



140 BROADWAY NEW YORK, NY 10005

RAYMOND E. MOORE, CFA
(212) 320-3065

Trading (212) 320-3001

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ray.moore@shieldsandco.com

Regulated Utilities - AFUDC & the Other Side of Competitive Generation 7/8/08

Financing Nuclear Generation 7/23/08

EXC Next Cycle – Narrowing Margins 9/17/08

Rating: Hold

Exelon Corporation - NRG Energy
(EXC-\$54-Hold) (NRG-\$18-Not Rated)

Exelon Gets Antsy – NRG Responds

Generation as Stand-alone

John Rowe, Exelon's Chief Executive Officer, in an October 19, 2008 letter to David Crane, NRG Energy's President and Chief Executive Officer, offered to acquire the company in a stock for stock transaction based on .485 shares of EXC for each NRG share. Based on EXC's current price of \$54 a share and NRG's 233 million shares outstanding, the transaction totals \$6.1 billion, or \$26.20 per NRG share. The 16% premium narrowed from the 37% spread before the offer. Relative to NRG's \$23.39 book value, the spread is a modest 12%, but using the premium based on book value net of goodwill of \$7.67 a share, or \$15.73 a share, the spread widens to 67%.

Yesterday (November 9, 2008) David Crane, NRG Chief Executive Officer, announced that the Board of Directors rejected the offer. He cited, among other things, the difficulty of financing the transaction based on change of control stipulations in debt instruments, limitations of working within an investment grade rating, and potential "claw backs" of carbon legislation benefits by regulated utility customers of Commonwealth Edison and Philadelphia Electric. NRG also implied that separation (spin off) of Generation might reduce threat of claw backs.

Overall we're left with the impression that a higher price could ease several objections.

Table 1 takes the balance sheets of Exelon Consolidated, NRG Energy, Exelon Generation and pro forma results of Generation and Exelon Consolidated as of September 30, 2008. Columns 1 to 4 begin with Exelon Generation (1), NRG Energy (2), adjustments based on the exchange offer of .485 shares of Exelon for each NRG share (3), and pro forma (4). Column 5 is Exelon actual as of September 30, 2008 and column 6, Exelon pro forma.

Net Plant: Generation net plant of \$8.6 billion as of September 30, 2008 rises \$11.5 billion to \$20.1 billion. As a percent of Exelon Pro Forma, Generation assets rise from 23% to 55%.

Returns: Exelon Generation estimated 2008 earnings of \$2,321 million (\$3.50 per consolidated share) are four times Street consensus for NRG of \$592 million. Exelon Generation's return on stated book exceeds 42%. NRG's return on book (based on consensus) is 10.9% and 16.1%, net of goodwill. Pro Forma Generation's return declines to 25.3% on stated book (31.9%, net of goodwill).

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See page 3 of report for Analyst's Certification, pages 3-4 for Important Disclosures and page 4 for Other Disclosures and Disclaimers

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Earnings per Share: Exelon Generation earnings based on management guidance of \$3.45 to \$3.55 a share would total \$2,321 million. NRG Energy, based on consensus (Bloomberg Financial Service) of \$2.54 a share, totals \$592 million for a pro forma \$3.75 a share. Consolidated pro forma earnings rise \$0.15 a share from \$4.20 to \$4.35 (4%).

Capitalization: Generation capitalization as of September 30, 2008 stood at \$7.6 billion and included debt of \$2.2 billion (28.5% of total) and member's equity of \$5.5 billion (71.5% of total). NRG Energy's capitalization is almost double EXC generation at \$14.9 billion -- \$8.3 billion debt (55.7%), \$1.1 billion preferred (7.6%), and \$5.5 billion common (36.6%). Pro forma capitalization of \$23.1 billion consists of \$10.5 billion debt (45.3%), \$1.1 billion preferred (4.9%), and \$11.5 billion common (49.8%).

Table 1
Estimated Pro Forma Financials
Exelon Generation and Exelon Consolidated

Column	(1)	(2)	(3)	(4)	(5)	(6)
	Generation Actual 9/30/08	NRG Actual 9/30/08	Adjustments	Pro Forma 9/30/08	EXC Actual 9/30/08	Pro Forma 9/30/08
\$-Millions						
Shares Diluted	663	233	113	776	663	776
Net Plant -\$ millions	8,627	11,472		20,099	25,336	36,808
% of Pro Forma	23%			55%		
Common Equity	5,476	5,451	595	11,522	11,587	17,633
% of Pro Forma	31%			65%		
Book Value	8.26	23.39		14.85	17.48	22.72
% of Pro Forma	36%			65%		
Goodwill	0	1,786	595	2,381	2,625	5,006
% of Pro Forma	0.0%			48%		
Per Share		7.67		3.07	3.96	6.45
Book Less Goodwill	8.26	15.73		11.78	13.52	16.27
Per Share						
Earnings (2008 est.)	2,321	592		2,912	2,785	3,376
Per Share	3.50	2.54		3.75	4.20	4.35
% of Pro Forma						
Return Gross Book	42.4%	10.9%		25.3%	24.0%	18.5%
Return net Book	42.4%	16.1%		31.9%	31.1%	25.8%
Capitalization						
Debt	2,186	8,301		10,487	11,230	19,531
Preferred	0	1,139		1,139	87	1,226
Common Equity	5,476	5,451	595	11,522	11,587	17,633
Total	7,662	14,891	595	23,148	22,904	38,390
Capital Structure						
Debt	28.5%	55.7%		45.3%	49.0%	50.9%
Preferred	0.0%	7.6%		4.9%	0.4%	3.2%
Common Equity	71.5%	36.6%		49.8%	50.6%	45.9%
Total	100.0%	100.0%		100.0%	100.0%	100.0%

Source: Shields & Co. and Company Statements

Analyst's Certification

I Raymond E. Moore certify that the views expressed in this research report accurately reflect my personal views about the subject companies and their securities. I also certify that I have not been and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendations in this report. Other Exelon reports issued by me are: 4/10/07 (\$72) – Hold; 1/12/07 (\$61) – Hold; 8/30/06 (\$60) - Hold; 8/2/06 (\$59) -Hold; 4/27/06 (\$58) - Hold; 3/23/06 (\$55) - Hold; 3/15/06 (\$56) - Hold; 1/26/06 (\$58) - Hold; 10/4/05 (\$53) - Sell; 8/4/05 (\$54) - Sell; 3/8/05 (\$47) – Sell; 9/17/08 (\$66) – Hold.

Important Disclosures

Guide to Investment Ratings:

Buy Total return is expected to exceed significantly the average total return of the analyst's industry coverage universe over the next 12 months.

Market Perform & Hold Total return is expected to equal the average total return of the analyst's industry coverage universe over the next 12 months.

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

Analyst's Ratings Distribution

		% Investment Banking
Buy	12%	0%
Hold	88%	0%
Sell	0%	0%

The principal risks to the achievement of our price targets include general market trends, disappointing earnings and lower energy prices and adverse regulatory developments

Our target prices are based on projected earnings for the following calendar year, and an assumed price/earnings ratio in line with the company's historical valuation or those of other companies with similar businesses and prospects.



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