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Follow-up to January 24th Conference Call

EXELON CORPORATION
EXC-NYSE-58
Upgrade to Hold

Price	1/25/06				
	58				
52-week range	60-42			Price	Yr.-end
Book value (12/31/05)	13.49	429% p/b		1/25/06	% Chg.
Earnings ongoing, non-GAAP			Exelon	58	9
2001 actual	2.22		Philadelphia Electric Index	439	3
2002 actual	2.42	24.0 p/e	Dow Industrials	10,710	0
2003 actual	2.61	22.2 p/e	Shares Outstanding - mil.	676	
2004 actual	2.78	20.8 p/e	Equity Market Value - \$bil.	39	
2005 actual	3.09	18.7 p/e	Analyst Coverage	19	53% Buys
2006 guidance - midpoint	3.15	18.4 p/e			
2007 consensus	4.23	13.7 p/e			
Dividend	1.60	2.8 Yield			

Commission Approves Bidding Process

On January 24, 2006, Exelon Corporation reported 2005 earnings on continuing operations (non-GAAP) of \$3.09 a share, versus \$2.78 a share in 2004. GAAP results including \$1.2 billion goodwill impairment were \$1.35 a share compared to \$2.78 a share. Results were in line with consensus estimates of \$3.12 a share. Management reaffirmed 2006 guidance of \$3.00 to \$3.30 a share, slightly below consensus of \$3.32 a share. GAAP earnings were forecasted at \$3.05 to \$3.35 a share.

The more significant announcement was approval of the company's electricity procurement plan by the Illinois Commerce Commission (ICC) by a 5 to 0 vote, despite vehement opposition from Governor Blagojevich of Illinois and the State's Attorney General, Lisa Madigan. The decision will undoubtedly be appealed, but the process, supported by deregulation legislation and the ICC, will be tough to overturn. It marks the final step in the transition in Illinois to competitive generation and we can no longer defend our sell recommendation and are raising our rating to hold.

Background to Bidding Dispute

Deregulation in Illinois provided for the transfer of generation to separated non-regulated business. Commonwealth Edison (CWE) customers received an immediate rate cut and its rates frozen through December 31, 2006. During that period, CWE purchases 100% of its needs from Exelon Generation. But as of January 1, 2007 CWE energy will be obtained via a bidding process with no one supplier accounting for more than 35% of CWE needs. The process will lead to sharply higher rates, hence the opposition by the Governor and the Attorney General. For perspective, Commonwealth Edison rates contain a fuel component of about \$30.00 a megawatt hour (MWh) while the around the clock 2006 forward market price is \$52.60 a MWh. CWE's gigawatt hour sales (GWh) sales in 2005 were 82,798. The difference between the \$30.00 in rates and the hub level of

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\$52.60 works out to \$2.7 billion, or 43% of CWE 2005 revenues of \$6.2 billion. Obviously, skyrocketing energy prices were not envisioned at the time of the legislation. The process was designed to provide transparency, assure lowest possible prices and lower rates for consumers.

Exelon Energy renegotiated purchased power rates with CWE in 2004 boosting costs to the \$37.50 level. The new rates transferred revenues from the regulated CWE to non-regulated Energy of some \$515 million (based on 2005 volumes), or about \$335 million (\$0.50 a share) in earnings. As of January 1, 2007, CWE purchased power expense should post another large increase. If we assume the bidding prices approximate the 2006 forward market price of \$52.60, CWE customers' fuel costs would rise by \$1.2 billion based on 2005 volumes. Those are large numbers and Exelon management has proposed a plan that would defer the costs and amortize the balance. The deferral could be financed via a special transition vehicle.

For Exelon Energy, high energy prices represent huge profit potential. Nuclear generation accounted for more than 71% of consolidated Exelon 2005 electric sales. Nuclear fuel expenses are low and unaffected by change in fossil fuel costs, and in the auction market its competitors' product reflects generation containing significantly greater coal and natural gas components. Assuming Generation sells its output at the 2006 forward rate in 2007, pretax margins could expand \$1.2 billion, or roughly \$780 million (\$1.15 a share) net of tax.

Under the traditional integrated utility environment, CWE fuel expense would have been based on nuclear costs. The separation of distribution and generation shifted the power structure to management (law of unintended consequences?). When Governor Blagojevich threatened to prevent CWE customers from paying the higher costs, John Rowe, Chairman of Exelon, threatened bankruptcy. After separation, CWE rate base of \$6 billion represents only 14% of Exelon's total assets. Rowe wins.

Opinion

Shields & Company has been the only maverick on Exelon. According to Bloomberg Financial Service, 19 sell side firms maintain active recommendations, 10 buy, 8 hold and our lone sell. Our concerns centered around the bookkeeping contributions to earnings that were often confused with synergies (lower depreciation charges on nuclear plants, the absence of goodwill amortization (SFAS142) and write-downs of underperforming assets). We questioned whether the company would succeed in transferring earnings from Commonwealth Edison to the non-regulated business without having to revise the deregulation process. In September 2004 for example (EXC-\$38) we estimated Commonwealth Edison's 2003 return on distribution common equity at 28% including CTC credits and 20% excluding those profits. ICC approval of the auction was the last step in the process and we can no longer defend our sell recommendation and are raising our rating to hold.

The consensus earnings estimate for 2007 is \$4.23 a share, 34% above the 2006 midpoint guidance of \$3.15 a share. We will issue a formal 2007 estimate once we've reviewed the 10Ks. (Exelon's acquisition of Public Service Enterprises (PEG-NYSE-\$71-not rated) could close mid-year). The consensus estimate looks reasonable and may be conservative.

Risks

Nuclear energy enjoys 1) favorable price comparisons to fossil fuels despite generally higher capital requirements, 2) a resurgence in popularity, even among old environmental foes that view it as viable alternative to burning fossil fuels and 3) excellent operating performances, with 2004 industry operating capacity factors exceeding 90%.

Exelon is the nation's largest nuclear operator with the bulk of profits derived from the competitive wholesale energy market. Its market price action should mirror changes in energy futures, indicating volatile profit swings. Investors should also recognize the highly scrutinized oversight imposed by the Nuclear Regulatory Commission and other regulatory authorities. Incidents at nuclear plants are rarely considered minor and often lead to inspections at other plants, exposing the plants to forced shutdowns.

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Range of Formal Recommendations 15 total 1-buy-13-holds-1 sell

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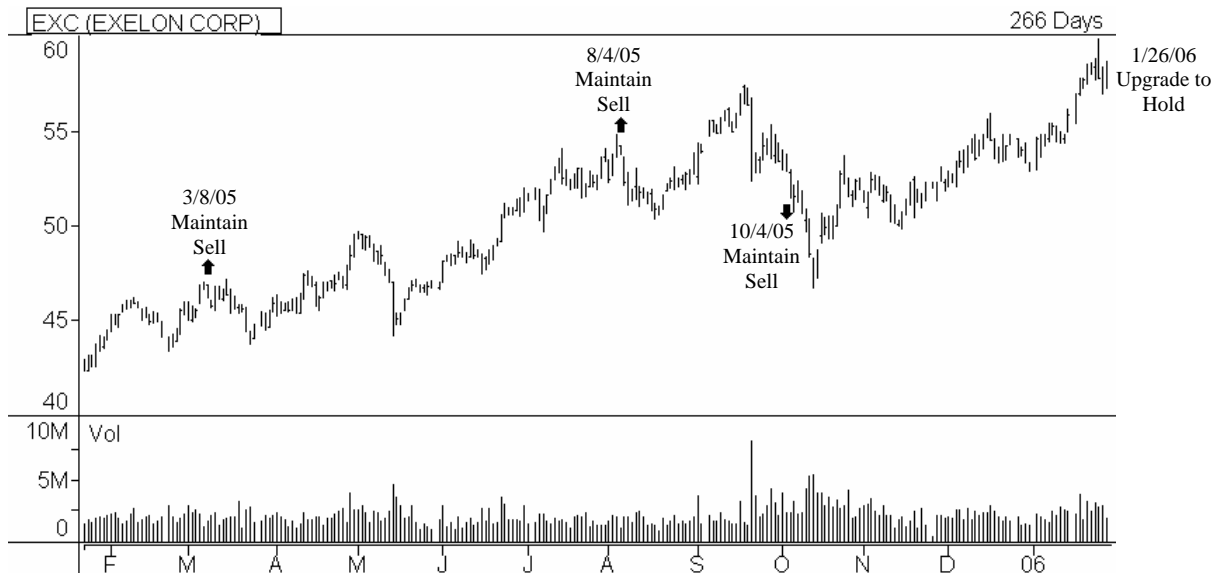
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Sell Total return is expected to significantly under perform (15% plus) the total return of the industry coverage universe over the next 12 months.



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