regulatory asset of \$33 million included \$26 million associated with transmission costs recoverable through its FERC approved formula rate, and \$7 million of Constellation merger and integration costs to be recovered upon FERC approval. As of September 30, 2015, ComEd's regulatory liability of \$46 million included \$24 million related to over-recovered energy costs for hourly customers and \$22 million associated with revenues received for renewable energy requirements. As of December 31, 2014, ComEd's regulatory asset of \$33 million included \$4 million related to under-recovered energy costs for non-hourly customers, \$22 million associated with transmission costs recoverable through its FERC approved formula rate, and \$7 million of Constellation merger and integration costs to be recovered upon FERC approval. As of December 31, 2014, ComEd's regulatory liability of \$19 million included \$3 million related to over-recovered energy costs for hourly customers and \$16 million associated with revenues received for renewable energy requirements.
- (c) As of September 30, 2015, BGE's regulatory asset of \$34 million included \$5 million associated with transmission costs recoverable through its FERC approved formula rate and \$29 million related to under-recovered electric energy costs. As of September 30, 2015, BGE's regulatory liability of \$18 million related to \$9 million of over-recovered natural gas supply costs and \$14 million of over-recovered energy costs, offset by \$4 million of Constellation merger and integration costs and \$1 million of abandonment costs to be recovered upon FERC approval. As of December 31, 2014, BGE's regulatory asset of \$15 million included \$10 million related to under-recovered electric energy costs, \$4 million of Constellation merger and integration costs and \$1 million of abandonment costs to be recovered upon FERC approval. As of December 31, 2014, BGE's regulatory liability of \$7 million related to over-recovered natural gas supply costs.
- (d) ComEd recovers the costs of its ICC-approved Energy Efficiency and Demand Response plan through a rider. Effective with a change to its rider in August 2015, ComEd will recover or refund any under or over-recoveries through the end of the Plan's fiscal year on May 31 over a twelve-month period beginning on June 1 of the following calendar year. Previously, ComEd's recovery or refund of under or over-recoveries through the end of the Plan's fiscal year on May 31 was over a nine-month period beginning on September 1 of the same

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calendar year.

- (e) As of September 30, 2015, PECO's regulatory liability of \$70 million included \$33 million related to the DSP program, \$31 million related to the over-recovered natural gas costs under the PGC and \$6 million related to over-recovered electric transmission costs. As of December 31, 2014, PECO's regulatory liability of \$58 million included \$39 million related to the DSP program, \$16 million related to the over-recovered natural gas costs under the PGC and \$3 million related to the over-recovered electric transmission costs.

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- (f) Represents the electric and gas distribution costs recoverable from customers under BGE's decoupling mechanism. As of September 30, 2015, BGE had a regulatory asset of \$7 million related to under-recovered electric revenue decoupling and a regulatory liability of \$27 million related to over-recovered natural gas revenue decoupling. As of December 31, 2014, BGE had a regulatory asset of \$7 million related to under-recovered electric revenue decoupling and a regulatory liability of \$12 million related to over-recovered natural gas revenue decoupling.
- (g) In accordance with the MDPSC approved 2014 electric and natural gas distribution rate case orders, the recovery periods for these regulatory assets were revised, effective in January 2015.

Purchase of Receivables Programs (Exelon, ComEd, PECO, and BGE)

ComEd, PECO and BGE are required, under separate legislation and regulations in Illinois, Pennsylvania and Maryland, respectively, to purchase certain receivables from retail electric and natural gas suppliers that participate in the utilities' consolidated billing. ComEd and BGE purchase receivables at a discount to recover primarily uncollectible accounts expense from the suppliers. PECO is required to purchase receivables at face value and permitted to recover uncollectible accounts expense from customers through its distribution rates. Exelon, ComEd, PECO and BGE do not record unbilled commodity receivables under the POR programs. Purchased billed receivables are classified in Other accounts receivable, net on Exelon's, ComEd's, PECO's and BGE's Consolidated Balance Sheets. The following tables provide information about the purchased receivables of the Registrants as of September 30, 2015 and December 31, 2014.

As of September 30, 2015	Exelon	ComEd	PECO	BGE
Purchased receivables ^(a)	\$ 296	\$ 137	\$ 90	\$ 69
Allowance for uncollectible accounts ^(b)	(40)	(22)	(8)	(10)
Purchased receivables, net	\$ 256	\$ 115	\$ 82	\$ 59

As of December 31, 2014	Exelon	ComEd	PECO	BGE
Purchased receivables ^(a)	\$ 290	\$ 139	\$ 76	\$ 75
Allowance for uncollectible accounts ^(b)	(42)	(21)	(8)	(13)
Purchased receivables, net	\$ 248	\$ 118	\$ 68	\$ 62

- (a) PECO's gas POR program became effective on January 1, 2012 and includes a 1% discount on purchased receivables in order to recover the implementation costs of the program. The implementation costs were fully recovered and the 1% discount was reset to 0%, effective July 2015.
- (b) For ComEd and BGE, reflects the incremental allowance for uncollectible accounts recorded, which is in addition to the purchase discount. For ComEd, the incremental uncollectible accounts expense is recovered through its Purchase of Receivables with Consolidated Billing tariff.

6. Investment in Constellation Energy Nuclear Group, LLC (Exelon and Generation)

As a result of the Constellation merger, Generation owns a 50.01% interest in CENG, a nuclear generation business. Generation has historically had various agreements with CENG to purchase power and to provide certain services. For further information regarding these agreements, see Note 25 Related Party Transactions of the Exelon 2014 Form 10-K.

As a result of the consolidation of CENG on April 1, 2014, there are several additional transactions included in Exelon's and Generation's consolidated financial statements between CENG and Exelon's affiliates that are considered related party transactions to Generation. As further

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described in Note 25 Related Party Transactions of the Exelon 2014 Form 10-K, EDF and Generation had a PPA with CENG under which they purchased 15% and 85%, respectively, of the nuclear output owned by CENG that was not sold to third parties

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under pre-existing PPAs through December 31, 2014. Beginning January 1, 2015 and continuing through the life of the respective plants, EDF and Generation will purchase 49.99% and 50.01%, respectively, of the nuclear output owned by CENG not subject to other contractual agreements. Beginning April 1, 2014, CENG's sales to Generation have been eliminated in consolidation. For the three and nine months ended September 30, 2015, Generation had sales to EDF of \$108 million and \$395 million, respectively. See Note 3 Variable Interest Entities for additional information regarding other transactions between CENG and EDF included within Exelon's and Generation's consolidated financial statements and for additional information about the Registrant's VIEs.

Accounting for the Consolidation of CENG

Prior to April 1, 2014, Exelon and Generation accounted for their investment in CENG under the equity method of accounting. From January 1, 2014, through March 31, 2014, Generation recorded \$19 million of equity in earnings of unconsolidated affiliates related to its investment in CENG and \$17 million of revenues from CENG. The book value of Generation's investment in CENG prior to the consolidation was \$1.9 billion, and the book value of the AOCI related to CENG prior to consolidation was \$116 million, net of taxes of \$77 million.

The transfer of the nuclear operating licenses and the execution of the NOSA on April 1, 2014 resulted in the derecognition of the equity method investment in CENG and the recording of all assets, liabilities and EDF's noncontrolling interest in CENG at fair value on Exelon's and Generation's Consolidated Balance Sheets.

Generation and EDFI also entered into a Put Option Agreement on April 1, 2014, pursuant to which EDFI has the option, exercisable beginning on January 1, 2016 and thereafter until June 30, 2022, to sell its 49.99% interest in CENG to Generation for a fair market value price determined by agreement of the parties, or absent agreement, a third-party arbitration process. The appraisers determining fair market value of EDF's 49.99% interest in CENG under the Put Option Agreement are instructed to take into account all rights and obligations under the CENG Operating Agreement, including Generation's rights with respect to any unpaid aggregate preferred distributions and the related return and the value of Generation's rights to other distributions. The beginning of the exercise period will be accelerated if Exelon's affiliates cease to own a majority of CENG and exercise a related right to terminate the NOSA. In addition, under limited circumstances, the period for exercise of the put option may be extended for 18 months.

Due to the Preferred Distribution Rights that Generation has on CENG's available cash, the earnings attributable to the noncontrolling interest on the Consolidated Statements of Operations and Comprehensive Income as well as the corresponding adjustment to Noncontrolling interest on the Consolidated Balance Sheets will not be in proportion to Generation's and EDF's equity ownership interests. Rather, the attribution considers Generation's Preferred Distribution Rights and allocates net income based on each owner's rights to CENG's net assets. For the three and nine months ended September 30, 2015, Generation reduced by \$5 million and \$13 million, respectively, the amount of Net income attributable to noncontrolling interests on Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income. As a result of the consolidation, Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income includes CENG's incremental operating revenues of \$110 million and \$416 million and CENG's net income (loss), prior to any intercompany eliminations and any adjustments for noncontrolling interest, of \$(75) million and \$18 million during the three and nine months ended September 30, 2015, respectively.

7. Impairment of Long-Lived Assets (Exelon and Generation)***Long-Lived Assets (Exelon and Generation)***

Generation evaluates long-lived assets for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In the second quarter of each year, Generation updates

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the long-term fundamental energy prices, which includes a thorough evaluation of key assumptions including gas prices, load growth, environmental policy, plant retirements and renewable growth.

In 2015, the year over year change in fundamentals did not indicate any impairments. In 2014, the year over year change in fundamentals suggested that the carrying value of certain merchant wind assets may be impaired. Generation concluded that the estimated undiscounted future cash flows and fair value of twelve wind projects, primarily located in West Texas, were less than their respective carrying values at May 31, 2014. As a result, long-lived assets held and used with a carrying amount of approximately \$151 million were written down to their fair value of \$65 million and a pre-tax impairment charge of \$86 million was recorded during the second quarter of 2014 in Operating and maintenance expense in Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income.

The fair value analysis was primarily based on the income approach using significant unobservable inputs (Level 3) including revenue and generation forecasts, projected capital and maintenance expenditures and discount rates. Changes in the assumptions described above could potentially result in future impairments of Exelon's long-lived assets, which could be material.

During the third quarter of 2014, certain non-nuclear generating assets were identified as assets held for sale on Exelon's and Generation's Consolidated Balance Sheets. When long-lived assets are held for sale, an impairment loss is recognized to the extent that the asset's carrying value exceeds its estimated fair value less costs to sell. At September 30, 2014, in connection with the approved asset sales agreements, a \$50 million pre-tax impairment loss was recorded within Operating and maintenance expense on Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income.

Like-Kind Exchange Transaction (Exelon)

Prior to the PECO/Unicom Merger in October 2000, UII, LLC (formerly Unicom Investments, Inc.) (UII), a wholly owned subsidiary of Exelon, entered into a like-kind exchange transaction pursuant to which approximately \$1.6 billion was invested in coal-fired generating station leases located in Georgia and Texas with two separate entities unrelated to Exelon. The generating stations were leased back to such entities as part of the transaction. See Note 12 – Income Taxes for further information. The leases for the generating stations located in Texas were terminated in 2014. For financial accounting purposes, the investments are accounted for as direct financing lease investments. UII holds the leasehold interests in the generating stations in several separate bankruptcy remote, special purpose companies it directly or indirectly wholly owns. The lease agreements provide the lessees with fixed purchase options at the end of the lease terms. If the lessees do not exercise the fixed purchase options, Exelon has the ability to operate the stations and keep or market the power itself or require the lessees to arrange for a third-party to bid on a service contract for a period following the lease term. In any event, Exelon will be subject to residual value risk if the lessees do not exercise the fixed purchase options. This risk is partially mitigated by the fair value of the scheduled payments under the service contract. However, such payments are not guaranteed. Further, the term of the service contract is less than the expected remaining useful life of the plants and, therefore, Exelon's exposure to residual value risk will not be mitigated by payments under the service contract in this remaining period. In the fourth quarter of 2000, under the terms of the lease agreements, UII received a prepayment of \$1.2 billion for all rent, which reduced the investment in the leases. There are no minimum scheduled lease payments to be received over the remaining term of the leases.

Pursuant to the applicable accounting guidance, Exelon is required to review the estimated residual values of its direct financing lease investments at least annually and record an impairment charge if the review indicates an other than temporary decline in the fair value of the residual values below their carrying values. Exelon estimates the fair value of the residual values of its direct financing lease investments under the income approach,

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which uses a discounted cash flow analysis, which takes into consideration significant unobservable inputs (Level 3) including the expected revenues to be generated and costs to be incurred to operate the plants over their remaining useful lives subsequent to the lease end dates. Significant assumptions used in estimating the fair value include fundamental energy and capacity prices, fixed and variable costs, capital expenditure requirements, discount rates, tax rates, and the estimated remaining useful lives of the plants. The estimated fair values also reflect the cash flows associated with the service contract option discussed above given that a market participant would take into consideration all of the terms and conditions contained in the lease agreements.

Based on the annual reviews performed in the second quarters of 2015 and 2014, the estimated residual value of Exelon's direct financing leases for the Georgia generating stations experienced other than temporary declines given increases in estimated long-term operating and maintenance costs in the 2015 annual review and reduced long-term energy and capacity price expectations in the 2014 annual review. As a result, Exelon recorded \$24 million pre-tax impairment charges in each of the second quarters of 2015 and 2014 for these stations. These impairment charges were recorded in Investments and Operating and maintenance expense in Exelon's Consolidated Balance Sheets and the Consolidated Statements of Operations and Comprehensive Income, respectively. Changes in the assumptions described above could potenti