LARGE FILING SEPARATOR SHEET

CASE NUMBER: 00-1784-EL-CRS

FILE DATE: 9/29/2008

SECTION: 2 of 3

NUMBER OF PAGES: 201

DESCRIPTION OF DOCUMENT:

Renewal certification application

nuclear output. Unlike the energy delivery business, the effects of unusually warm or cold weather on Generation depend on the nature of its market position at the time of the unusual weather. Generation's net income for 2006 and 2005 reflects income from discontinued operations of $4 million and $19 million (after tax), respectively.

Operating Revenues. For 2006 and 2005, Generation's sales were as follows:

Revenue	2006	2005	Variance	% Change
Electric sales to affiliates	$4,674	$4,775	$(101)	(2.1)%
Wholesale and retail electric sales	3,640	3,341	299	8.9%
Total energy sales revenue	8,314	8,116	198	2.4%
Retail gas sales	540	613	(73)	(11.9)%
Trading portfolio	14	17	(3)	(17.6)%
Other revenue [(a)]	275	300	(25)	(8.3)%
Total revenue	$9,143	$9,046	$ 97	1.1%

(a) Includes sales related to tolling agreements, fossil fuel sales, operating service agreements and decommissioning revenue from ComEd and PECO.

Sales (in GWhs)	2006	2005	Variance	% Change
Electric sales to affiliates	119,354	121,961	(2,607)	(2.1)%
Wholesale and retail electric sales	71,326	72,376	(1,050)	(1.5)%
Total sales	190,680	194,337	(3,657)	(1.9)%

Trading volumes of 31,692 GWhs and 26,924 GWhs for 2006 and 2005, respectively, are not included in the table above.

Electric sales to affiliates. Revenue from sales to affiliates decreased $101 million in 2006 as compared to 2005. The decrease in revenue from sales to affiliates was primarily due to a $95 million decrease from lower electric sales volume, as well as a net $6 million decrease resulting from lower prices.

In the ComEd territories, lower volumes resulted in a $115 million decrease in revenues as a result of lower demand resulting from milder weather year over year. In addition, price decreases totaling $128 million were a result of lower peak prices under the ComEd PPA.

In the PECO territories, the higher volumes resulted in increased revenues of $20 million due to higher usage. The favorable price variance of $122 million was primarily the result of the scheduled PAPUC-approved generation rate increase as well as to a lesser degree a change in the mix of average pricing related to the PPA with PECO. On January 1, 2007, a scheduled electric generation rate increase will take effect, which represents the last scheduled rate increase through 2010 under PECO's 1998 restructuring settlement. This rate increase will have a favorable effect on Generation's operating income in future years.

Wholesale and retail electric sales. The changes in Generation's wholesale and retail electric sales for 2006 compared to 2005 consisted of the following:

	Increase (decrease)
Price	$353
Volume	(54)
Increase in wholesale and retail electric sales	$299

Wholesale and retail sales increased $299 million due to an increase in realized revenues associated with forward sales entered into in prior periods, which were recognized at higher prices for the year ended December 2006, as compared to the same period in 2005, offset by a reduction in volumes sold into the market as a result of lower supply.

Retail gas sales. Retail gas sales decreased $73 million primarily due to lower volumes for 2006 compared to 2005, resulting in a $69 million decrease. Additionally, there was a decrease of $4 million due to lower realized prices for 2006 compared to 2005.

Other revenues. The decrease in 2006 was primarily due to a decrease in fossil fuel sales.

Purchased Power and Fuel Expense. *Generation's supply sources are summarized below:*

Supply Source (in GWhs)	2006	2005	Variance	% Change
Nuclear generation [(a)]	139,610	137,936	1,674	1.2%
Purchases—non-trading portfolio	38,297	42,623	(4,326)	(10.1)%
Fossil and hydroelectric generation	12,773	13,778	(1,005)	(7.3)%
Total supply	190,680	194,337	(3,657)	(1.9)%

(a) Represents Generation's proportionate share of the output of its nuclear generating plants, including Salem, which is operated by PSEG Nuclear.

The changes in Generation's purchased power and fuel expense for 2006 compared to 2005 consisted of the following:

(in millions)	Price	Volume	Increase (Decrease)
Purchased power costs	$ (81)	$(319)	$(400)
Generation costs	38	4	42
Fuel resale costs	34	(65)	(31)
Mark-to-market	n.m.	n.m.	(115)
Decrease in purchased power and fuel expense			$(504)

n.m. Not meaningful

Purchased Power Costs. Purchased power costs include all costs associated with the procurement of electricity including capacity, energy and fuel costs associated with tolling agreements. Generation experienced a decrease of $319 million due to lower volumes of purchased power in the market as a result of a lower demand from affiliates. Additionally, overall lower prices paid for purchased power in 2006 compared to 2005 resulted in a $81 million decrease.

Generation Costs. Generation costs include fuel costs for internally generated energy. Generation experienced overall higher generation costs in 2006 compared to 2005 due to increased prices related to nuclear and fossil fuel generation, resulting in a $38 million increase.

Fuel Resale Costs. Fuel resale costs include retail gas purchases and wholesale fossil fuel expenses. The changes in Generation's fuel resale costs in 2006 compared to 2005 were a result of a $65 million decrease in the retail gas business resulting from lower volumes, partially offset by overall higher prices paid for gas.

Mark-to-market. Mark-to-market gains on power derivative activities were $180 million in 2006 compared to losses of $12 million in 2005. Mark-to-market losses on fuel derivative activities were $77 million in 2006 compared to zero in 2005.

Generation's average margin per MWh of electricity sold for 2006 and 2005 was as follows:

($/MWh)	2006	2005	% Change
Average electric revenue			
Electric sales to affiliates	$39.16	$39.15	n.m.
Wholesale and retail electric sales	51.03	46.16	10.6%
Total—excluding the trading portfolio	43.60	41.76	4.4%
Average electric supply cost [(a)]—excluding the trading portfolio	$18.02	$20.11	(10.4)%
Average margin—excluding the trading portfolio	$25.58	$21.65	18.2%

(a) Average supply cost includes purchased power and fuel costs associated with electric sales. Average electric supply cost does not include fuel costs associated with retail gas sales.

n.m. Not meaningful

Nuclear fleet operating data and purchased power cost data for 2006 and 2005 were as follows:

	2006	2005
Nuclear fleet capacity factor [(a)]	93.9%	93.5%
Nuclear fleet production cost per MWh [(a)]	$13.85	$13.03

(a) Excludes Salem, which is operated by PSEG Nuclear.

Although total refueling outage days increased during 2006 compared to 2005, the nuclear fleet capacity factor for the Generation-operating nuclear fleet increased due to fewer non-refueling outage days during 2006 compared to 2005. For 2006 and 2005, non-refueling outage days totaled 71 and 112, respectively, and refueling outage days totaled 237 and 217, respectively. Higher costs for nuclear fuel, costs associated with the additional planned refueling outage days, higher costs for refueling outage inspection and maintenance activities, costs for the tritium-related expenses, an NRC fee increase, and inflationary cost increases for normal plant operations and maintenance offset the higher number of MWh's generated resulting in a higher production cost per MWh produced for 2006 as compared to 2005. There were ten planned refueling outages and sixteen non-refueling outages during 2006 compared to nine planned refueling outages and twenty-five non-refueling outages during 2005 at the Generation-operated nuclear stations.

Operating and Maintenance Expense. The increase in operating and maintenance expense for 2006 compared to 2005 consisted of the following:

	Increase (decrease)
Pension, payroll and benefit costs	$ 153
Contractor expenses	22
Nuclear refueling outage costs including the co-owned Salem plant	19
NRC fees	11
Godley contribution	11
Tritium-related expense	9
Reduction in ARO [(a)]	(149)
2005 accrual for estimated future asbestos-related bodily injury claims [(b)]	(43)
2005 co-owner settlement with PSEG related to postretirement benefits	(17)
Other	1
Increase in operating and maintenance expense	$ 17

(a) For further discussion, see Note 13 of the Combined Notes to Consolidated Financial Statements.

(b) For further discussion, see Note 18 of the Combined Notes to Consolidated Financial Statements.

The $17 million increase in operating and maintenance expense in 2006 compared to 2005 was primarily due to a $153 million increase in various payroll-related expenses, including increased stock-based compensation expense of $41 million primarily as a result of the adoption of SFAS No. 123-R as of January 1, 2006 and increased direct and allocated costs related to payroll, severance, pension and other postretirement benefits, a $22 million period-over-period increase in contractor costs, primarily related to staff augmentation and recurring maintenance work at Nuclear and Power, a $19 million increase in nuclear refueling outage costs associated with the additional planned refueling outage days during 2006 as compared to 2005, and higher costs for inspection and maintenance activities. Additionally, on December 22, 2006, as a gesture of goodwill and corporate citizenship, Generation contributed approximately $11 million into an escrow account to assist the Godley Public Water District with the installation of a new public drinking water system for the Village of Godley.

Depreciation and Amortization. The increase in depreciation and amortization expense for 2006 compared to 2005 was a result of recent capital additions.

Taxes Other Than Income. The increase in taxes other than income incurred during 2006 compared to 2005 was primarily due to increasing the property tax reserve for 2006 property taxes for Byron, Clinton and Dresden, higher payroll related taxes which were the result of higher payroll costs for 2006 and a reduction recorded in 2005 of a previously established real estate reserve associated with the settlement over the TMI real estate assessment. The increases were partially offset by a sales and use tax reserve recorded during the third quarter of 2005 and a gas revenue tax adjustment recorded during the fourth quarter of 2005.

Interest Expense. The increase in interest expense during 2006 as compared to 2005 was attributable to higher variable interest rates on debt outstanding, higher interest expense on Generation's one-time fee for spent nuclear fuel obligations to the DOE and an interest payment made to the IRS in settlement of a tax matter.

Other, Net. The decrease in other income in 2006 compared to 2005 was primarily due to gains realized in the second quarter of 2005 totaling $36 million related to the decommissioning trust fund investments for the AmerGen plants due to changes in Generation's investment strategy.

Effective Income Tax Rate. The effective income tax rate from continuing operations was 38.2% for 2006 compared to 39.0% for 2005. See Note 12 of the Combined Notes to Consolidated Financial Statements for further discussion of the change in the effective income tax rate.

Discontinued Operations. On January 31, 2005, subsidiaries of Generation completed a series of transactions that resulted in Generation's sale of its investment in Sithe. Accordingly, the results of operations and the gain on the sale of Sithe have been presented as discontinued operations within Generation's Consolidated Statements of Operations and Comprehensive Income. Generation's net income in 2006 and 2005 reflects a gain on the sale of discontinued operations of $4 million and $19 million (both after tax), respectively. See Notes 2 and 3 of the Combined Notes to Consolidated Financial Statements for further information regarding the presentation of Sithe as discontinued operations.

The income from discontinued operations decreased by $15 million for 2006 compared to 2005 primarily due to the gain on the sale of Sithe in the first quarter of 2005 partially offset by an adjustment to the gain on the sale of Sithe in the second quarter of 2006 as a result of the expiration of certain tax indemnifications, accrued interest and collections on receivables arising from the sale of Sithe that had been fully reserved.

Cumulative Effect of Changes in Accounting Principles. The cumulative effect of changes in accounting principles reflects the impact of adopting FIN 47 as of December 31, 2005. See Note 13 of the Combined Notes to Consolidated Financial Statements for further discussion of the adoption of FIN 47.

Results of Operations—ComEd

	2006	2005	Favorable (unfavorable) variance
Operating revenues	$6,101	$6,264	$(163)
Operating expenses			
Purchased power	3,292	3,520	228
Operating and maintenance	745	833	88
Impairment of goodwill	776	1,207	431
Depreciation and amortization	430	413	(17)
Taxes other than income	303	303	—
Total operating expense	5,546	6,276	730
Operating income (loss)	555	(12)	567
Other income and deductions			
Interest expense, net	(308)	(291)	(17)
Equity in losses of unconsolidated affiliates	(10)	(14)	4
Other, net	96	4	92
Total other income and deductions	(222)	(301)	79
Income (loss) before income taxes and cumulative effect of a change in accounting principle	333	(313)	646
Income taxes	445	363	(82)
Loss before cumulative effect of a change in accounting principles	(112)	(676)	564
Cumulative effect of change in accounting principle	—	(9)	9
Net loss	$ (112)	$ (685)	$ 573

Net Loss. ComEd's decreased net loss in 2006 compared to 2005 was driven by a smaller impairment of goodwill in 2006, lower purchased power expense and one-time benefits associated with reversing previously incurred expenses as a result of the July 2006 and December 2006 ICC rate orders as more fully described below, partially offset by lower operating revenues.

Operating Revenues. The changes in operating revenues for 2006 compared to 2005 consisted of the following:

	Increase (decrease)
Weather	$(226)
Customer choice	(67)
Volume	84
Rate changes and mix	23
Retail revenue	(186)
Wholesale and miscellaneous revenues	28
Mark-to-market contracts	(5)
Other revenues	23
Decrease in operating revenues	$(163)

Weather. Revenues were lower due to unfavorable weather conditions in 2006 compared to 2005. The demand for electricity is affected by weather conditions. Very warm weather in summer months and very cold weather in other months are referred to as "favorable weather conditions" because these weather conditions result in increased sales of electricity. Conversely, mild weather in non-summer months reduces demand. In ComEd's service territory, cooling and heating degree days were 20% and 8% lower, respectively, than the prior year.

Customer choice. All ComEd customers have the choice to purchase energy from a competitive electric generation supplier. This choice does not impact the volume of deliveries, but affects revenue collected from customers related to supplied energy and generation service. As of December 31, 2006, one competitive electric generation supplier had been granted approval to serve residential customers in the ComEd service territory. However, they are not currently supplying electricity to any residential customers.

For 2006 and 2005, 23% and 21%, respectively, of energy delivered to ComEd's retail customers was provided by competitive electric generation suppliers. Most of the customers previously receiving energy under the PPO are now electing either to buy their power from a competitive electric generation supplier or from ComEd under bundled rates.

	2006	2005
Retail customers purchasing energy from a competitive electric generation supplier:		
Volume (GWhs) [(a)]	20,787	19,310
Percentage of total retail deliveries	23%	21%
Retail customers purchasing energy from a competitive electric generation supplier or the ComEd PPO:		
Number of customers at period end	20,300	21,300
Percentage of total retail customers	[(b)]	[(b)]
Volume (GWhs) [(a)]	25,521	30,905
Percentage of total retail deliveries	28%	33%

(a) One GWh is the equivalent of one million kilowatthours (kWh).
(b) Less than one percent.

Volume. Revenues were higher in 2006 compared to 2005 due primarily to an increase in deliveries, excluding the effects of weather, due to an increased number of customers.

Rate changes and mix. The increase in revenue related to rate and mix changes represents differences in year-over-year consumption between various customer classes offset by a decline in the CTC paid by customers of competitive electric generation suppliers due to the increase in market energy prices. The average rate paid by various customers is dependent on the amount and time of day that the power is consumed. Changes in customer consumption patterns, including increased usage, can result in an overall decrease in the average rate even though the tariff or rate schedule remains unchanged. Under current Illinois law, no CTCs will be collected after 2006. Starting in January 2007, ComEd began collecting revenues consistent with the approved ICC orders in the Procurement Case and the Rate Case. See Note 4 of the Combined Notes to the Consolidated Financial Statements for more information.

Wholesale and miscellaneous revenues. The wholesale and miscellaneous revenues increase primarily reflects an increase in transmission revenue reflecting increased peak and kWh load within the ComEd service territory.

Mark-to-market contracts. Mark-to-market contracts primarily reflect a mark-to-market loss associated with one wholesale contract that had previously been recorded as a normal sale under SFAS No. 133 in 2005. This contract expires in December 2007.

Purchased Power Expense. The changes in purchased power expense for 2006 compared to 2005 consisted of the following:

	Increase (decrease)
Prices	$(135)
Weather	(111)
Customer choice	(56)
PJM transmission	(6)
Volume	42
SECA rates	38
Decrease in purchased power expense	$(228)

Prices. Purchased power decreased due to the decrease in contracted energy prices under the PPA that ComEd had with Generation. The PPA contract was entered into in March 2004 and reflected forward power prices in existence at that time. The PPA terminated at the end of 2006 and was replaced with the reverse-auction process in 2007, which was approved by the ICC. See Note 4 of the Combined Notes to Consolidated Financial Statements for more information on the reverse-auction process.

Weather. The decrease in purchased power expense attributable to weather was due to unfavorable weather conditions in the ComEd service territory relative to the prior year.

Customer choice. The decrease in purchased power expense from customer choice was primarily due to more ComEd non-residential customers electing to purchase energy from a competitive electric generation supplier.

PJM transmission. The decrease in PJM transmission expense reflects a decrease in ancillary charges, partially offset by increased peak demand and consumption by ComEd-supplied customers.

Volume. The amount of purchased power attributable to volume increased as a result of increased usage by ComEd-supplied customers on a weather-normalized basis versus the same period in 2005.

SECA rates. Effective December 1, 2004, PJM became obligated to pay SECA collections to ComEd and ComEd became obligated to pay SECA charges. These charges were being collected subject to refund as they are being disputed. As a result of current events related to SECA disputes, during the first quarter of 2006, ComEd increased its reserve for amounts to be refunded. ComEd recorded SECA collections and payments on a net basis through purchased power expense. As ComEd was a net collector of SECA charges, the 2005 purchased power expense, which reflected a full year of SECA collections, was lower than 2006, which reflected only three months of SECA collections, due to the expiration of SECA charges on March 31, 2006. See Note 4 of the Combined Notes to Consolidated Financial Statements for more information on the SECA rates.

Operating and Maintenance Expense. The changes in operating and maintenance expense for 2006 compared to 2005 consisted of the following:

	Increase (decrease)
ICC rate order [(a)]	$(201)
Fringe benefits [(b)]	43
Severance-related expenses	17
Wages and salaries	17
Customers' Affordable Reliable Energy (CARE) program [(c)]	9
Environmental costs	5
Rent and lease expense	5
Storm costs	4
PSEG merger integration costs	2
Other	11
Decrease in operating and maintenance expense	$ (88)

(a) As a result of the July 2006 ICC rate order and the December 2006 ICC order on rehearing, ComEd recorded one-time benefits associated with reversing previously incurred expenses, including MGP costs, severance costs and procurement case costs. See Notes 4 and 18 of the Combined Notes to Consolidated Financial Statements for additional information.

(b) Reflects increases in various fringe benefits, including increased stock-based compensation expense of $24 million primarily due to the adoption of SFAS No. 123-R on January 1, 2006 and increased pension and other postretirement benefits costs of $14 million.

(c) See Note 4 of the Combined Notes to the Consolidated Financial Statements for additional information.

Impairment of Goodwill. ComEd performs an assessment of goodwill for impairment at least annually, or more frequently, if events or circumstances indicate that goodwill might be impaired. The assessment compares the carrying value of goodwill to the estimated fair value of goodwill as of a point in time. The estimated fair value incorporates management's assessment of current events and expected future cash flows. See Note 8 of the Combined Notes to the Consolidated Financial Statements for additional information. During the third quarter of 2006, ComEd completed an interim assessment of goodwill for impairment purposes to reflect the adverse affects of the ICC's July 2006 rate order. The test indicated that ComEd's goodwill was impaired and a charge of $776 million was recorded. ComEd's 2006 annual goodwill impairment assessment (performed in the fourth quarter) resulted in no additional impairment. After reflecting the impairment, ComEd had approximately $2.7 billion of remaining goodwill as of December 31, 2006.

During the fourth quarter of 2005, ComEd completed the annually required assessment of goodwill for impairment purposes. The 2005 test indicated that ComEd's goodwill was impaired and a charge of $1.2 billion was recorded. The 2005 impairment was driven by changes in the fair value of ComEd's PPA with Generation, the upcoming end of ComEd's transition period and related transition revenues, regulatory uncertainty in Illinois as of November 1, 2005, anticipated increases in capital expenditures in future years and decreases in market valuations of comparable companies that are utilized to estimate the fair value of ComEd.

Depreciation and Amortization Expense. The changes in depreciation and amortization expense for 2006 compared to 2005 consisted of the following:

	Increase (decrease)
Depreciation expense associated with higher plant balances	$12
Other amortization expense	5
Increase in depreciation and amortization expense	$17

In 2007, ComEd's amortization will reflect the elimination of the recoverable transition costs regulatory asset and the initial amortization of the various regulatory assets authorized by the ICC in its July and December 2006 orders. See Notes 4, 18 and 19 of the Combined Notes of the Consolidated Financial statements for more information.

Taxes Other Than Income. Taxes other than income remained constant in 2006 compared to 2005.

Interest Expense, Net. The increase in interest expense, net in 2006 compared to 2005 primarily resulted from higher debt balances and higher interest rates. In 2007, ComEd's interest expense, net will reflect the initial amortization of the regulatory asset related to the early debt retirement costs authorized by the ICC in its July 2006 order. See Notes 4, 18 and 19 of the Combined Notes of the Consolidated Financial statements for more information.

Other, Net. The changes in other, net for 2006 compared to 2005 consisted of the following:

	Increase (decrease)
ICC rate order [(a)]	$87
Loss on settlement of 2005 cash-flow swaps	15
Sale of receivable in 2005	(3)
Loss on disposition of assets and investments, net	(3)
Other	(4)
Increase in other, net	$92

(a) As a result of the July 2006 ICC rate order, ComEd recorded a one-time benefit associated with reversing previously incurred expenses to retire debt early. See Notes 4, 18 and 19 of the Combined Notes to the Consolidated Financial Statements for additional information.

Income Taxes. The effective income tax rate was 133.6% and (116.0)% for 2006 and 2005, respectively. The goodwill impairment charges increased the effective income tax rate by 81.6% in 2006 and decreased the effective income tax rate by 135.0% in 2005. See Note 12 of the Combined Notes to Consolidated Financial Statements for further details of the components of the effective income tax rates.

Cumulative Effect of a Change in Accounting Principle. The cumulative effect of a change in accounting principle reflects the impact of adopting FIN 47 as of December 31, 2005. See Note 13 of the Combined Notes to Consolidated Financial Statements for further discussion of the adoption of FIN 47.

Electric Operating Statistics and Revenue Detail

Retail Deliveries—(in GWhs)	2006	2005	Variance	% Change
Full service [a]				
Residential	28,330	30,042	(1,712)	(5.7)%
Small commercial & industrial	24,122	21,378	2,744	12.8%
Large commercial & industrial	10,336	7,904	2,432	30.8%
Public authorities & electric railroads	2,254	2,133	121	5.7%
Total full service	65,042	61,457	3,585	5.8%
PPO				
Small commercial & industrial	2,475	5,591	(3,116)	(55.7)%
Large commercial & industrial	2,259	6,004	(3,745)	(62.4)%
	4,734	11,595	(6,861)	(59.2)%
Delivery only [b]				
Small commercial & industrial	5,505	5,677	(172)	(3.0)%
Large commercial & industrial	15,282	13,633	1,649	12.1%
	20,787	19,310	1,477	7.6%
Total PPO and delivery only	25,521	30,905	(5,384)	(17.4)%
Total retail deliveries	90,563	92,362	(1,799)	(1.9)%

(a) Full service reflects deliveries to customers taking electric service under tariffed rates.
(b) Delivery only service reflects customers electing to receive generation service from a competitive electric generation supplier.

Electric Revenue	2006	2005	Variance	% Change
Full service [a]				
Residential	$2,453	$2,584	$(131)	(5.1)%
Small commercial & industrial	1,882	1,671	211	12.6%
Large commercial & industrial	563	408	155	38.0%
Public authorities & electric railroads	137	132	5	3.8%
Total full service	5,035	4,795	240	5.0%
PPO [b]				
Small commercial & industrial	178	385	(207)	(53.8)%
Large commercial & industrial	137	345	(208)	(60.3)%
	315	730	(415)	(56.8)%
Delivery only [c]				
Small commercial & industrial	85	95	(10)	(10.5)%
Large commercial & industrial	155	156	(1)	(0.6)%
	240	251	(11)	(4.4)%
Total PPO and delivery only	555	981	(426)	(43.4)%
Total electric retail revenues	5,590	5,776	(186)	(3.2)%
Wholesale and miscellaneous revenue [d]	516	488	28	5.7%
Mark-to-market contracts	(5)	—	(5)	n.m.
Total operating revenues	$6,101	$6,264	$(163)	(2.6)%

(a) Full service revenue reflects deliveries to customers taking electric service under tariffed rates, which include the cost of energy and the cost of the transmission and the distribution of the energy.

(b) Revenues from customers choosing the PPO include an energy charge at market rates, transmission and distribution charges, and a CTC through December 2006.

(c) Delivery only revenues reflect revenue under tariff rates from customers electing to receive electricity from a competitive electric generation supplier, which includes a distribution charge and a CTC through December 2006.

(d) Wholesale and miscellaneous revenues include transmission revenue (including revenue from PJM), sales to municipalities and other wholesale energy sales.

n.m. Not meaningful

Results of Operations—PECO

	2006	2005	Favorable (unfavorable) variance
Operating revenues	$5,168	$4,910	$ 258
Operating expenses			
Purchased power and fuel	2,702	2,515	(187)
Operating and maintenance	628	549	(79)
Depreciation and amortization	710	566	(144)
Taxes other than income	262	231	(31)
Total operating expense	4,302	3,861	(441)
Operating income	866	1,049	(183)
Other income and deductions			
Interest expense, net	(266)	(279)	13
Equity in losses of unconsolidated affiliates	(9)	(16)	7
Other, net	30	13	17
Total other income and deductions	(245)	(282)	37
Income before income taxes and cumulative effect of a change in accounting principle	621	767	(146)
Income taxes	180	247	67
Income before cumulative effect of a change in accounting principle	441	520	(79)
Cumulative effect of a change in accounting principle	—	(3)	3
Net income	441	517	(76)
Preferred stock dividends	4	4	—
Net income on common stock	$ 437	$ 513	$ (76)

Net Income. PECO's net income in 2006 decreased primarily due to higher CTC amortization and higher operating and maintenance expense, which reflected higher storm costs. Partially offsetting these factors were higher revenues, net of purchased power and fuel expense. Higher net revenues reflected certain authorized electric rate increases, including a scheduled CTC rate increase, partially offset by lower net electric and gas revenues as a result of unfavorable weather relative to the prior year. The increases in CTC amortization expense and CTC rates were in accordance with PECO's 1998 restructuring settlement with the PAPUC. The increase in CTC amortization expense exceeded the increase in CTC revenues.

Operating Revenues. The changes in PECO's operating revenues for 2006 compared to 2005 consisted of the following:

	Electric	Gas	Total Increase (decrease)
Rate increases	$237	$ 127	$ 364
Customer choice	62	—	62
Unbilled revenue—change in estimate	35	—	35
Volume	20	(10)	10
Weather	(91)	(130)	(221)
Other rate changes and mix	(10)	—	(10)
Retail revenue	253	(13)	240
Wholesale and miscellaneous revenues	26	(8)	18
Increase (decrease) in operating revenues	$279	$ (21)	$ 258

Rate Increases. The increase in electric revenues attributable to electric rate increases reflects scheduled CTC and generation rate increases in accordance with PECO's 1998 restructuring settlement with the PAPUC and the elimination of the aggregate $200 million electric distribution rate reductions over the period January 1, 2002 through December 31, 2005 (approximately $40 million in 2005) related to the PAPUC's approval of the merger between PECO and ComEd. On January 1, 2007, a scheduled electric generation rate increase took effect, which represents the last scheduled rate increase through 2010 under PECO's 1998 restructuring settlement. This rate increase will not affect operating income as PECO will incur corresponding and offsetting purchased power expenses under its PPA with Generation. The increase in gas revenues was due to net increases in rates through PAPUC-approved quarterly changes to the purchased gas adjustment clause. The average purchased gas cost rate per million cubic feet in effect for the twelve months ended December 31, 2006 was 30% higher than the average rate for the same period in 2005. While PECO's average purchased gas cost rate was higher in 2006 compared to 2005, quarterly changes to purchased gas cost rates since March 1, 2006 have resulted in decreases to the rates, with the September 1, 2006 and December 1, 2006 rate decreases resulting in lower rates in 2006 compared to comparable periods in 2005. This trend will continue into the first quarter of 2007, during the peak of PECO's winter heating season, as first quarter 2007 rates will be significantly lower than first quarter 2006 rates.

Customer choice. All PECO customers have the choice to purchase energy from a competitive electric generation supplier. This choice does not impact the volume of deliveries, but affects revenue collected from customers related to supplied energy and generation service. PECO's operating income is not affected by customer choice since any increase or decrease in revenues is completely offset by any related increase or decrease in purchased power expense.

For 2006 and 2005, 2% and 5%, respectively, of energy delivered to PECO's retail customers was provided by competitive electric generation suppliers.

	2006	2005
Retail customers purchasing energy from a competitive electric generation supplier:		
Number of customers at period end	34,400	44,500
Percentage of total retail customers	2%	3%
Volume (GWhs) [(a)]	767	2,094
Percentage of total retail deliveries	2%	5%

(a) One GWh is the equivalent of one million kilowatthours (kWh).

The increase in electric retail revenue associated with customer choice reflected customers from all customer classes returning to PECO as their electric supplier as a result of rising wholesale energy prices and a number of competitive electric generation suppliers exiting the market during 2005 and 2006.

Unbilled revenue—change in estimate. In the fourth quarter of 2006, PECO recorded a $35 million increase to unbilled electric revenues associated with a change in estimate in the amount of revenue recognized, although unbilled, at the end of 2006. As discussed under Critical Accounting Policies and Estimates, the nature of the unbilled revenue calculation is inherently an estimation process. As a result of Exelon's integration efforts associated with its then-pending merger with PSEG, analyses received from a third-party consultant, and PECO's implementation of a new customer information management system in the fourth quarter 2006, PECO received new information with which to better analyze the data underlying its unbilled revenue calculation. This amount is partially offset by a $14 million increase in purchased power expense as noted below.

Volume. The increase in electric revenues was primarily as a result of higher delivery volume, exclusive of the effects of weather and customer choice, primarily due to an increased number of customers in the residential and small commercial and industrial classes. The decrease in gas revenues attributable to lower delivery volume, exclusive of the effects of weather, was primarily due to decreased customer usage, which is consistent with rising gas prices.

Weather. The demand for electricity and gas is affected by weather conditions. With respect to the electric business, very warm weather in summer months and, with respect to the electric and gas businesses, very cold weather in other months are referred to as "favorable weather conditions" because these weather conditions result in increased sales of electricity and gas. Conversely, mild weather reduces demand. Revenues were lower due to unfavorable weather conditions in PECO's service territory, where heating and cooling degree days were 18% and 15% lower, respectively, than the prior year.

Other rate changes and mix. The decrease in electric revenues attributable to other rate changes and mix was primarily due to increased large commercial and industrial sales, which are billed at lower rates relative to other customer classes, and lower rates for certain large commercial and industrial customers whose rates reflect wholesale energy prices, which were lower in the latter part of 2006 relative to 2005.

Wholesale and miscellaneous revenues. The increase in electric revenues was primarily due to increased PJM transmission revenue and increased sales of energy into the PJM spot market. If PECO's energy needs are less than the daily amount scheduled, the excess is sold into the PJM spot market. Revenues from these sales are reflected as adjustments to the billings under PECO's PPA with Generation. The decrease in gas revenues was due to decreased off-system sales.

Purchased Power and Fuel Expense. The changes in PECO's purchased power and fuel expense for 2006 compared to 2005 consisted of the following:

	Electric	Gas	Total Increase (decrease)
Prices	$ 94	$ 127	$ 221
Customer choice	62	—	62
PJM transmission	31	—	31
Unbilled revenue—change in estimate	14	—	14
Weather	(39)	(107)	(146)
Volume	4	(13)	(9)
Other	20	(6)	14
Increase in purchased power and fuel expense	$186	$ 1	$ 187

Prices. PECO's purchased power expense increased $87 million corresponding to the increase in electric revenues which was attributable to the scheduled PAPUC-approved generation rate increase. In addition, PECO's purchased power expense increased $7 million due to a change in the mix of average pricing related to its PPA with Generation. Fuel expense for gas increased due to higher average gas prices. See "Operating Revenues" above.

Customer choice. The increase in purchased power expense from customer choice was primarily due to customers from all customer classes returning to PECO as their electric supplier, primarily as a result of rising wholesale energy prices and a number of competitive electric generation suppliers exiting the market during 2005 and 2006.

PJM transmission. The increase in PJM transmission expense reflects increased peak demand and consumption by PECO-supplied customers due to load growth as well as an increase in PECO-supplied customers driven by more customers choosing PECO for supply due to competitive electric generation suppliers' higher market prices.

Unbilled revenue—change in estimate. In the fourth quarter of 2006, PECO recorded a $14 million increase to purchased power associated with a change in estimate for unbilled electric revenue as the energy component of the estimate change is passed onto Generation.

Weather. The decrease in purchased power and fuel expense attributable to weather was primarily due to lower demand as a result of unfavorable weather conditions in the PECO service territory relative to the prior year.

Volume. The increase in purchased power expense attributable to volume, exclusive of the effects of weather and customer choice, was primarily due to an increased number of customers. The decrease in gas fuel expense attributable to volume, exclusive of the effects of weather, was primarily due to decreased customer usage, which is consistent with rising gas prices.

Other. The increase in electric purchased power expense was primarily due to increased energy purchases in the PJM spot market. If PECO's energy needs are greater than the daily amount scheduled, the shortfall is secured through purchases in the PJM spot market. These additional costs are reflected as adjustments to the billings under PECO's PPA with Generation. The decrease in gas fuel expense was related to decreased off-system sales.

Operating and Maintenance Expense. The changes in operating and maintenance expense for 2006 compared to 2005 consisted of the following:

	Increase (decrease)
Storm costs	$36
Contractors [(a)]	14
Allowance for uncollectible accounts [(b)]	13
Fringe benefits [(c)]	11
Severance-related expenses	6
PSEG merger integration costs	2
Injuries and damages	(6)
Environmental reserve [(d)]	(4)
Other	7
Increase in operating and maintenance expense	$79

(a) Reflects higher professional fees, including $9 million associated with tax consulting, and various other increases. See Note 18 of the Combined Notes to Consolidated Financial Statements for additional information regarding tax consulting fees.

(b) Reflects the following factors, all of which increased expense in 2006 as compared to 2005: (i) higher average accounts receivable balances in 2006 compared to 2005 resulting from increased revenues; (ii) changes in PAPUC-approved regulations related to customer payment terms; and (iii) an increase in the number of low-income customers participating in customer assistance programs, which allow for the forgiveness of certain receivables.

(c) Reflects increased stock-based compensation expense of $11 million primarily due to the adoption of SFAS No. 123-R on January 1, 2006.

(d) Represents a settlement related to one Superfund site in the first quarter of 2006. See Note 18 of the Combined Notes to Consolidated Financial Statements for additional information.

Depreciation and Amortization Expense. The changes in depreciation and amortization expense for 2006 compared to 2005 consisted of the following:

	Increase (decrease)
CTC amortization [(a)]	$146
Accelerated amortization of PECO billing system [(b)]	(4)
Other depreciation and amortization expense	2
Increase in depreciation and amortization expense	$144

(a) PECO's additional amortization of the CTC is in accordance with its original settlement under the Pennsylvania Competition Act.

(b) In January 2005, as part of a broader systems strategy at PECO associated with the proposed merger with PSEG, Exelon's Board of Directors approved the implementation of a new customer information and billing system at PECO. The approval of this new system required the accelerated amortization of PECO's existing system through 2006 and the recognition of additional amortization expense of $13 million and $9 million in 2005 and 2006, respectively. The new system was implemented in the fourth quarter 2006.

Taxes Other Than Income. The changes in taxes other than income for 2006 compared to 2005 consisted of the following:

	Increase (decrease)
Taxes on utility revenues [(a)]	$14
State franchise tax adjustments in 2006 and 2005 [(b)]	10
Real estate tax adjustment in 2005 [(c)]	6
Sales and use tax adjustments in 2006 and 2005	(2)
Other	3
Increase in taxes other than income	$31

(a) As these taxes were collected from customers and remitted to the taxing authorities and included in revenues and expenses, the increase in tax expense was offset by a corresponding increase in revenues.

(b) Represents the reduction of tax accruals in 2006 of $7 million following settlements related to prior year tax assessments and the $17 million reduction of an accrual in 2005 related to prior years.

(c) Represents the reduction of a real estate tax accrual in 2005 following settlements related to prior year tax assessments.

Interest Expense, Net. The decrease in interest expense, net for 2006 compared to 2005 was primarily due to scheduled payments on long-term debt owed to PECO Energy Transition Trust (PETT), partially offset by an increase in interest expense associated with the September 2006 issuance of $300 million First Mortgage Bonds, higher interest rates on variable rate long-term debt and an increased amount of commercial paper outstanding at higher rates.

Other, Net. The increase in other, net for 2006 compared to 2005 was primarily due to interest income associated with an investment tax credit refund of $11 million and interest income associated with a research and development credit refund of $10 million in 2006. See Note 19 of the Combined Notes to the Consolidated Financial Statements for further details of the components of other, net. See Note 18 of the Combined Notes to the Consolidated Financial Statement for additional information regarding the investment tax credit and research and development credit refunds.

Equity in Losses of Unconsolidated Affiliates. The decrease in equity in losses of unconsolidated affiliates was a result of a decrease in net interest expense of PETT due to scheduled repayments of outstanding long-term debt.

Income Taxes. PECO's effective income tax rate was 29.0% for 2006 compared to 32.2% for 2005. The lower effective tax rate in 2006 reflects investment tax credit and research and development credit refunds in 2006. See Note 12 of the Combined Notes to Consolidated Financial Statements for further details of the components of the effective income tax rates.

Cumulative Effect of a Change in Accounting Principle. The cumulative effect of a change in accounting principle reflects the impact of adopting FIN 47 as of December 31, 2005. See Note 13 of the Combined Notes to Consolidated Financial Statements for further discussion of the adoption of FIN 47.

PECO Electric Operating Statistics and Revenue Detail

PECO's electric sales statistics and revenue detail are as follows:

Retail Deliveries—(in GWhs)	2006	2005	Variance	% Change
Full service [(a)]				
Residential	12,796	13,135	(339)	(2.6)%
Small commercial & industrial	7,818	7,263	555	7.6%
Large commercial & industrial	15,898	15,205	693	4.6%
Public authorities & electric railroads	906	962	(56)	(5.8)%
Total full service	37,418	36,565	853	2.3%
Delivery only [(b)]				
Residential	61	334	(273)	(81.7)%
Small commercial & industrial	671	1,257	(586)	(46.6)%
Large commercial & industrial	35	503	(468)	(93.0)%
Total delivery only	767	2,094	(1,327)	(63.4)%
Total retail deliveries	38,185	38,659	(474)	(1.2)%

(a) Full service reflects deliveries to customers taking electric service under tariffed rates.
(b) Delivery only service reflects customers receiving electric generation service from a competitive electric generation supplier.

Electric Revenue	2006	2005	Variance	% Change
Full service [(a)]				
Residential	$1,780	$1,705	$ 75	4.4%
Small commercial & industrial	943	818	125	15.3%
Large commercial & industrial	1,286	1,173	113	9.6%
Public authorities & electric railroads	83	84	(1)	(1.2)%
Total full service	4,092	3,780	312	8.3%
Delivery only [(b)]				
Residential	5	25	(20)	(80.0)%
Small commercial & industrial	36	63	(27)	(42.9)%
Large commercial & industrial	1	13	(12)	(92.3)%
Total delivery only	42	101	(59)	(58.4)%
Total electric retail revenues	4,134	3,881	253	6.5%
Wholesale and miscellaneous revenue [(c)]	238	212	26	12.3%
Total electric and other revenue	$4,372	$4,093	$279	6.8%

(a) Full service revenue reflects revenue from customers taking electric service under tariffed rates, which includes the cost of energy, the cost of the transmission and the distribution of the energy and a CTC.

(b) Delivery only revenue reflects revenue from customers receiving generation service from a competitive electric generation supplier, which includes a distribution charge and a CTC.
(c) Wholesale and miscellaneous revenues include transmission revenue from PJM and other wholesale energy sales.

PECO's Gas Sales Statistics and Revenue Detail

PECO's gas sales statistics and revenue detail were as follows:

Deliveries to customers (in million cubic feet (mmcf))	2006	2005	Variance	% Change
Retail sales	50,578	59,751	(9,173)	(15.4)%
Transportation	25,527	25,310	217	0.9%
Total	76,105	85,061	(8,956)	(10.5)%

Revenue	2006	2005	Variance	% Change
Retail sales	$ 770	$ 783	$ (13)	(1.7)%
Transportation	16	16	—	— %
Resales and other	10	18	(8)	(44.4)%
Total gas revenue	$ 796	$ 817	$ (21)	(2.6)%

Year Ended December 31, 2005 Compared to Year Ended December 31, 2004

Results of Operations–Exelon

	2005	2004	Favorable (unfavorable) variance
Operating revenues	$15,357	$14,133	$ 1,224
Operating expenses			
Purchased power and fuel expense	5,670	4,929	(741)
Operating and maintenance expense	3,694	3,700	6
Impairment of goodwill	1,207	—	(1,207)
Depreciation and amortization	1,334	1,295	(39)
Taxes other than income	728	710	(18)
Total operating expenses	12,633	10,634	(1,999)
Operating income	2,724	3,499	(775)
Other income and deductions			
Interest expense	(513)	(471)	(42)
Interest expense to affiliates, net	(316)	(357)	41
Equity in losses of unconsolidated affiliates	(134)	(154)	20
Other, net	134	60	74
Total other income and deductions	(829)	(922)	93
Income from continuing operations before income taxes and minority interest	1,895	2,577	(682)
Income taxes	944	713	(231)
Income from continuing operations before minority interest	951	1,864	(913)
Minority interest	—	6	(6)
Income from continuing operations	951	1,870	(919)
Income from discontinued operations, net of income taxes	14	(29)	43
Income before cumulative effect of a change in accounting principle	965	1,841	(876)
Cumulative effect of changes in accounting principles	(42)	23	(65)
Net income	$ 923	$ 1,864	$ (941)
Diluted earnings per share	$ 1.36	$ 2.78	$ (1.42)

Net Income. Net income for 2005 reflects an impairment charge of $1.2 billion associated with ComEd's goodwill and losses of $42 million for the cumulative effect of adopting FIN 47, partially offset by higher realized prices on market sales at Generation and favorable weather conditions in the ComEd and PECO service territories. Net income for 2004 reflects income of $32 million for the adoption of FIN 46-R, partially offset by a loss of $9 million related to the adoption of Emerging Issues Task Force (EITF) Issue No. 03-16, "Accounting for Investments in Limited Liability Companies" (EITF 03-16). See Note 1 of the Combined Notes to Consolidated Financial Statements for further information regarding the adoption of FIN 46-R.

Operating Revenues. Operating revenues increased primarily due to increased revenues at ComEd and PECO and increased revenues from non-affiliates at Generation. The increase in revenues at ComEd and PECO was primarily due to favorable weather conditions, an increase in the number of customers choosing ComEd or PECO as their electric supplier and higher transmission revenues, partially offset by decreased CTC collections at ComEd. The increase in revenues from non-affiliates at Generation was primarily due to higher prices on energy sold in the market, partially offset by an increase in the percentage of energy produced and sold to ComEd and PECO and the sale of Boston Generating in 2004. See further analysis and discussion of operating revenues by segment below.

Purchased Power and Fuel Expense. Purchased power and fuel expense increased primarily due to overall higher market energy prices and higher natural gas and oil prices, partially offset by the decrease in fuel expense due to the sale of Boston Generating in 2004, favorable mark-to-market adjustments related to non-trading activities and the expiration of the PPA with Midwest Generation in 2004. Purchased power represented 22% of Generation's total supply in 2005 compared to 24% in 2004. See further analysis and discussion of purchased power and fuel expense by segment below.

Operating and Maintenance Expense. Operating and maintenance expense increased primarily due to a gain recorded in 2004 related to the DOE settlement, an increase to the reserve for the estimated future asbestos-related bodily injury claims that was recorded in 2005, higher costs associated with planned nuclear refueling outages, and increased costs related to an operating agreement with a subsidiary of Tamuin International, Inc. (formerly Sithe International, Inc.), partially offset by the sale of Boston Generating in 2004 and decreased severance and benefit expense. See further discussion of operating and maintenance expenses by segment below.

Impairment of Goodwill. During 2005, in connection with the annually required assessment of goodwill for impairment, ComEd recorded a $1.2 billion charge.

Depreciation and Amortization Expense. The increase in depreciation and amortization expense was primarily due to additional plant placed in service, additional amortization of the CTC at PECO and accelerated amortization of PECO's current customer information and billing system, partially offset by the establishment of an ARC asset for retired nuclear units in 2004 which was immediately impaired through depreciation expense.

Operating Income. Exclusive of the changes in operating revenues, purchased power and fuel expense, operating and maintenance expense, impairment of goodwill and depreciation and amortization expense discussed above, the change in operating income was the result of increased taxes other than income, partially offset by the sale of Boston Generating in 2004 and reduced property tax expense.

Other Income and Deductions. The change in other income and deductions reflects a 2004 charge at ComEd associated with the accelerated retirement of debt and the related reduction in interest expense from these debt retirements and increased realized gains related to the decommissioning trust fund investments for the AmerGen plants, partially offset by increased interest expense on short-term debt at Exelon, increased losses from Exelon's investment in synthetic fuel-producing facilities and an $85 million gain recorded in 2004 on the sale of Boston Generating.

Effective Income Tax Rate. The effective income tax rate from continuing operations was 49.8% for 2005 compared to 27.7% for 2004. The goodwill impairment charge increased the effective income tax rate from continuing operations by 22.3% for 2005. See Note 12 of the Combined Notes to the Consolidated Financial Statements for further discussion of the change in the effective income tax rate.

Discontinued Operations. On January 31, 2005, subsidiaries of Generation completed a series of transactions that resulted in Generation's sale of its investment in Sithe. In addition, Exelon sold or wound down substantially all components of Enterprises and AllEnergy, a business within Exelon Energy. Accordingly, the results of operations and any gain or loss on the sale of these entities have been presented as discontinued operations within Exelon's and Generation's Consolidated Statements of Operations. See Notes 2 and 3 of the Combined Notes to Consolidated Financial Statements for further information regarding the presentation of Sithe, certain Enterprises businesses and AllEnergy as discontinued operations and the sale of Sithe. The results of Sithe and AllEnergy are included in the Generation discussion below.

The income from discontinued operations increased by $43 million from 2004 to 2005 primarily due to the gain on the sale of Sithe in the first quarter of 2005.

Cumulative Effect of Changes in Accounting Principles. The cumulative effect of changes in accounting principles reflects the impact of adopting FIN 47 as of December 31, 2005 and the consolidation of Sithe in accordance with FIN 46-R as of March 31, 2004. See Notes 1 and 13 of the Combined Notes to Consolidated Financial Statements for further discussion of the consolidation of Sithe and the adoption of FIN 47, respectively.

Results of Operations by Business Segment

The comparisons of 2005 and 2004 operating results and other statistical information set forth below include intercompany transactions, which are eliminated in Exelon's consolidated financial statements.

Net Income (Loss) from Continuing Operations by Business Segment

	2005	2004	Favorable (unfavorable) variance
Generation	$1,109	$ 657	$ 452
ComEd	(676)	676	(1,352)
PECO	520	455	65
Other [(a)]	(2)	82	(84)
Total	$ 951	$1,870	$ (919)

(a) Other includes corporate operations, shared service entities, including BSC, Enterprises, investments in synthetic fuel-producing facilities and intersegment eliminations.

Income (Loss) Before Cumulative Effect of Changes in Accounting Principles by Business Segment

	2005	2004	Favorable (unfavorable) variance
Generation	$1,128	$ 641	$ 487
ComEd	(676)	676	(1,352)
PECO	520	455	65
Other [(a)]	(7)	69	(76)
Total	$ 965	$1,841	$ (876)

(a) Other includes corporate operations, shared service entities, including BSC, Enterprises, investments in synthetic fuel-producing facilities and intersegment eliminations.

Net Income (Loss) by Business Segment

	2005	2004	Favorable (unfavorable) variance
Generation	$1,098	$ 673	$ 425
ComEd	(685)	676	(1,361)
PECO	517	455	62
Other [(a)]	(7)	60	(67)
Total	$ 923	$1,864	$ (941)

(a) Other includes corporate operations, shared service entities, including BSC, Enterprises, investments in synthetic fuel-producing facilities and intersegment eliminations.

Results of Operations—Generation

	2005	2004	Favorable (unfavorable) variance
Operating revenues	$9,046	$7,703	$1,343
Operating expenses			
Purchased power and fuel	4,482	4,011	(471)
Operating and maintenance	2,288	2,201	(87)
Depreciation and amortization	254	286	32
Taxes other than income	170	166	(4)
Total operating expenses	7,194	6,664	(530)
Operating income	1,852	1,039	813
Other income and deductions			
Interest expense	(128)	(103)	(25)
Equity in losses of unconsolidated affiliates	(1)	(14)	13
Other, net	95	130	(35)
Total other income and deductions	(34)	13	(47)
Income from continuing operations before income taxes and minority interest	1,818	1,052	766
Income taxes	709	401	(308)
Income from continuing operations before minority interest	1,109	651	458
Minority interest	—	6	(6)
Income from continuing operations	1,109	657	452
Discontinued operations			
Loss from discontinued operations	—	(16)	16
Gain on disposal of discontinued operations	19	—	19
Income (loss) from discontinued operations	19	(16)	35
Income before cumulative effect of changes in accounting principles	1,128	641	487
Cumulative effect of changes in accounting principles	(30)	32	(62)
Net income	$1,098	$ 673	$ 425

Net Income. Generation's net income in 2005 increased $425 million as compared to the prior year, primarily as a result of higher revenue, net of purchased power and fuel expense, partially offset by higher operating and maintenance expense and interest expense. Generation's revenue, net of purchased power and fuel expense, increased $872 million in 2005 as compared to the prior year. This increase was driven by the contractual increase in prices associated with Generation's PPA with ComEd and higher average margins on wholesale market sales as higher spot market prices more than compensated for higher fuel prices and the impact of higher nuclear generation.

Operating Revenues. For 2005 and 2004, Generation's sales were as follows:

Revenue	2005	2004	Variance	% Change
Electric sales to affiliates	$4,775	$3,749	$1,026	27.4%
Wholesale and retail electric sales	3,341	3,227	114	3.5%
Total energy sales revenue	8,116	6,976	1,140	16.3%
Retail gas sales	613	448	165	36.8%
Trading portfolio	17	—	17	n.m.
Other revenue [(a)]	300	279	21	7.5%
Total revenue	$9,046	$7,703	$1,343	17.4%

(a) Includes sales related to tolling agreements, fossil fuel sales, operating service agreements and decommissioning revenue from ComEd and PECO.

n.m. Not meaningful

Sales (in GWhs)	2005	2004	Variance	% Change
Electric sales to affiliates	121,961	110,465	11,496	10.4%
Wholesale and retail electric sales	72,376	92,134	(19,758)	(21.4)%
Total sales	194,337	202,599	(8,262)	(4.1)%

Trading volumes of 26,924 GWhs and 24,001 GWhs for 2005 and 2004, respectively, are not included in the table above.

Electric sales to affiliates. Revenue from sales to affiliates increased $1,026 million in 2005 as compared to the prior year. The increase in revenue from sales to affiliates was primarily due to a $635 million increase from overall higher prices associated with Generation's PPA with ComEd and a $391 million increase from higher electric sales volume. As a result of the Amended and Restated Purchase Power Agreement as of April 30, 2004 with ComEd, effective January 1, 2005, Generation began receiving overall higher prices from ComEd for its purchased power. The higher sales volumes to ComEd and PECO resulted from favorable weather conditions in the summer and winter periods in the ComEd and PECO service territories and an increase in the number of customers returning from competitive electric generation suppliers in 2005 compared to the prior year.

Wholesale and retail electric sales. The changes in Generation's wholesale and retail electric sales for 2005 compared to 2004 consisted of the following:

	Increase (decrease)
Price	$ 879
Volume	(526)
Sale of Boston Generating	(239)
Increase in wholesale and retail electric sales	$ 114

(a) Sales to Boston Generating of $9 million were included in other revenue for 2004.

Wholesale and retail sales increased $114 million due to an increase in market prices in 2005 compared to the prior year. The increase in market prices was primarily driven by higher fuel prices (e.g. oil and natural gas). The increase in price was partially offset by lower volumes of generation capacity sold to the market in 2005 as compared to 2004. Generation had less power to sell into the market as a result of higher demand for power sold to affiliates in 2005 and the expiration of its PPA with Midwest Generation in 2004. The remaining decrease in wholesale and retail sales of $239 million was due to the sale of Boston Generating in May 2004.

Retail gas sales. Retail gas sales increased $165 million primarily due to significantly higher gas prices in the overall market.

Trading portfolio. Trading portfolio income increased $17 million in 2005 compared to the prior year due to an increase in trading volumes. See ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk—Proprietary Trading Activities for further information.

Other revenues. The increase in other revenues in 2005 was primarily due to an increase of $60 million associated with revenue from Generation's operating services agreements with PSEG and Tamuin International, Inc. This increase was partially offset by a decrease of $39 million related to lower fuel sales, a reduction in decommissioning revenue from ComEd and lower sales from tolling and gas management agreements. The increased revenue from the operating services agreements was substantially offset by a corresponding increase in Generation's operating and maintenance expense.

Purchased Power and Fuel Expense. Generation's supply sources are summarized below:

Supply Source (in GWhs)	2005	2004	Variance	% Change
Nuclear generation [a]	137,936	136,621	1,315	1.0%
Purchases—non-trading portfolio	42,623	48,968	(6,345)	(13.0)%
Fossil and hydroelectric generation	13,778	17,010	(3,232)	(19.0)%
Total supply	194,337	202,599	(8,262)	(4.1)%

(a) Represents Generation's proportionate share of the output of its nuclear generating plants, including Salem, which is operated by PSEG Nuclear.

The changes in Generation's purchased power and fuel expense for 2005 compared to 2004 consisted of the following:

	Price	Volume	Increase (Decrease)
Purchased power costs	$ 654	$(327)	$ 327
Generation costs	198	16	214
Fuel resale costs	149	(2)	147
Sale of Boston Generating	n.m.	n.m.	(226)
Mark-to-market	n.m.	n.m.	9
Increase in purchased power and fuel expense			$ 471

n.m. Not meaningful

Purchased Power Costs. Purchased power costs include all costs associated with the procurement of electricity (i.e., capacity, energy and fuel costs). Generation experienced overall higher realized prices for purchased power in 2005 compared to 2004, resulting in a $654 million increase. This was offset by a decrease of $327 million due to lower volumes of purchased power in the market as a result of more demand from affiliates.

Generation Costs. Generation costs include fuel cost for internally generated energy. Generation experienced overall higher generation costs for 2005 compared to 2004 due to overall energy market conditions resulting in higher prices for raw materials (e.g., oil, natural gas and coal) used in the production of electricity. Additionally, there was an increase of $16 million related to higher nuclear and fossil generation need to meet affiliates' demand.

Fuel Resale Costs. Fuel resale costs include retail gas purchase and wholesale fossil fuel expenses. The changes in Generation's fuel resale costs in 2005 as compared to 2004 consisted of overall higher realized gas prices, offset by a $2 million volume decrease in the gas retail business.

Sale of Boston Generating. The decrease in purchased power and fuel expense associated with Boston Generating was due to the sale of the business in May 2004.

Mark-to-market. Mark-to-market losses on power derivative activities were $12 million for 2005 compared to losses of $3 million for 2004.

Generation's average margin per MWh of electricity sold for 2005 and 2004 was as follows:

($/MWh)	2005	2004	% Change
Average electric revenue			
Electric sales to affiliates (a)	$39.15	$33.94	15.4%
Wholesale and retail electric sales	46.16	35.03	31.8%
Total—excluding the trading portfolio	41.76	34.43	21.3%
Average electric supply cost (b)—excluding the trading portfolio	$20.11	$17.60	14.3%
Average margin—excluding the trading portfolio	$21.65	$16.83	28.6%

(a) The increase in $/MWh was due to higher prices in 2005 associated with Generation's PPA with ComEd.
(b) Average supply cost includes purchased power and fuel costs associated with electric sales. Average electric supply cost does not include fuel costs associated with retail gas sales.

Nuclear fleet operating data and purchased power cost data for 2005 and 2004 were as follows:

	2005	2004
Nuclear fleet capacity factor (a)	93.5%	93.5%
Nuclear fleet production cost per MWh (a)	$13.03	$12.43

(a) Excludes Salem, which is operated by PSEG Nuclear.

Generation's nuclear fleet capacity factor was the same in 2005 as 2004. Higher costs associated with the planned refuel outages and higher non-outage operating costs resulted in a higher production cost per MWh produced for 2005 as compared to 2004. There were nine planned refueling outages and 25 non-refueling outages in 2005 compared to nine planned refuel outages and 20 non-refueling outages in 2004.

During 2004, both Quad Cities' units operated intermittently at Extended Power Uprate (EPU) generation levels due to performance issues with their steam dryers. As of the third quarter of 2005, both of the Quad Cities' units returned to EPU generation levels after extensive testing and load verification on new replacement steam dryers was completed. Near the end of 2005, the generation levels of both Quad Cities' units were again reduced to pre-EPU generation levels to address vibration—related equipment issues not directly related to the steam dryers. The units will be brought back to full EPU generation levels after all issues are addressed to ensure safe and reliable operations at the EPU output levels which is expected to occur in 2006.

Operating and Maintenance Expense. The increase in operating and maintenance expense for 2005 compared to 2004 consisted of the following:

	Increase (decrease)
Nuclear refueling and non-outage operating costs	$ 78
DOE settlement in 2004	42
Tamuin International	44
Accrual for estimated future asbestos-related bodily injury claims	43
Nuclear operating services agreement	14
Pension, payroll and benefit costs	(58)
Boston Generating	(62)
Decommissioning-related activity	(38)
Other	24
Increase in operating and maintenance expense	$ 87

This net $87 million increase was attributable to the following:

- A $78 million increase in nuclear refueling and non-outage operating costs due to an increase in nuclear maintenance costs of $44 million related to planned nuclear refueling outages for plants operated by Generation and the co-owned Salem Generating Station, and increases in other nuclear operating and maintenance expenses of $34 million, primarily security and inflationary costs;
- A $42 million reimbursement in 2004 of costs incurred prior to 2004 for the storage of spent nuclear fuel associated with the DOE settlement agreement;
- A $44 million increase in expenses associated with Generation's operating service agreement with a subsidiary of Tamuin International, Inc;
- The establishment of a $43 million liability in June 2005 for estimated future asbestos-related bodily injury claims (see further discussion in Note 17 to the Combined Notes to Consolidated Financial Statements); and
- Costs of $14 million in 2005 associated with the Salem and Hope Creek Operating Services Agreement with PSEG, the reimbursement of which is included in other revenues.

The increases in operating and maintenance expense described above were partially offset by lower payroll-related expenses (a $58 million reduction), the elimination of $62 million in expenses at Boston Generating due to its sale in May 2004 and a $36 million reduction in the contractual obligation that Generation has to ComEd related to decommissioning obligations (which is included in the $38 million of decommissioning-related activity in the table above).

Depreciation and Amortization. The decrease in depreciation and amortization expense for 2005 compared to 2004 was primarily due to the establishment of an ARC asset for retired nuclear units of $36 million recorded in the third quarter of 2004 which was immediately impaired through depreciation expense as this asset was associated with retired nuclear units that do not have any remaining useful life. This decrease was partially offset by increased depreciation expense due to recent capital additions.

Taxes Other Than Income. The increase in taxes other than income for 2005 as compared to 2004 was primarily due to a net increase in Generation's reserves related to payroll taxes, sales and use taxes and other taxes other than income, partially offset by a reduction in taxes resulting from the sale of Boston Generating in May 2004.

Other, Net. The decrease in other income for 2005 as compared to the prior year was primarily due to the $85 million gain ($52 million, net of taxes) on the disposal of Boston Generating recorded in

May 2004, partially offset by gains of $36 million realized in the second quarter of 2005 related to the decommissioning trust fund investments for the AmerGen plants, primarily associated with changes in Generation's investment strategy.

Effective Income Tax Rate. The effective income tax rate from continuing operations was 39.0% for 2005 compared to 38.1% for 2004. See Note 12 of the Combined Notes to the Consolidated Financial Statements for further discussion of the change in the effective income tax rate.

Discontinued Operations. On January 31, 2005, subsidiaries of Generation completed a series of transactions that resulted in Generation's sale of its investment in Sithe. In addition, Generation sold or wound down substantially all components of AllEnergy, a business within Exelon Energy. Accordingly, the results of operations and the gain on the sale of Sithe and results of AllEnergy have been presented as discontinued operations for 2005 within Generation's Consolidated Statements of Operations. See Notes 2 and 3 of the Combined Notes to Consolidated Financial Statements for further information regarding the presentation of Sithe's and AllEnergy's results of operations as discontinued operations and the sale of Sithe as discontinued operations.

Cumulative Effect of Changes in Accounting Principles. The cumulative effect of changes in accounting principles reflects the impact of adopting FIN 47 as of December 31, 2005 and the consolidation of Sithe in accordance with FIN 46-R as of March 31, 2004. See Notes 1 and 13 of the Combined Notes to Consolidated Financial Statements for further discussion of the consolidation of Sithe and the adoption of FIN 47, respectively.

Results of Operations–ComEd

	2005	2004	Favorable (unfavorable) variance
Operating revenues	$6,264	$5,803	$ 461
Operating expenses			
Purchased power	3,520	2,588	(932)
Operating and maintenance	833	897	64
Impairment of goodwill	1,207	—	(1,207)
Depreciation and amortization	413	410	(3)
Taxes other than income	303	291	(12)
Total operating expense	6,276	4,186	(2,090)
Operating income (loss)	(12)	1,617	(1,629)
Other income and deductions			
Interest expense, net	(291)	(349)	58
Equity in losses of unconsolidated affiliates	(14)	(19)	5
Net loss on extinguishment of long-term debt	—	(130)	130
Other, net	4	14	(10)
Total other income and deductions	(301)	(484)	183
Income (loss) before income taxes and cumulative effect of a change in accounting principle	(313)	1,133	(1,446)
Income taxes	363	457	94
Income (loss) before cumulative effect of a change in accounting principles	(676)	676	(1,352)
Cumulative effect of change in accounting principle	(9)	—	(9)
Net income (loss)	$ (685)	$ 676	$(1,361)

Net Loss. ComEd's net loss in 2005 was driven by the impairment of goodwill and higher purchased power expense, partially offset by higher operating revenues due to favorable weather and due to the impacts of a 2004 charge associated with the accelerated retirement of long-term debt and lower interest expense.

Operating Revenues. The changes in operating revenues for 2005 compared to 2004 consisted of the following:

	Increase (decrease)
Weather	$415
Customer choice	81
Rate changes and mix	(66)
Volume	(3)
Other	(9)
Retail revenue	418
PJM transmission	58
T&O / SECA rates	(28)
Miscellaneous revenues	13
Other revenues	43
Increase in operating revenues	$461

Weather. Revenues were higher due to favorable weather conditions in 2005 compared to 2004. The demand for electricity is affected by weather conditions. In ComEd's service territory, cooling and heating degree days were 90% and 1% higher, respectively, than the prior year.

Customer choice. All ComEd customers have the choice to purchase energy from a competitive electric generation supplier. This choice does not impact the volume of deliveries, but affects revenue collected from customers related to supplied energy and generation service. As of December 31, 2005, one competitive electric generation supplier was approved to serve residential customers in the ComEd service territory. However, they are not currently supplying electricity to any residential customers.

For 2005 and 2004, 33% and 35% of energy delivered to ComEd's retail customers was provided by competitive electric generation suppliers or under the PPO.

	2005	2004
Retail customers purchasing energy from a competitive electric generation supplier:		
Volume (GWhs) [a]	19,310	20,939
Percentage of total retail deliveries	21%	24%
Retail customers purchasing energy from a competitive electric generation supplier or the ComEd PPO:		
Number of customers at period end	21,300	22,200
Percentage of total retail customers	[b]	[b]
Volume (GWhs) [a]	30,905	30,426
Percentage of total retail deliveries	33%	35%

(a) One GWh is the equivalent of one million kilowatthours (kWh).
(b) Less than one percent.

Rate changes and mix. The change was primarily due to the increased wholesale market price of electricity and other adjustments to the energy component of the CTC calculation which resulted in a decrease of $64 million to $105 million in 2005 as compared to 2004.

PJM transmission. ComEd's transmission revenues increased in 2005 due to ComEd's May 1, 2004 entry into PJM.

T&O / SECA rates. Revenues decreased as a result of the elimination of T&O rates in accordance with FERC orders that became effective December 1, 2004. Effective December 1, 2004, PJM became obligated to pay SECA collections to ComEd, and ComEd became obligated to pay SECA charges—see "Purchased Power Expense" below. See Note 4 of the Combined Notes to Consolidated Financial Statements for more information on T&O / SECA rates.

Purchased Power Expense. The changes in purchased power expense for 2005 compared to 2004 consisted of the following:

	Increase (decrease)
Prices	$606
Weather	200
Customer choice	65
PJM	63
Volume	7
T&O collections / SECA rates	(15)
Other	6
Increase in purchased power expense	$932

Prices. Purchased power increased due to higher prices associated with ComEd's PPA with Generation of $497 million, and ancillary services of $109 million from PJM. In 2000, ComEd and Generation entered into a PPA that fixed the pricing for purchased power through December 31, 2004 based upon the then current market prices. As a result of the Amended and Restated Purchase Power Agreement with Generation, starting in January 1, 2005, ComEd began paying higher prices for its purchased power from Generation and ceased to procure its ancillary services from Generation. This agreement fixed the pricing for purchased power through December 31, 2006 based upon the current market prices as of April 30, 2004.

Weather. The increase in purchased power expense attributable to weather was due to favorable weather conditions in the ComEd service territory, which increased the amount of electricity sold.

Customer choice. The increase in purchased power expense from customer choice was primarily due to fewer ComEd non-residential customers electing to purchase energy from a competitive electric generation supplier.

PJM. The increase reflects higher transmission and purchased power expense of $57 million due to ComEd's May 1, 2004 entry into PJM and PJM administrative fees that increased by $6 million over 2004 fees.

T&O Collections / SECA rates. Prior to FERC orders issued in November 2004, ComEd collected T&O rates for transmission service scheduled out of or across ComEd's transmission system. Rates collected as the transmission owner were recorded in operating revenues. After joining PJM on May 1, 2004, PJM allocated T&O collections to ComEd as a load-serving entity. The collections received by ComEd as a load-serving entity were recorded as a decrease to purchased power expense. ComEd's purchased power expense increased $14 million due to ComEd no longer collecting T&O revenues in 2005.

Effective December 1, 2004, PJM became obligated to pay SECA collections to ComEd and ComEd became obligated to pay SECA charges. During 2005, ComEd recorded SECA collections net of SECA charges of $29 million. See Note 4 of the Combined Notes to Consolidated Financial Statements for more information on T&O /SECA rates.

Operating and Maintenance Expense. The changes in operating and maintenance expense for 2005 compared to 2004 consisted of the following:

	Increase (decrease)
Severance-related expenses [(a)]	$(47)
Employee fringe benefits [(b)]	(18)
Pension expense and deferred compensation [(c)]	(15)
Allowance for uncollectible accounts	(13)
Injuries and damages	(2)
Corporate allocations [(b)]	15
Storm costs	14
Contractors	12
PSEG merger integration costs	8
Other	(18)
Decrease in operating and maintenance expense	$(64)

(a) Consists of salary continuance severance costs, curtailment charges for pension and other postretirement benefits, and special termination benefit charges related to other postretirement benefits. The decrease reflects reduced severance-related activity in 2005 as compared to 2004.

(b) Excludes severance-related expenses and pension expense. Reflects fewer employees compared to prior year and a reduction in 2005 related to estimated medical plan fees. A portion of the employee reduction is offset by an increase in corporate allocations.

(c) Pension expense in 2005 is lower than in 2004 due in large part to significant pension plan contributions made in the first quarter of 2005. See Note 14 of the Combined Notes to Consolidated Financial Statements for additional information.

Impairment of Goodwill. During the fourth quarter of 2005, ComEd completed the annually required assessment of goodwill for impairment purposes. The 2005 test indicated that ComEd's goodwill was impaired and a charge of $1.2 billion was recorded. The 2005 impairment was driven by changes in the fair value of ComEd's PPA with Generation, the upcoming end of ComEd's transition period and related transition revenues, regulatory uncertainty in Illinois as of November 1, 2005, anticipated increases in capital expenditures in future years and decreases in market valuations of comparable companies that are utilized to estimate the fair value of ComEd. After reflecting the impairment, ComEd has approximately $3.5 billion of remaining goodwill as of December 31, 2005.

Depreciation and Amortization Expense. The changes in depreciation and amortization expense for 2005 compared to 2004 consisted of the following:

	Increase (decrease)
Depreciation expense	$ 17
Other amortization expense	(14)
Increase in depreciation and amortization expense	$ 3

The increase in depreciation expense is primarily due to capital additions.

The decrease in other amortization expense was primarily due to completing the amortization of one of ComEd's software packages in 2004.

Taxes Other Than Income. The changes in taxes other than income for 2005 compared to 2004 consisted of the following:

	Increase (decrease)
Taxes on utility revenues [(a)]	$13
Tax refund [(b)]	6
Other	(7)
Increase in taxes other than income	$12

(a) As these taxes were collected from customers and remitted to the taxing authorities and included in revenues and expenses, the increase in expense was offset by a corresponding increase in revenues.
(b) During 2004, a refund was received for Illinois electricity distribution taxes.

Interest Expense, Net. The reduction in interest expense, net for 2005 compared to 2004 was primarily due to long-term debt retirements and prepayments in 2004 pursuant to Exelon's accelerated liability management plan and scheduled payments on long-term debt owed to the ComEd Transitional Funding Trust, partially offset by a $16 million decrease in interest income on the long-term receivable from UII, LLC as a result of this receivable being repaid in late 2004.

Equity in Losses of Unconsolidated Affiliates. The decrease in equity in losses of unconsolidated affiliates was a result of a decrease in interest expense of the deconsolidated financing trusts due to scheduled repayments of outstanding long-term debt.

Net Loss on Extinguishment of Long-Term Debt. In 2004, Exelon initiated an accelerated liability management plan at ComEd that resulted in the retirement of approximately $768 million of long-term debt, of which $618 million was retired during the third quarter of 2004. During 2004, ComEd recorded a charge of $130 million associated with the retirement of debt under the plan. The components of this charge included the following: $86 million related to prepayment premiums; $12 million related to net unamortized premiums, discounts and debt issuance costs; $24 million of losses on reacquired debt previously deferred as regulatory assets; and $12 million related to settled cash-flow interest-rate swaps previously deferred as regulatory assets partially offset by $4 million of unamortized gain on settled fair value interest-rate swaps.

Other, Net. The changes in other, net for 2005 compared to 2004 included a $15 million loss on settlement of cash-flow swaps in 2005. See Note 9 of the Combined Notes to Consolidated Financial Statements for further information.

Income Taxes. The effective income tax rate was (116.0)% and 40.3% for 2005 and 2004, respectively. The goodwill impairment charge decreased the effective income tax rate by 135.0% in 2005. See Note 12 of the Combined Notes to Consolidated Financial Statements for further details of the components of the effective income tax rates.

Cumulative Effect of a Change in Accounting Principle. The cumulative effect of a change in accounting principle reflects the impact of adopting FIN 47 as of December 31, 2005. See Note 13 of the Combined Notes to Consolidated Financial Statements for further discussion of the adoption of FIN 47.

Electric Operating Statistics and Revenue Detail

Retail Deliveries—(in GWhs)	2005	2004	Variance	% Change
Full service [(a)]				
Residential	30,042	26,463	3,579	13.5%
Small commercial & industrial	21,378	21,662	(284)	(1.3)%
Large commercial & industrial	7,904	6,913	991	14.3%
Public authorities & electric railroads	2,133	1,893	240	12.7%
Total full service	61,457	56,931	4,526	7.9%
PPO				
Small commercial & industrial	5,591	4,110	1,481	36.0%
Large commercial & industrial	6,004	5,377	627	11.7%
	11,595	9,487	2,108	22.2%
Delivery only [(b)]				
Small commercial & industrial	5,677	6,305	(628)	(10.0)%
Large commercial & industrial	13,633	14,634	(1,001)	(6.8)%
	19,310	20,939	(1,629)	(7.8)%
Total PPO and delivery only	30,905	30,426	479	1.6%
Total retail deliveries	92,362	87,357	5,005	5.7%

(a) Full service reflects deliveries to customers taking electric service under tariffed rates.
(b) Delivery only service reflects customers electing to receive generation service from a competitive electric generation supplier.

Electric Revenue	2005	2004	Variance	% Change
Full service [(a)]				
Residential	$2,584	$2,295	$289	12.6%
Small commercial & industrial	1,671	1,649	22	1.3%
Large commercial & industrial	408	380	28	7.4%
Public authorities & electric railroads	132	126	6	4.8%
Total full service	4,795	4,450	345	7.8%
PPO [(b)]				
Small commercial & industrial	385	274	111	40.5%
Large commercial & industrial	345	304	41	13.5%
	730	578	152	26.3%
Delivery only [(c)]				
Small commercial & industrial	95	128	(33)	(25.8)%
Large commercial & industrial	156	204	(48)	(23.5)%
	251	332	(81)	(24.4)%
Total PPO and delivery only	981	910	71	7.8%
Total electric retail revenues	5,776	5,360	416	7.8%
Wholesale and miscellaneous revenue [(d)]	488	443	45	10.2%
Total operating revenues	$6,264	$5,803	$461	7.9%

(a) Full service revenue reflects deliveries to customers taking electric service under tariffed rates, which include the cost of energy and the cost of the transmission and the distribution of the energy.
(b) Revenues from customers choosing the PPO include an energy charge at market rates, transmission and distribution charges, and a CTC.

(c) Delivery only revenues reflect revenue under tariff rates from customers electing to receive electricity from a competitive electric generation supplier, which includes a distribution charge and a CTC. Prior to ComEd's full integration into PJM on May 1, 2004, ComEd's transmission charges received from competitive electric generation suppliers were included in wholesale and miscellaneous revenue.

(d) Wholesale and miscellaneous revenues include transmission revenue (including revenue from PJM), sales to municipalities and other wholesale energy sales.

Results of Operations—PECO

	2005	2004	Favorable (unfavorable) variance
Operating revenues	$4,910	$4,487	$ 423
Operating expenses			
Purchased power and fuel	2,515	2,172	(343)
Operating and maintenance	549	547	(2)
Depreciation and amortization	566	518	(48)
Taxes other than income	231	236	5
Total operating expense	3,861	3,473	(388)
Operating income	1,049	1,014	35
Other income and deductions			
Interest expense, net	(279)	(303)	24
Equity in losses of unconsolidated affiliates	(16)	(25)	9
Other, net	13	18	(5)
Total other income and deductions	(282)	(310)	28
Income before income taxes and cumulative effect of a change in accounting principle	767	704	63
Income taxes	247	249	2
Income before cumulative effect of a change in accounting principle	520	455	65
Cumulative effect of a change in accounting principle	(3)	—	(3)
Net income	517	455	62
Preferred stock dividends	4	3	(1)
Net income on common stock	$ 513	$ 452	$ 61

Net Income. PECO's net income in 2005 increased primarily as a result of higher revenues, net of related purchased power expense, due to favorable weather and lower interest expense due to the scheduled retirement of debt owed to PETT, partially offset by higher CTC amortization.

Operating Revenues. The changes in PECO's operating revenues for 2005 compared to 2004 consisted of the following:

	Electric	Gas	Total increase (decrease)
Rate changes and mix	$ 72	$ 90	$162
Customer choice	118	—	118
Volume	101	(21)	80
Weather	54	10	64
Retail revenue	345	79	424
T&O / SECA rates	3	—	3
PJM transmission	(3)	—	(3)
Other	9	(10)	(1)
Wholesale and miscellaneous revenues	9	(10)	(1)
Increase in operating revenues	$354	$ 69	$423

Rate changes and mix. The increase in electric revenues at PECO attributable to rate changes and mix resulted from increased residential sales, which are billed at higher average rates relative to other customer classes. In addition, rates were higher in 2005 for certain large commercial and industrial customers whose rates reflect wholesale energy prices, which were higher in 2005 relative to 2004.

The increase in gas revenues was due to increases in rates through PAPUC-approved changes to the purchased gas adjustment clause that became effective March 1, 2004, March 1, 2005, June 1, 2005, September 1, 2005 and December 1, 2005. The average purchased gas cost rate per million cubic feet in effect for 2005 was 12% higher than the average rate for 2004.

Customer choice. All PECO customers have the choice to purchase energy from a competitive electric generation supplier. This choice does not impact the volume of deliveries, but affects revenue collected from customers related to supplied energy and generation service. PECO's operating income is not affected by customer choice since any increase or decrease in revenues is completely offset by any related increase or decrease in purchased power expense.

For 2005 and 2004, 5% and 12%, respectively, of energy delivered to PECO's retail customers was provided by competitive electric generation suppliers.

	2005	2004
Retail customers purchasing energy from a competitive electric generation supplier:		
Number of customers at period end	44,500	101,500
Percentage of total retail customers	3%	7%
Volume (GWhs) [(a)]	2,094	4,605
Percentage of total retail deliveries	5%	12%

(a) One GWh is the equivalent of one million kilowatthours (kWh).

The increase in electric retail revenue associated with customer choice was primarily related to a significant number of residential customers returning to PECO as their energy provider in December 2004. This action followed the assignment of approximately 194,000 residential customers to competitive electric generation suppliers for a one-year term beginning in December 2003, as required by the PAPUC and PECO's final electric restructuring order. In 2005, additional customers returned to PECO as their energy supplier primarily as a result of two alternative energy suppliers exiting the market.

Volume. The increase in electric revenues was primarily as a result of higher delivery volume, exclusive of the effects of weather and customer choice, due to an increased number of customers and increased usage per customer across all customer classes. The decrease in gas revenues attributable to lower delivery volume, exclusive of the effects of weather, was primarily due to decreased customer usage, which is consistent with rising gas prices.

Weather. The demand for electricity and gas is affected by weather conditions. With respect to the electric business, very warm weather in summer months and, with respect to the electric and gas businesses, very cold weather in other months are referred to as "favorable weather conditions" because these weather conditions result in increased sales of electricity and gas. Conversely, mild weather reduces demand. Revenues were positively affected by favorable weather conditions at PECO in 2005 compared to 2004. In the PECO service territory, cooling and heating degree days were 21% and 2% higher, respectively, than the prior year.

T&O / SECA rates. Effective December 1, 2004, PJM became obligated to pay SECA collections to PECO, and PECO became obligated to pay SECA charges—see "Purchased Power and Fuel

Expense" below. The elimination of T&O revenues and inclusion of SECA revenues had a minimal impact on PECO as T&O revenues recognized in the past were not material and SECA revenues currently being recognized also are not material. See Note 4 of the Combined Notes to Consolidated Financial Statements for more information on T&O / SECA rates.

Other wholesale and miscellaneous revenues. Electric revenues increased $9 million primarily due to increased wholesale sales, and gas revenues decreased $10 million primarily due to decreased off-system sales.

Purchased Power and Fuel Expense. The changes in PECO's purchased power and fuel expense for 2005 compared to 2004 consisted of the following:

	Electric	Gas	Total Increase (decrease)
Prices	$ 83	$ 90	$173
Customer choice	118	—	118
Weather	21	7	28
Volume	32	(15)	17
PJM transmission	11	—	11
SECA rates	9	—	9
Other	—	(13)	(13)
Increase in purchased power and fuel expense	$274	$ 69	$343

Prices. PECO's purchased power expense increased due to a change in the mix of average pricing related to its PPA with Generation. Fuel expense for gas increased due to higher gas prices. See "Operating Revenues" above.

Customer choice. The increase in purchased power expense from customer choice was primarily due to a significant number of residential customers returning to PECO as their energy provider in December 2004.

Weather. The increase in purchased power and fuel expense attributable to weather was primarily due to serving the increased demand due to favorable weather conditions in the PECO service territory.

Volume. The increase in purchased power expense attributable to volume, exclusive of the effects of weather and customer choice, was due primarily to an increased number of customers and increased usage per customer across all customer classes. The decrease in gas fuel expense attributable to volume, exclusive of the effects of weather, was due to decreased customer usage, which is consistent with rising gas prices.

SECA rates. Effective December 1, 2004, PJM became obligated to pay SECA collections to PECO, and PECO became obligated to pay SECA charges. During 2005 and 2004, PECO recorded SECA charges of $10 million and $1 million, respectively. See Note 4 of the Combined Notes to Consolidated Financial Statements for more information on T&O and SECA rates.

Other. The decrease in gas fuel expense of $13 million was associated with decreased off-system sales.

Operating and Maintenance Expense. The changes in operating and maintenance expense for the 2005 compared to 2004 consisted of the following:

	Increase (decrease)
Contractors [a]	$ 8
Storm costs	7
Implementation of new customer information and billing system	4
PSEG merger integration costs	2
Severance-related expenses [b]	(14)
Injuries and damages	(6)
Other	1
Increase in operating and maintenance expense	$ 2

(a) The increase was primarily due to increases in vegetation management services compared to the prior year at PECO.
(b) Consists of salary continuance severance costs, curtailment charges for pension and other post retirement benefits, and special termination benefit charges related to other postretirement benefits. The decrease reflects reduced severance-related activity in 2005 compared to 2004.

Depreciation and Amortization Expense. The changes in depreciation and amortization expense for 2005 compared to 2004 consisted of the following:

	Increase (decrease)
Competitive transition charge amortization [a]	$37
Accelerated amortization of PECO billing system [b]	13
Depreciation expense [c]	3
Other amortization expense	(5)
Increase in depreciation and amortization expense	$48

(a) PECO's additional amortization of the CTC is in accordance with its original settlement under the Pennsylvania Competition Act.
(b) In January 2005, as part of a broader systems strategy at PECO associated with the proposed merger with PSEG, Exelon's Board of Directors approved the implementation of a new customer information and billing system at PECO. The approval of this new system requires the accelerated amortization of PECO's current system through 2006 and the recognition of additional amortization expense of $13 million and $9 million in 2005 and 2006, respectively.
(c) The increase in depreciation expense is primarily due to capital additions.

Taxes Other Than Income. The changes in taxes other than income for 2005 compared to 2004 consisted of the following:

	Increase (decrease)
Reduction in capital stock tax accrual in 2005 [a]	$(17)
Reduction in real estate tax accrual in 2005 [b]	(6)
Taxes on utility revenues [c]	24
Other	(6)
Decrease in taxes other than income	$ (5)

(a) Represents a reduction in 2005 of prior year capital stock tax accruals as a result of a favorable decision from the Pennsylvania Board of Finance and Revenue.
(b) Represents the reduction of a real estate tax accrual in March 2005 following settlements between PECO and various taxing authorities related to prior year tax assessments. See Note 18 of the Combined Notes to the Financial Statements for additional information.
(c) As these taxes were collected from customers and remitted to the taxing authorities and included in revenues and expenses, the increase in tax expense was offset by a corresponding increase in revenues.

Interest Expense, Net. The reduction in interest expense, net for 2005 compared to 2004 was primarily due to scheduled payments on long-term debt owed to PETT.

Equity in Losses of Unconsolidated Affiliates. The decrease in equity in losses of unconsolidated affiliates was a result of a decrease in interest expense of the deconsolidated financing trusts of PECO due to scheduled repayments of outstanding long-term debt.

Income Taxes. PECO's effective income tax rate was 32.2% for 2005 compared to 35.4% for 2004. The lower effective tax rate reflects a state income tax benefit recorded as a result of the favorable settlement of a 2000 Pennsylvania corporate net income tax audit. See Note 12 of the Combined Notes to Consolidated Financial Statements for further details of the components of the effective income tax rates.

Cumulative Effect of a Change in Accounting Principle. The cumulative effect of a change in accounting principle reflects the impact of adopting FIN 47 as of December 31, 2005. See Note 13 of the Combined Notes to Consolidated Financial Statements for further discussion of the adoption of FIN 47.

PECO Electric Operating Statistics and Revenue Detail

PECO's electric sales statistics and revenue detail are as follows:

Retail Deliveries—(in GWhs)	2005	2004	Variance	% Change
Full service [(a)]				
Residential	13,135	10,349	2,786	26.9%
Small commercial & industrial	7,263	6,728	535	8.0%
Large commercial & industrial	15,205	14,908	297	2.0%
Public authorities & electric railroads	962	914	48	5.3%
Total full service	36,565	32,899	3,666	11.1%
Delivery only [(b)]				
Residential	334	2,158	(1,824)	(84.5)%
Small commercial & industrial	1,257	1,687	(430)	(25.5)%
Large commercial & industrial	503	760	(257)	(33.8)%
Total delivery only	2,094	4,605	(2,511)	(54.5)%
Total retail deliveries	38,659	37,504	1,155	3.1%

(a) Full service reflects deliveries to customers taking electric service under tariffed rates.
(b) Delivery only service reflects customers receiving electric generation service from a competitive electric generation supplier.

Electric Revenue	2005	2004	Variance	% Change
Full service [(a)]				
Residential	$1,705	$1,317	$ 388	29.5%
Small commercial & industrial	818	756	62	8.2%
Large commercial & industrial	1,173	1,113	60	5.4%
Public authorities & electric railroads	84	80	4	5.0%
Total full service	3,780	3,266	514	15.7%
Delivery only [(b)]				
Residential	25	164	(139)	(84.8)%
Small commercial & industrial	63	86	(23)	(26.7)%
Large commercial & industrial	13	20	(7)	(35.0)%
Total delivery only	101	270	(169)	(62.6)%
Total electric retail revenues	3,881	3,536	345	9.8%
Wholesale and miscellaneous revenue [(c)]	212	203	9	4.4%
Total electric and other revenue	$4,093	$3,739	$ 354	9.5%

(a) Full service revenue reflects revenue from customers taking electric service under tariffed rates, which includes the cost of energy, the cost of the transmission and the distribution of the energy and a CTC.

(b) Delivery only revenue reflects revenue from customers receiving generation service from a competitive electric generation supplier, which includes a distribution charge and a CTC.

(c) Wholesale and miscellaneous revenues include transmission revenue from PJM and other wholesale energy sales.

PECO's Gas Sales Statistics and Revenue Detail

PECO's gas sales statistics and revenue detail were as follows:

Deliveries to customers (in million cubic feet (mmcf))	2005	2004	Variance	% Change
Retail sales	59,751	59,949	(198)	(0.3)%
Transportation	25,310	27,148	(1,838)	(6.8)%
Total	85,061	87,097	(2,036)	(2.3)%

Revenue	2005	2004	Variance	% Change
Retail sales	$ 783	$ 702	$ 81	11.5%
Transportation	16	18	(2)	(11.1)%
Resales and other	18	28	(10)	(35.7)%
Total gas revenue	$ 817	$ 748	$ 69	9.2%

Liquidity and Capital Resources

The Registrants' businesses are capital intensive and require considerable capital resources. These capital resources are primarily provided by internally generated cash flows from operations. When necessary, the Registrants obtain funds from external sources in the capital markets and through bank borrowings. The Registrants' access to external financing on reasonable terms depends on their credit ratings and current business conditions, including that of the utility industry in general. If these conditions deteriorate to the extent that the Registrants no longer have access to the capital markets at reasonable terms, Exelon, Generation, ComEd and PECO have access to revolving credit facilities with aggregate bank commitments of $1 billion, $5 billion, $1 billion and $600 million, respectively, that they currently utilize to support their commercial paper programs and to issue letters of credit. See the "Credit Issues" section of "Liquidity and Capital Resources" for further discussion.

The Registrants primarily use their capital resources, including cash, to fund capital requirements, including construction expenditures, retire debt, pay dividends, fund pension obligations and invest in new and existing ventures. The Registrants spend a significant amount of cash on construction projects that have a long-term return on investment. Additionally, ComEd and PECO operate in rate-regulated environments in which the amount of new investment recovery may be limited and where such recovery takes place over an extended period of time. As a result of these factors, each of Exelon's, ComEd's and PECO's working capital, defined as current assets less current liabilities, is in a net deficit position. ComEd intends to refinance maturing long-term debt during 2007. To manage cash flows as more fully described below, ComEd did not pay a dividend during 2006. Future acquisitions that Exelon may undertake may involve external debt financing or the issuance of additional Exelon common stock.

Cash Flows from Operating Activities

Generation's cash flows from operating activities primarily result from the sale of electric energy to wholesale customers, including ComEd and PECO. Generation's future cash flows from operating activities will be affected by future demand for and market prices of energy and its ability to continue to produce and supply power at competitive costs as well as to obtain collections from customers. ComEd's and PECO's cash flows from operating activities primarily result from sales of electricity and gas to a stable and diverse base of retail customers and are weighted toward the third quarter of each fiscal year. ComEd's and PECO's future cash flows will be affected by the economy, weather, customer choice, future regulatory proceedings with respect to their rates and their ability to achieve operating cost reductions. See Note 4 of the Combined Notes to Consolidated Financial Statements for further discussion of regulatory and legal proceedings and proposed legislation.

Cash flows from operations have been a reliable, steady source of cash flow, sufficient to meet operating and capital expenditures requirements. Taking into account the factors noted above, Exelon also obtains cash from non-operating sources such as the proceeds from the debt issuance in 2005 to fund Exelon's $2 billion pension contribution (see Note 11 of the Combined Notes to Consolidated Financial Statements). Operating cash flows after 2006 could be negatively affected by changes in the rate regulatory environments of ComEd and PECO. ComEd is required, beginning in 2007, to purchase energy in the wholesale energy markets in order to meet the retail energy needs of ComEd's customers because ComEd does not own any generation. If the price at which ComEd is allowed to sell energy is below ComEd's cost to procure and deliver electricity, there may be potential material adverse consequences to ComEd and, possibly, Exelon. The ICC approved a "cap and deferral" program, proposed by ComEd, to ease the impact of the expected increase in rates on residential customers. The cap and deferral program, generally speaking, will limit the procurement costs that ComEd can pass through to its customers for a specified period of time and allow ComEd to collect any unrecovered procurement costs in later years. See Note 4 of the Combined Notes to the Consolidated Financial Statements for further detail on the procurement case.

Generation's sales to counterparties other than ComEd and PECO will increase due to the expiration of the PPA with ComEd at the end of 2006. The bilateral contracts are subject to credit risk, which relates to the ability of counterparties to meet their contractual payment obligations. Any failure to collect these payments from counterparties could have a material impact on Exelon's and Generation's results of operations, cash flows and financial position. As market prices rise above contracted price levels, Generation is required to post collateral with purchasers; as market prices fall below contracted price levels, counterparties are required to post collateral with Generation. Under the Illinois auction rules and the supplier forward contracts that Generation entered into with ComEd and Ameren, beginning in 2007, collateral postings will be one-sided from Generation only. That is, if market prices fall below ComEd's or Ameren's contracted price levels, ComEd or Ameren are not required to post collateral; however, if market prices rise above contracted price levels with ComEd or Ameren, Generation is required to post collateral. See Note 9 of the Combined Notes to Consolidated Financial Statements for further information regarding Generation's collateral policy.

Additionally, Exelon, through ComEd, has taken certain tax positions, which have been disclosed to the IRS, to defer the tax gain on the 1999 sale of its fossil generating assets, to which the IRS has objected. As discussed in Note 12 of the Combined Notes to the Consolidated Financial Statements, this deferred tax obligation is significant.

The following table provides a summary of the major items affecting Exelon's cash flows from operations:

	2006	2005	Variance
Net income	$1,592	$ 923	$ 669
Add (subtract):			
Non-cash operating activities [a]	3,213	4,102	(889)
Income taxes	69	138	(69)
Changes in working capital and other noncurrent assets and liabilities [b]	141	(791)	932
Pension contributions and postretirement healthcare benefit payments, net	(180)	(2,225)	2,045
Net cash flows provided by operations	$4,835	$2,147	$2,688

(a) Includes depreciation, amortization and accretion, deferred income taxes, provision for uncollectible accounts, equity in earnings of unconsolidated affiliates, pension and other postretirement benefits expense, other decommissioning-related activities, cumulative effect of a change in accounting principle, impairment charges and other non-cash items.

(b) Changes in working capital and other noncurrent assets and liabilities exclude the changes in commercial paper, income taxes and the current portion of long-term debt.

The increase in cash flows from operations during 2006 was primarily the result of $2 billion of discretionary contributions to Exelon's pension plans during 2005, which was initially funded through a term loan agreement, as further described in the "Cash Flows from Financing Activities" section below. Of the total contribution, Generation, ComEd and PECO contributed $844 million, $803 million, and $109 million, respectively. The Generation contribution was primarily funded by capital contributions from Exelon and included $2 million from internally generated funds. ComEd's and PECO's contributions were funded by capital contributions from Exelon.

Cash flows provided by operations for 2006 and 2005 by registrant were as follows:

	2006	2005
Exelon	$4,835	$2,147
Generation	2,550	972
ComEd	987	247
PECO	1,017	704

Excluding the March 2005 discretionary pension contributions discussed above, changes in the Registrants' cash flows from operations were generally consistent with changes in their results of operations, as adjusted by changes in working capital in the normal course of business.

In addition to the items mentioned in "Results of Operations" and the discretionary pension contributions discussed above, significant operating cash flow impacts for Generation and ComEd for 2006 and 2005 were as follows:

Generation

- At December 31, 2006, 2005 and 2004, Generation had accounts receivable from ComEd under the PPA of $197 million, $242 million and $189 million, respectively.

- At December 31, 2006, 2005 and 2004, Generation had accounts receivable from PECO under the PPA of $153 million, $151 million and $125 million, respectively.
- During 2006, Generation had net collections of counterparty collateral of $431 million compared to $187 million of net disbursements of counterparty collateral in 2005. The increase in cash inflows from 2005 was primarily due to changes in collateral requirements resulting from the extension of letters of credit and changes in market prices relative to positions with counterparties.
- During 2006 and 2005, Generation had net payments of approximately $220 million and $165 million, respectively, primarily due to increased use of financial instruments to economically hedge future sales of power and future purchases of fossil fuel.
- During 2005, Exelon received a $102 million Federal income tax refund for capital losses generated in 2003 related to Generation's investment in Sithe, which were carried back to prior periods. In the first quarter of 2006, Exelon remitted a $98 million payment to the IRS in connection with the settlement of the IRS's challenge of the timing of the above-described deduction. This payment included $6 million of interest which was recognized as interest expense in the first quarter of 2006. Exelon received approximately $92 million on December 13, 2006 related to this same deduction in connection with the filing of its 2005 tax return.

ComEd

- At December 31, 2006, 2005 and 2004, ComEd had accrued payments to Generation under the PPA of $197 million, $242 million and $189 million, respectively.
- In 2005, ComEd settled $325 million of interest rate swaps that were designated as cash flow hedges for a loss of $15 million. This was recorded as a pre-tax charge to net income because the underlying transaction for which these interest rate swaps were entered into was no longer probable of occurring.

Cash Flows from Investing Activities

Cash flows used in investing activities for 2006 and 2005 by registrant were as follows:

	2006	2005
Exelon	$(2,762)	$(2,487)
Generation	(1,406)	(1,294)
ComEd	(894)	(479)
PECO	(332)	(241)

Capital expenditures by registrant and business segment for 2006 and projected amounts for 2007 are as follows:

	2006	2007
Generation [(a)]	$1,109	$1,353
ComEd	911	1,055
PECO	345	355
Other [(b)]	53	38
Total Exelon capital expenditures	$2,418	$2,801

(a) Includes nuclear fuel.

(b) Other primarily consists of corporate operations.

Projected capital expenditures and other investments by the Registrants are subject to periodic review and revision to reflect changes in economic conditions and other factors.

Generation. Generation's capital expenditures for 2006 reflected additions and upgrades to existing facilities (including material condition improvements during nuclear refueling outages) and nuclear fuel. Generation anticipates that its capital expenditures will be funded by internally generated funds, borrowings or capital contributions from Exelon.

ComEd and PECO. Approximately 50% of the projected 2007 capital expenditures at ComEd and PECO are for continuing projects to maintain and improve the reliability of their transmission and distribution systems. The remaining amount is for capital additions to support new business and customer growth. ComEd and PECO are continuing to evaluate their total capital spending requirements. ComEd and PECO anticipate that their capital expenditures will be funded by internally generated funds, borrowings and the issuance of debt or preferred securities.

Other significant investing activities for Exelon, Generation, ComEd and PECO for 2006 and 2005 were as follows:

Exelon

- Exelon contributed $92 million and $102 million to its investments in synthetic fuel-producing facilities during 2006 and 2005, respectively.

Generation

- During 2006, Generation made contributions to the Exelon intercompany money pool totaling $13 million.
- During 2005, Generation received approximately $52 million from Generation's nuclear decommissioning trust funds for reimbursement of expenditures previously incurred for nuclear plant decommissioning activities related to its retired units.
- On January 31, 2005, subsidiaries of Generation completed a series of transactions that resulted in Generation's sale of its investment in Sithe. Specifically, subsidiaries of Generation closed on the acquisition of Reservoir Capital Group's 50% interest in Sithe for cash payments of $97 million and the sale of 100% of Sithe to Dynegy, for net cash proceeds of $103 million. See Note 3 of the Combined Notes to the Consolidated Financial Statements for further discussion of the sale of Sithe.

ComEd

- As a result of its prior contributions to the Exelon intercompany money pool, $308 million was returned to ComEd during 2005.

PECO

- During 2006 and 2005, $8 million and $26 million, respectively, were returned to PECO as a result of its prior contributions to the Exelon intercompany money pool.

Cash Flows from Financing Activities

Cash flows provided by (used in) financing activities for 2006 and 2005 by registrant were as follows:

	2006	2005
Exelon	$(1,989)	$ (19)
Generation	(1,050)	93
ComEd	(96)	240
PECO	(693)	(500)

Debt. Debt activity for 2006 by registrant was as follows:

Registrant	Debt issued in 2006	Use of proceeds
ComEd	$325 million of First Mortgage 5.90% Bonds, Series 103, due March 15, 2036	Used to supplement working capital previously used to refinance amounts that ComEd used to repay bonds and notes.
ComEd	$300 million of First Mortgage 5.95% Bonds, Series 104, due August 15, 2016	Used to repay commercial paper and for other general corporate purposes.
ComEd	Additional $115 million of First Mortgage 5.95% Bonds, Series 104, due August 15, 2016	Used to repay bonds at maturity.
ComEd	$345 million of First Mortgage 5.40% Bonds, Series 105, due December 15, 2011	Used to repay borrowings under ComEd's revolving credit agreement which had been used to repay bonds and to refinance notes.
PECO	$300 million of First Mortgage Bonds 5.95% Series, due October 1, 2036	Used to repay commercial paper and for other general corporate purposes.

On March 7, 2005, Exelon entered into a $2 billion term loan agreement. The loan proceeds were used to fund discretionary contributions of $2 billion to Exelon's pension plans, including contributions of $842 million, $803 million and $109 million by Generation, ComEd and PECO, respectively. To facilitate the contributions by Generation, ComEd and PECO, Exelon contributed the corresponding amounts to the capital of each company. On April 1, 2005, Exelon entered into a $500 million term loan agreement that was subsequently fully borrowed to reduce the $2 billion term loan. During the second quarter of 2005, $200 million of the $500 million term loan, as well as the remaining $1.5 billion balance on the $2 billion term loan described above, were repaid with the net proceeds received from the issuance of the long-term senior notes discussed below. See Note 11 of the Combined Notes to Consolidated Financial Statements for further discussion.

On June 9, 2005, Exelon issued and sold $1.7 billion of senior debt securities pursuant to its senior debt indenture, dated as of May 1, 2001, consisting of $400 million of 4.45% senior notes due 2010, $800 million of 4.90% senior notes due 2015 and $500 million of 5.625% senior notes due 2035. The net proceeds from the sale of the notes were used to repay the $1.5 billion in remaining principal due on the $2 billion term loan agreement and $200 million of the $500 million term loan agreement referenced above. Exelon may redeem some or all of the notes at any time prior to maturity at a specified redemption price. The notes are unsecured and rank equally with the other senior unsecured indebtedness of Exelon. Additionally, Exelon settled interest rate swaps for a net payment of $38 million and paid approximately $12 million of fees in connection with the debt offering.

In 2005, ComEd used funding received from $324 million of commercial paper to retire long-term debt.

From time to time and as market conditions warrant, the Registrants may engage in long-term debt retirements via tender offers, open market repurchases or other viable options to strengthen their respective balance sheets.

Generation and Peoples Calumet, LLC (Peoples Calumet), a subsidiary of Peoples Energy Corporation, were joint owners of Southeast Chicago Energy Project, LLC (SCEP), a 350-megawatt natural gas-fired, peaking electric power plant located in Chicago, Illinois, which began operation in 2002. In 2002, Generation and Peoples Calumet owned 70% and 30%, respectively, of SCEP. Generation reflected the third-party interest in this majority-owned investment as a long-term liability in its consolidated financial statements. Pursuant to the joint owners agreement, Generation was obligated to purchase Peoples Calumet's 30% interest ratably over a 20-year period. On March 31, 2006, Generation entered into an agreement to accelerate the acquisition of Peoples Calumet's interest in SCEP. This transaction closed on May 31, 2006. Under the agreement, Generation paid Peoples Calumet approximately $47 million for its remaining interest in SCEP. Generation financed this transaction using short-term debt and available cash.

Cash dividend payments and distributions in 2006 and 2005 by registrant were as follows:

	2006	2005
Exelon	$1,071	$1,070
Generation	609	857
ComEd	—	498
PECO	506	473

Exelon paid dividends of $267 million, $268 million, $268 million and $268 million on March 10, 2006, June 12, 2006, September 11, 2006 and December 11, 2006, respectively, to shareholders of record at the close of business on February 15, 2006, May 15, 2006, August 15, 2006 and November 15, 2006, respectively. On December 5, 2006, Exelon's board of directors declared a quarterly dividend of $0.44 per share on Exelon's common stock, which is payable on March 10, 2007 to shareholders of record at the end of the day on February 15, 2007. See "Dividends" section of ITEM 5 for a further discussion of Exelon's dividend policy.

During 2006, ComEd did not pay any dividend. The decision by the ComEd Board of Directors not to declare a dividend was the result of several factors, including ComEd's need for a rate increase to cover existing costs and anticipated levels of future capital expenditures as well as the continued uncertainty related to ComEd's regulatory filings as discussed in Note 4 of the Combined Notes to Consolidated Financial Statements. ComEd's Board of Directors will continue to assess ComEd's ability to pay a dividend on a quarterly basis.

In 2003, Congress passed and President Bush signed into law the Jobs and Growth Tax Reconciliation Act, legislation which lowered the tax rate on capital gains and corporate dividends to 15% for most investors and to 5% for lower-income investors. Prior to enactment of this law, the maximum tax rate on dividend income was 38.6%. These provisions, which were originally scheduled to expire at the end of 2008, were extended to 2010 as part of the Tax Relief Reconciliation Act of 2005 passed in May 2006.

Intercompany Money Pool. Generation's net borrowings from the Exelon intercompany money pool decreased $92 million and $191 million during 2006 and 2005, respectively. During 2006, ComEd repaid $140 million that it had borrowed from the Exelon intercompany money pool. ComEd's net borrowings from the Exelon intercompany money pool increased $140 million during 2005. As of January 10, 2006, ComEd suspended participation in the intercompany money pool. PECO's net borrowings from the Exelon intercompany money pool increased $45 million in 2006.

Commercial Paper and Notes Payable. During 2006, Exelon, Generation, ComEd and PECO repaid $685 million, $311 million, $399 million and $125 million, net, of commercial paper, respectively. During 2005, Exelon, Generation, ComEd and PECO issued $500 million, $311 million, $459 million and $220 million, net, of commercial paper, respectively.

In 2006, Exelon terminated its $300 million term loan agreement. See Note 11 of the Combined Notes to the Consolidated Financial Statements for further information.

Retirement of Long-Term Debt to Financing Affiliates. Retirement of long-term debt to financing affiliates during 2006 and 2005 by registrant were as follows:

	Year Ended December 31,	
	2006	2005
Exelon	$910	$835
ComEd	339	354
PECO	571	481

Contributions from Parent/Member. Contributions from Parent/Member (Exelon) for the years ended December 31, 2006 and 2005 by registrant were as follows:

	Year Ended December 31,	
	2006	2005
Generation	$ 25	$843
ComEd	37	834
PECO	181	250

Other. Other significant financing activities for Exelon for the year ended December 31, 2006 and 2005 were as follows:

- Exelon purchased treasury shares totaling $186 million and $362 million during 2006 and 2005, respectively.
- Exelon received proceeds from employee stock plans of $184 million and $222 million during 2006 and 2005, respectively.
- There was $60 million and $0 of excess tax benefits included as a cash inflow in other financing activities during 2006 and 2005, respectively.

Credit Issues

Exelon Credit Facilities

Exelon meets its short-term liquidity requirements primarily through the issuance of commercial paper by the Registrants. At December 31, 2006, Exelon, Generation, ComEd and PECO have access to revolving credit facilities with aggregate bank commitments of $1 billion, $5 billion, $1 billion and $600 million, respectively. These revolving credit agreements are used principally to support the commercial paper programs at the Registrants and to issue letters of credit. During 2006, ComEd borrowed and fully repaid $240 million under its credit agreement.

At December 31, 2006, the Registrants had the following aggregate bank commitments and available capacity under the credit agreements and the indicated amounts of outstanding commercial paper:

Borrower	Aggregate Bank Commitment [a]	Available Capacity [b]	Outstanding Commercial Paper
Exelon Corporate	$1,000	$ 993	$150
Generation	5,000	4,920	—
ComEd	1,000	956	60
PECO	600	598	95

(a) Represents the total bank commitments to the borrower under credit agreements to which the borrower is a party.

(b) Available capacity represents the unused bank commitments under the borrower's credit agreements net of outstanding letters of credit. The amount of commercial paper outstanding does not reduce the available capacity under the credit agreements.

Interest rates on advances under the credit facilities are based on either prime or the London Interbank Offered Rate (LIBOR) plus an adder based on the credit rating of the borrower as well as the total outstanding amounts under the agreement at the time of borrowing. In the cases of Exelon, Generation and PECO, the maximum LIBOR adder is 65 basis points; and in the case of ComEd, it is 200 basis points.

The average interest rates on commercial paper in 2006 for Exelon, Generation, ComEd and PECO were approximately 5.02%, 4.99%, 5.06% and 4.97%, respectively.

Each credit agreement requires the affected borrower to maintain a minimum cash from operations to interest expense ratio for the twelve-month period ended on the last day of any quarter. The ratios exclude revenues and interest expenses attributable to securitization debt, certain changes in working capital, distributions on preferred securities of subsidiaries and, in the case of Exelon and Generation, revenues from Sithe and interest on the debt of its project subsidiaries. The following table summarizes the minimum thresholds reflected in the credit agreements for the year ended December 31, 2006:

	Exelon	Generation	ComEd	PECO
Credit agreement threshold	2.50 to 1	3.00 to 1	2.25 to 1	2.00 to 1

At December 31, 2006, the Registrants were in compliance with the foregoing thresholds.

The ComEd credit agreement is secured by first mortgage bonds and imposes a restriction on future mortgage bond issuances by ComEd. It requires ComEd to maintain at least $1.75 billion of issuance availability (ignoring any interest coverage test) in the form of "property additions" or "bondable bond retirements" (previously issued, but now retired, bonds), most of which are required to be maintained in the form of "bondable bond retirements." In general, a dollar of bonds can be issued under ComEd's Mortgage on the basis of $1.50 of property additions, subject to an interest coverage test, or $1 of bondable bond retirements, which may or may not be subject to an interest coverage test. As of December 31, 2006, ComEd was in compliance with this requirement.

Capital Structure. At December 31, 2006, the capital structures of the Registrants consisted of the following:

	Exelon Consolidated	Generation	ComEd	PECO [(a)]
Long-term debt	40%	25%	33%	25%
Long-term debt to affiliates [(b)]	16	—	9	43
Common equity	43	—	57	29
Member's equity	—	75	—	—
Preferred securities	—	—	—	1
Commercial paper and notes payable	1	—	1	2

(a) As of December 31, 2006, PECO's capital structure, excluding the deduction from shareholders' equity of the $1.1 billion receivable from Exelon (which amount is deducted for GAAP purposes as reflected in the table, but is excluded from the percentages in this footnote), consisted of 40% common equity, 1% preferred securities, 2% notes payable and 57% long-term debt, including long-term debt to unconsolidated affiliates.

(b) Includes $3.6 billion, $1.0 billion and $2.6 billion owed to unconsolidated affiliates of Exelon, ComEd and PECO, respectively, that qualify as special purpose entities under FIN 46-R. These special purpose entities were created for the sole purpose of issuing debt obligations to securitize intangible transition property and CTCs of ComEd and PECO or mandatorily redeemable preferred securities. See Note 1 of the Combined Notes to Consolidated Financial Statements for further information regarding FIN 46-R.

Intercompany Money Pool

To provide an additional short-term borrowing option that will generally be more favorable to the borrowing participants than the cost of external financing, Exelon operates an intercompany money pool. Participation in the intercompany money pool is subject to authorization by Exelon's treasurer. Generation, PECO, and BSC may participate in the intercompany money pool as lenders and borrowers, and Exelon and UII, LLC, a wholly owned subsidiary of Exelon, may participate as lenders. Funding of, and borrowings from, the intercompany money pool are predicated on whether the contributions and borrowings result in economic benefits. Interest on borrowings is based on short-term market rates of interest or, if from an external source, specific borrowing rates. Maximum amounts contributed to and borrowed from the intercompany money pool by participant during 2006 are described in the following table in addition to the net contribution or borrowing as of December 31, 2006:

	Maximum Contributed	Maximum Borrowed	December 31, 2006 Contributed (Borrowed)
Generation	$ 83	$234	$ 13
ComEd [a]	—	140	—
PECO	59	183	(45)
BSC	234	134	(25)
UII, LLC	5	—	—
Exelon	248	—	56

(a) As of January 10, 2006, ComEd suspended participation in the intercompany money pool. During the first quarter of 2006, ComEd repaid $140 million that it had borrowed from the intercompany money pool.

Security Ratings

The Registrants' access to the capital markets, including the commercial paper market, and their respective financing costs in those markets depend on the securities ratings of the entity that is accessing the capital markets. The following table shows the Registrants' securities ratings at December 31, 2006:

	Securities	Moody's Investors Service	Standard & Poor's Corporation	Fitch Ratings
Exelon	Senior unsecured debt	Baa2	BBB	BBB+
	Commercial paper	P2	A2	F2
Generation	Senior unsecured debt	Baa1	BBB+	BBB+
	Commercial paper	P2	A2	F2
ComEd	Senior unsecured debt	Baa3	BB+	BBB
	Senior secured debt	Baa2	BBB	BBB+
	Commercial paper	P3	A3	F2
	Transition bonds [a]	Aaa	AAA	AAA
PECO	Senior unsecured debt	A3	BBB	A-
	Senior secured debt	A2	A-	A
	Commercial paper	P1	A2	F1
	Transition bonds [b]	Aaa	AAA	AAA

(a) Issued by ComEd Transitional Funding Trust, an unconsolidated affiliate of ComEd.
(b) Issued by PETT, an unconsolidated affiliate of PECO.

On July 26, 2006, Moody's Investors Service (Moody's) downgraded the long-term and short-term debt ratings of ComEd. The rating action concluded Moody's review for possible downgrade that commenced on December 15, 2005. Moody's attributed the downgrade to a difficult political and regulatory environment in Illinois, uncertainty about the outcome of the electricity supply auction and the expectation of a material regulatory deferral. On October 10, 2006, Moody's placed ComEd's security ratings under review for possible downgrade resulting from perceived increasing political and regulatory risk in Illinois.

On July 31, 2006, Fitch Ratings downgraded the long-term ratings of ComEd. On November 17, 2006, Fitch Ratings placed the ratings of ComEd under Ratings Watch negative due to on-going uncertainty in Illinois resulting from recent legislative actions supporting a rate freeze.

On October 5, 2006, Standard & Poor's (S&P) downgraded the short-term and long-term security ratings of ComEd due to perceived political risk related to the rate freeze extension proposal. S&P downgraded ComEd's senior unsecured debt to BB+, which is below investment grade. The ratings on Exelon, PECO and Generation were affirmed. The ratings for all Registrants were placed under Credit Watch with negative implications.

None of the Registrants' borrowings is subject to default or prepayment as a result of a downgrading of securities although such a downgrading could increase fees and interest charges under the Registrants' credit facilities.

A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency.

As part of the normal course of business, Generation routinely enters into physical or financially settled contracts for the purchase and sale of capacity, energy, fuels and emissions allowances. These contracts either contain express provisions or otherwise permit Generation and its counterparties to demand adequate assurance of future performance when there are reasonable grounds for doing so. In accordance with the contracts and applicable contracts law, if Exelon or Generation is downgraded by a credit rating agency, especially if such downgrade is to a level below investment grade, it is possible that a counterparty would attempt to rely on such a downgrade as a basis for making a demand for adequate assurance of future performance. Depending on its net position with a counterparty, the demand could be for the posting of collateral. In the absence of expressly agreed to provisions that specify the collateral that must be provided, the obligation to supply the collateral requested will be a function of the facts and circumstances of Exelon or Generation's situation at the time of the demand. If Exelon can reasonably claim that it is willing and financially able to perform its obligations, it may be possible to successfully argue that no collateral should be posted or that only an amount equal to two or three months of future payments should be sufficient.

Shelf Registrations

As of December 31, 2006, Exelon and PECO had current shelf registration statements for the sale of $300 million and $250 million, respectively, of securities that were effective with the SEC. ComEd, a well-known seasoned issuer as described by the SEC, filed an automatic registration statement on May 10, 2006 and the shelf registration was effective immediately. The ability of Exelon, ComEd or PECO to sell securities off its shelf registration statement or to access the private placement markets will depend on a number of factors at the time of the proposed sale, including other required regulatory approvals, the current financial condition of the company, its securities ratings and market conditions.

Regulatory Restrictions

The issuance by ComEd of long-term debt or equity securities requires the prior authorization of the ICC. The issuance by PECO of long-term debt or equity securities requires the prior authorization of the PAPUC. ComEd and PECO normally obtain the required approvals on a periodic basis to cover their anticipated financing needs for a period of time or in connection with a specific financing.

Under PUHCA, the SEC had financing jurisdiction over ComEd's and PECO's short-term financings and all of Generation's and Exelon's financings. As a result of the repeal of PUHCA, effective February 8, 2006, the SEC's financing jurisdiction under PUHCA for ComEd's and PECO's short-term financings and Generation's financings reverted to FERC and Exelon's financings are no longer subject to regulatory approvals.

In February 2006, ComEd and PECO received orders from FERC approving their requests for short-term financing authority with FERC in the amounts of $2.5 billion and $1.5 billion, respectively, effective February 8, 2006 through December 31, 2007.

Generation currently has blanket financing authority that it received from FERC with its market-based rate authority in November 2000 and that became effective again with the repeal of PUHCA. See Note 4 of the Combined Notes to Consolidated Financial Statements for further information.

Under applicable law, Generation, ComEd and PECO can pay dividends only from retained, undistributed or current earnings. A significant loss recorded at Generation, ComEd or PECO may limit the dividends that these companies can distribute to Exelon. At December 31, 2006, Exelon had retained earnings of $3.4 billion, including Generation's undistributed earnings of $1.8 billion, ComEd's retained deficit of $(193) million consisting of an unappropriated retained deficit of $(1.6) billion partially offset by $1.4 billion of retained earnings appropriated for future dividends, and PECO's retained earnings of $584 million.

Investments in Synthetic Fuel-Producing Facilities

Exelon, through three separate wholly owned subsidiaries, owns interests in two limited liability companies and one limited partnership that own synthetic fuel-producing facilities. Section 45K (formerly Section 29) of the Internal Revenue Code provides tax credits for the sale of synthetic fuel produced from coal. However, Section 45K contains a provision under which the tax credits are phased out (i.e., eliminated) in the event crude oil prices for a year exceed certain thresholds. On April 11, 2006, the IRS published the 2005 oil Reference Price and it did not exceed the beginning of the phase-out range. Consequently, there was no phase-out of tax credits for calendar year 2005.

The following table (in dollars) provides the estimated phase-out ranges for 2006 and 2007 based on the per barrel price of oil as of December 31, 2006. The table also contains the annual average New York Mercantile Exchange, Inc. index (NYMEX) prices per barrel at December 31, 2006 based on actual prices for the year ended December 31, 2007.

	2006	2007
Beginning of Phase-Out Range [(a)]	$60	$62
End of Phase-Out Range [(a)]	76	77
Annual Average NYMEX	66	64

(a) The estimated 2006 and 2007 phase-out ranges are based upon the actual 2005 phase-out range. The actual 2005 phase-out range was determined using the inflation adjustment factor published by the IRS in April 2006. The actual 2005 phase-out range was increased by 2% per year (Exelon's estimate of inflation) to arrive at the estimated 2006 and 2007 phase-out ranges.

Exelon and the operators of the synthetic fuel-producing facilities in which Exelon has interests idled the facilities in May 2006. The decision to suspend synthetic fuel production was primarily driven by the level and volatility of oil prices. In addition, the proposed Federal legislation that would have provided certainty that tax credits would exist for 2006 production was not included in the Tax Increase Prevention and Reconciliation Act of 2005. Due to the reduction in oil prices during the third quarter of 2006, the operators resumed production at their synthetic fuel-producing facilities in September 2006 and produced at full capacity through the remainder of 2006. As of December 31, 2006, Exelon has estimated the 2006 phase-out to be 38%, which has reduced Exelon's earned after-tax credits of $164 million to $101 million for the year ended December 31, 2006. At December 31, 2006, Exelon has estimated the 2007 phase-out of tax credits to be 18%. Exelon anticipates generating approximately $220 million of cash over the life of these investments, of which $80 million is expected in total for 2007 and 2008, assuming an 18% phase-out of tax credits. Theses estimates may change significantly due to the volatility of oil prices. See Note 12 of the Combined Notes to Consolidated Financial Statements for further discussion. The estimated 2006 and 2007 phase-out ranges are based upon the actual 2005 phase-out range. The actual 2005 phase-out range was determined using the inflation adjustment factor published by the IRS in April 2006. The actual 2005 phase-out range was increased by 2% each year (Exelon's estimate of inflation) to arrive at the estimated 2006 and 2007 phase-out ranges.

Contractual Obligations and Off-Balance Sheet Arrangements

Exelon

The following table summarizes Exelon's future estimated cash payments under existing contractual obligations, including payments due by period.

		Payment due within			Due 2012
	Total	2007	2008-2009	2010-2011	and beyond
Long-term debt	$ 9,126	$ 246	$ 922	$2,427	$ 5,531
Long-term debt to financing trusts	3,596	581	1,664	806	545
Interest payments on long-term debt (a)	4,976	486	888	757	2,845
Interest payments on long-term debt to financing trusts (a)	1,318	225	285	98	710
Capital leases	44	2	4	4	34
Operating leases	716	58	110	93	455
Purchase power obligations (b)	7,802	1,967	1,492	1,134	3,209
Fuel purchase agreements	5,022	1,047	1,463	1,169	1,343
Other purchase obligations (b)(c)	642	292	140	95	115
Chicago agreement (d)	36	6	12	12	6
Spent nuclear fuel obligation	950	—	—	—	950
Pension ERISA minimum funding requirement	32	32	—	—	—
Total contractual obligations	$34,260	$4,942	$6,980	$6,595	$15,743

(a) Interest payments are estimated based on final maturity dates of debt securities outstanding at December 31, 2006 and do not reflect anticipated future refinancing, early redemptions or debt issuances. Variable rate interest obligations are estimated based on rates as of December 31, 2006.

(b) Net capacity purchases include tolling agreements that are accounted for as operating leases. Amounts presented in the commitments represent Generation's expected payments under these arrangements at December 31, 2006. Expected payments include certain capacity charges which are contingent on plant availability. Does not include ComEd's supplier forward contracts as these contracts do not require purchases of fixed or minimum quantities. See Notes 4 and 18 of the Combined Notes to the Consolidated Financial Statements.

(c) Commitments for services, materials and information technology.

(d) On February 20, 2003, ComEd entered into separate agreements with Chicago and with Midwest Generation (Midwest Agreement). Under the terms of the agreement with Chicago, ComEd will pay Chicago $60 million over ten years to be relieved of a requirement, originally transferred to Midwest Generation upon the sale of ComEd's fossil stations in 1999, to build a 500-MW generation facility.

Generation

The following table summarizes Generation's future estimated cash payments under existing contractual obligations, including payments due by period.

(in millions)	Total	Payment Due within 2007	2008-2009	2010-2011	Due 2012 and beyond
Long-term debt	$ 1,749	$ 10	$ 19	$ 700	$1,020
Interest payments on long-term debt [(a)]	786	96	190	138	362
Capital leases	44	2	4	4	34
Operating leases	503	34	61	53	355
Purchase power obligations [(b)]	7,802	1,967	1,492	1,134	3,209
Fuel purchase agreements	4,516	830	1,317	1,104	1,265
Other purchase commitments [(c)]	277	165	50	38	24
Pension ERISA minimum funding requirement	24	24	—	—	—
Spent nuclear fuel obligations	950	—	—	—	950
Total contractual obligations	$16,651	$3,128	$3,133	$3,171	$7,219

(a) Interest payments are estimated based on final maturity dates of debt securities outstanding at December 31, 2006 and do not reflect anticipated future refinancing, early redemptions or debt issuances. Variable rate interest obligations are estimated based on rates as of December 31, 2006.

(b) Net capacity purchases include tolling agreements that are accounted for as operating leases. Amounts presented in the commitments represent Generation's expected payments under these arrangements at December 31, 2006. Expected payments include certain capacity charges which are contingent on plant availability.

(c) Commitments for services, materials and information technology.

ComEd

The following table summarizes ComEd's future estimated cash payments under existing contractual obligations, including payments due by period.

	Total	Payment due within 2007	2008-2009	2010-2011	Due 2012 and beyond
Long-term debt	$3,597	$147	$ 434	$560	$2,456
Long-term debt to financing trusts	1,009	308	340	—	361
Interest payments on long-term debt [(a)]	1,970	192	346	326	1,106
Interest payments on long-term debt to financing trusts [(a)]	655	57	64	52	482
Operating leases	143	19	38	30	56
Other purchase commitments [(b)]	38	27	7	4	—
Chicago agreement [(c)]	36	6	12	12	6
Total contractual obligations	$7,448	$756	$1,241	$984	$4,467

(a) Interest payments are estimated based on final maturity dates of debt securities outstanding at December 31, 2006 and do not reflect anticipated future refinancing, early redemptions or debt issuances.

(b) Other purchase commitments include commitments for services, materials and information technology. Other purchase commitments do not include ComEd's supplier forward contracts as these contracts do not require purchases of fixed or minimum quantities. See Notes 4 and 18 of the Combined Notes to the Consolidated Financial Statements for further detail on ComEd's supplier forward contracts.

(c) On February 20, 2003, ComEd entered into separate agreements with Chicago and with Midwest Generation (Midwest Agreement). Under the terms of the agreement with Chicago, ComEd will pay Chicago $60 million over ten years to be relieved of a requirement, originally transferred to Midwest Generation upon the sale of ComEd's fossil stations in 1999, to build a 500-MW generation facility.

PECO

The following table summarizes PECO's future estimated cash payments under existing contractual obligations, including payments due by period.

(In millions)	Total	Payment due within 2007	2008-2009	2010-2011	Due 2012 and beyond
Long-term debt	$1,471	$—	$ 450	$ 267	$ 754
Long-term debt to financing trusts	2,588	273	1,325	806	184
Interest payments on long-term debt [(a)]	851	70	114	105	562
Interest payments on long-term debt to financing trusts [(a)]	663	168	221	46	228
Operating leases	5	1	2	1	1
Fuel purchase agreements [(b)]	506	217	146	65	78
Other purchase commitments [(c)]	209	20	51	47	91
Total contractual obligations	$6,293	$749	$2,309	$1,337	$1,898

(a) Interest payments are estimated based on final maturity dates of debt securities outstanding at December 31, 2006 and do not reflect anticipated future refinancing, early redemptions or debt issuances.

(b) Represents commitments to purchase natural gas and related transportation and storage capacity and services.

(c) Commitments for services, materials and information technology.

For additional information about:

- commercial paper, see Note 11 of the Combined Notes to Consolidated Financial Statements.
- long-term debt, see Note 11 of the Combined Notes to Consolidated Financial Statements.
- capital lease obligations, see Note 11 of the Combined Notes to Consolidated Financial Statements.
- operating leases, energy commitments and fuel purchase agreements, see Note 18 of the Combined Notes to Consolidated Financial Statements.
- the contribution required to Exelon's pension plans to satisfy ERISA minimum funding requirements, see Note 14 of the Combined Notes to Consolidated Financial Statements.
- the spent nuclear fuel and nuclear decommissioning obligations, see Note 13 of the Combined Notes to Consolidated Financial Statements.
- regulatory commitments, see Note 4 of the Combined Notes to Consolidated Financial Statements.

Mystic Development, LLC (Mystic), a former affiliate of Exelon New England, has a long-term agreement through January 2020 with Distrigas of Massachusetts Corporation (Distrigas) for gas supply, primarily for the Boston Generating units. Under the agreement, gas purchase prices from Distrigas are indexed to the New England gas markets. Exelon New England has guaranteed Mystic's financial obligations to Distrigas under the long-term supply agreement. Exelon New England's guarantee to Distrigas remained in effect following the transfer of ownership interest in Boston Generating in May 2004. Under FIN 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others (FIN 45)," approximately $14 million was included as a liability within the Consolidated Balance Sheets of Exelon and Generation as of December 31, 2006 related to this guarantee. The terms of the guarantee do not limit the potential future payments that Exelon New England could be required to make under the guarantee.

Generation has an obligation to decommission its nuclear power plants. NRC regulations require that licensees of nuclear generating facilities demonstrate reasonable assurance that funds will be available in specified minimum amounts at the end of the life of the facility to decommission the facility. Based on estimates of decommissioning costs for each of the nuclear facilities in which Generation has an ownership interest, the ICC permitted ComEd through December 31, 2006, and the PAPUC permits PECO, to collect from their customers and deposit in nuclear decommissioning trust funds maintained by Generation amounts which, together with earnings thereon, will be used to decommission such nuclear facilities. Generation also maintains nuclear decommissioning trust funds for each of the AmerGen units. At December 31, 2006, the asset retirement obligation recorded within Generation's Consolidated Balance Sheets related to its nuclear-fueled generating facilities was approximately $3.5 billion. Decommissioning expenditures are expected to occur primarily after the plants are retired. Following the completion of decommissioning activities, any excess nuclear decommissioning trust funds related to the former ComEd and PECO nuclear power plants will be required to be refunded to ComEd or PECO, as appropriate. To fund future decommissioning costs, Generation held approximately $6.4 billion of investments in trust funds, including unrealized gains at December 31, 2006. See Note 13 of the Combined Notes to Consolidated Financial Statements for further discussion of Generation's decommissioning obligation.

See Note 18 of the Combined Notes to Consolidated Financial Statements for discussion of Exelon's commercial commitments as of December 31, 2006.

Refund Claims

ComEd and PECO have several pending tax refund claims seeking acceleration of certain tax deductions and additional tax credits. ComEd and PECO are unable to estimate the ultimate outcome of these refund claims and will account for any amounts received in the period the matters are settled with the IRS and state taxing authorities. While Generation currently has state reviews by governmental agencies pending, they are not expected to have a significant impact on the financial condition or result of operations of Generation.

ComEd and PECO have entered into several agreements with a tax consultant related to the filing of refund claims with the IRS. The fees for these agreements are contingent upon a successful outcome of the claims and are based upon a percentage of the refunds recovered from the IRS, if any. The ultimate net cash impacts to ComEd and PECO related to these agreements will either be positive or neutral depending upon the outcome of the refund claim with the IRS. These potential tax benefits and associated fees could be material to the financial position, results of operations and cash flows of ComEd and PECO. If a settlement is reached, a portion of ComEd's tax benefits, including any associated interest for periods prior to the PECO/Unicom Merger, would be recorded as a reduction of goodwill under the provisions of EITF Issue 93-7, "Uncertainties Related to Income Taxes in a Purchase Business Combination" (EITF 93-7). Exelon cannot predict the timing of the final resolution of these refund claims.

In 2006, the Joint Committee on Taxation (Joint Committee) completed its review and granted approval for PECO's income tax refund claims for investment tax credits. A majority of the investment tax credits claimed in the refund related to PECO's formerly owned generation property. The asset transfer agreement between PECO and Generation provides that PECO retains all current tax and interest benefits associated with the refund claims. Thus, as a result of the agreement, PECO recorded the current tax and interest benefits and Generation recorded the remaining unamortized investment tax credits and the related future deferred tax effects. As a result, the investment tax credit refund and associated interest of $19 million (after tax) have been recorded as a credit in Exelon's and PECO's Consolidated Statements of Operations in 2006. Exelon and Generation recorded unamortized investment tax credits and related tax impacts of $10 million (after tax) as a charge to their Consolidated Statements of Operations. The unamortized investment tax credit recorded at Exelon, PECO and Generation will be amortized over the remaining depreciable book lives of the transmission, distribution and generation property using the deferral method pursuant to APB No. 2, "Accounting for the 'Investment Credit'" and APB No. 4, "Accounting for the 'Investment Credit'." In addition, as a result of the approval of the refund claim, Exelon and PECO recorded a consulting expense of $3 million (after tax) in 2006. The net after-tax result of this settlement and consulting fees was $6 million, $16 million and $(10) million for Exelon, PECO and Generation, respectively.

During 2006, the IRS indicated to PECO that it agreed with a substantial portion of a research and development refund claim. This refund claim was subject to the approval of the Joint Committee. In 2006, the Joint Committee completed its review and granted approval of the research and development claim. A majority of the refund claim also related to PECO's formerly owned generation property. Consistent with the investment tax credit refund claims, pursuant to the asset transfer agreement between PECO and Generation, PECO recorded the current tax and interest benefits and Generation recorded the future deferred tax effects. As a result, a research and development credit and the associated interest refund of $20 million (after tax) have been recorded as a credit in Exelon's and PECO's Consolidated Statements of Operations in 2006. Exelon and Generation recorded the future deferred tax impact of $11 million as a charge to their Consolidated Statements of Operations. In addition, based on the IRS' indication of its agreement with a portion of the refund claim, PECO recorded an estimated tax consulting contingent fee of $2 million (after tax) during 2006. The net after-tax result of this settlement and consulting fees was $7 million, $18 million, and $(11) million for Exelon, PECO, and Generation respectively.

Variable Interest Entities

Sithe. As of December 31, 2004, Generation was a 50% owner of Sithe. In accordance with FIN 46-R, Generation consolidated Sithe within its financial statements as of March 31, 2004. The determination that Sithe qualified as a variable interest entity and that Generation was the primary beneficiary under FIN 46-R required analysis of the economic benefits accruing to all parties pursuant to their ownership interests supplemented by management's judgment. See Note 2 of the Combined Notes to Consolidated Financial Statements for a discussion of the sale of Generation's entire interest in Sithe that was completed on January 31, 2005.

Financing Trusts of ComEd and PECO. During June 2003, PECO issued $103 million of subordinated debentures to PECO Trust IV in connection with the issuance by PECO Trust IV of $100 million of preferred securities. Effective July 1, 2003, PECO Trust IV was deconsolidated from the financial statements of PECO in conjunction with FIN 46. The $103 million of subordinated debentures issued by PECO to PECO Trust IV was recorded as long-term debt to financing trusts within the Consolidated Balance Sheets.

Effective December 31, 2003, ComEd Financing II, ComEd Financing III, ComEd Funding, LLC, ComEd Transitional Funding Trust, PECO Trust III and PETT were deconsolidated from the financial statements of Exelon in conjunction with the adoption of FIN 46-R. Amounts of $1.0 billion and $2.5 billion, respectively, owed by ComEd and PECO to these financing trusts were recorded as long-term debt to ComEd Transitional Funding Trust and PETT and long-term debt to financing trusts within the Consolidated Balance Sheets as of December 31, 2006.

Nuclear Insurance Coverage

Generation carries property damage, decontamination and premature decommissioning insurance for each station loss resulting from damage to Generation's nuclear plants, subject to certain exceptions. Additionally, Generation carries business interruption insurance in the event of a major accidental outage at a nuclear station. Finally, Generation participates in the American Nuclear Insurers (ANI) Master Worker Program, which provides coverage for worker tort claims filed for bodily injury caused by a nuclear energy accident. See Note 18 of the Combined Notes to Consolidated Financial Statements for further discussion of nuclear insurance. For its types of insured losses, Generation is self-insured to the extent that losses are within the policy deductible or exceed the amount of insurance maintained. Such losses could have a material adverse effect on Exelon and Generation's financial condition and their results of operations and cash flows.

PECO Accounts Receivable Agreement

PECO is party to an agreement with a financial institution under which it can sell or finance with limited recourse an undivided interest, adjusted daily, in up to $225 million of designated accounts receivable through November 2010. At December 31, 2006, PECO had sold a $225 million interest in accounts receivable, consisting of a $208 million interest in accounts receivable, which PECO accounted for as a sale under SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities—a Replacement of FASB Statement No. 125," (SFAS No. 140), and a $17 million interest in special-agreement accounts receivable which was accounted for as a long-term note payable. At December 31, 2005, PECO had sold a $225 million interest in accounts receivable, consisting of a $195 million interest in accounts receivable, which PECO accounted for as a sale under SFAS No. 140, and a $30 million interest in special-agreement accounts receivable, which was accounted for as a long-term note payable. PECO retains the servicing responsibility for these receivables. The agreement requires PECO to maintain the $225 million interest, which, if not met, requires cash, which would otherwise be received by PECO under this program, to be held in escrow until the requirement is met. At December 31, 2006 and 2005, PECO met this requirement and was not required to make any cash deposits.

Beginning in 2007, this agreement will be subject to the provisions of SFAS No. 156, "Accounting for Servicing of Financial Assets, amendment of FASB Statement No. 140," which is not expected to have a material impact to PECO.

New Accounting Pronouncements

See Note 1 of the Combined Notes to Consolidated Financial Statements for information regarding new accounting pronouncements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Exelon Corporation

The Registrants are exposed to market risks associated with adverse changes in commodity prices, counterparty credit, interest rates, and equity prices. Exelon's RMC approves risk management policies and objectives for risk assessment, control and valuation, counterparty credit approval, and the monitoring and reporting of risk exposures. The RMC is chaired by the chief risk officer and includes the chief financial officer, general counsel, treasurer, vice president of corporate planning, vice president of strategy, vice president of audit services and officers representing Exelon's business units. The RMC reports to the Exelon Board of Directors on the scope of the risk management activities.

Commodity Price Risk (Exelon, Generation and ComEd)

To the extent the amount of energy Exelon generates differs from the amount of energy it has contracted to sell, Exelon has price risk from commodity price movements. Commodity price risk is associated with price movements resulting from changes in supply and demand, fuel costs, market liquidity, weather, governmental regulatory and environmental policies, and other factors. Exelon seeks to mitigate its commodity price risk through the purchase and sale of electric capacity, energy and fossil fuels including oil, gas, coal and emission allowances. Within Exelon, Generation is primarily exposed to commodity price risk with ComEd having modest exposure due to the need to purchase ancillary services.

Exelon and Generation

In 2005, Exelon and Generation entered into certain derivatives in the normal course of trading operations to economically hedge a portion of the exposure to a phase-out of the tax credits for the sale of synthetic fuel produced from coal. One of the counterparties has security interests in these derivatives. Including the related mark-to-market gains and losses on these derivatives, interests in synthetic fuel-producing facilities reduced Exelon's net income by $24 million and increased Exelon's net income by $81 million and $70 million during the years ended December 31, 2006, 2005 and 2004, respectively. Exelon anticipates that it will continue to record income or losses related to the mark-to-market gains or losses on its derivative instruments and changes to the tax credits earned by Exelon during the period of production due to the volatility of oil prices. Net income or net losses from interests in synthetic fuel-producing facilities are reflected in Exelon's Consolidated Statements of Operations within income taxes, operating and maintenance expense, depreciation and amortization expense, interest expense, equity in losses of unconsolidated affiliates and other, net. See Note 12 of the Combined Notes to consolidated Financial Statements for further information in regards to synthetic fuel activity.

Generation

Generation's energy contracts are accounted for under SFAS No. 133. Non-trading contracts qualify for the normal purchases and normal sales exemption to SFAS No. 133, which is discussed in Critical Accounting Policies and Estimates. Energy contracts that do not qualify for the normal purchases and normal sales exception are recorded as assets or liabilities on the balance sheet at fair value. Changes in the fair value of qualifying hedge contracts are recorded in other comprehensive income (OCI), and gains and losses are recognized in earnings when the underlying transaction occurs. Changes in the derivatives recorded at fair value are recognized in earnings unless specific hedge accounting criteria are met and they are designated as cash-flow hedges, in which case those changes are recorded in OCI, and gains and losses are recognized in earnings when the underlying transaction occurs. Changes in the fair value of derivative contracts that do not meet the hedge criteria under SFAS No. 133 or are not designated as such are recognized in current earnings.

Normal Operations and Hedging Activities. Electricity available from Generation's owned or contracted generation supply in excess of Generation's obligations to customers, including ComEd's and PECO's retail load, is sold into the wholesale markets. To reduce price risk caused by market fluctuations, Generation enters into physical contracts as well as derivative contracts, including forwards, futures, swaps, and options, with approved counterparties to hedge anticipated exposures. The maximum length of time over which cash flows related to energy commodities are currently being hedged is approximately three years. Generation has estimated a greater than 90% economic and cash flow hedge ratio for 2007 for its energy marketing portfolio. This hedge ratio represents the percentage of its forecasted aggregate annual economic generation supply that is committed to firm sales, including sales to ComEd's and PECO's retail load. ComEd's and PECO's retail load assumptions are based on forecasted average demand. A portion of Generation's hedge may be accomplished with fuel products based on assumed correlations between power and fuel prices, which routinely change in the market. The hedge ratio is not fixed and will vary from time to time depending upon market conditions, demand, energy market option volatility and actual loads. During peak periods, Generation's amount hedged declines to meet its energy and capacity commitments to ComEd and PECO. Market price risk exposure is the risk of a change in the value of unhedged positions. The forecasted market price exposure for Generation's non-trading portfolio associated with a ten percent reduction in the annual average around-the-clock market price of electricity would be a decrease of less than $50 million in net income. This sensitivity assumes that price changes occur evenly throughout the year and across all markets. The sensitivity also assumes a static portfolio. Generation expects to actively manage its portfolio to mitigate market price exposure. Actual results could differ depending on the specific timing of, and markets affected by, price changes, as well as future changes in Generation's portfolio.

Proprietary Trading Activities. Generation uses financial contracts for proprietary trading purposes. Proprietary trading includes all contracts entered into purely to profit from market price changes as opposed to hedging an exposure. These activities are accounted for on a mark-to-market basis. The proprietary trading activities are a complement to Generation's energy marketing portfolio but represent a very small portion of Generation's overall energy marketing activities. For example, the limit on open positions in electricity for any forward month represents less than one percent of Generation's owned and contracted supply of electricity. Generation expects this level of proprietary trading activity to continue in the future. Trading portfolio activity for the year ended December 31, 2006 resulted in a gain of $14 million (before income taxes), which represented a net unrealized mark-to-market gain of $10 million and realized gain of $4 million. Generation uses a 95% confidence interval, one day holding period, one-tailed statistical measure in calculating its Value-at-Risk (VaR). The daily VaR on proprietary trading activity averaged $120,000 of exposure over the last 18 months. Because of the relative size of the proprietary trading portfolio in comparison to Generation's total gross margin from continuing operations for year ended December 31, 2006 of $5,165 million, Generation has not segregated proprietary trading activity in the following tables. The trading portfolio is subject to a risk management policy that includes stringent risk management limits, including volume, stop-loss and value-at-risk limits to manage exposure to market risk. Additionally, the Exelon risk management group and Exelon's RMC monitor the financial risks of the proprietary trading activities.

Trading and Non-Trading Marketing Activities. The following detailed presentation of Generation's trading and non-trading marketing activities is included to address the recommended disclosures by the energy industry's Committee of Chief Risk Officer (CCRO).

The following table provides detail on changes in Generation's mark-to-market net asset or liability balance sheet position from January 1, 2005 to December 31, 2006. It indicates the drivers behind changes in the balance sheet amounts. This table incorporates the mark-to-market activities that are immediately recorded in earnings as well as the settlements from OCI to earnings and changes in fair value for the hedging activities that are recorded in accumulated OCI on the Consolidated Balance Sheets.

	Total
Total mark-to-market energy contract net liabilities at January 1, 2005 [a]	$(145)
Total change in fair value during 2005 of contracts recorded in earnings	108
Reclassification to realized at settlement of contracts recorded in earnings	(105)
Reclassification to realized at settlement from OCI	583
Effective portion of changes in fair value—recorded in OCI	(879)
Purchase/sale/disposal of existing contracts or portfolios subject to mark-to-market	(102)
Total mark-to-market energy contract net liabilities at December 31, 2005 [a]	(540)
Total change in fair value during 2006 of contracts recorded in earnings	41
Reclassification to realized at settlement of contracts recorded in earnings	66
Reclassification to realized at settlement from OCI	146
Effective portion of changes in fair value—recorded in OCI	789
Purchase/sale/disposal of existing contracts or portfolios subject to mark-to-market	(3)
Total mark-to-market energy contract net assets at December 31, 2006	$ 499

(a) Includes a $39 million liability related to Sithe and the related mark-to-market expense which were reclassified to discontinued operations.

The following table details the balance sheet classification of the mark-to-market energy contract net assets (liabilities) recorded as of December 31, 2006 and 2005:

	December 31, 2006	December 31, 2005
Current assets	$ 1,408	$ 916
Noncurrent assets	171	286
Total mark-to-market energy contract assets	1,579	1,202
Current liabilities	(1,003)	(1,282)
Noncurrent liabilities	(77)	(460)
Total mark-to-market energy contract liabilities	(1,080)	(1,742)
Total mark-to-market energy contract net assets (liabilities)	$ 499	$ (540)

The majority of Generation's contracts are non-exchange-traded contracts valued using prices provided by external sources, primarily price quotations available through brokers or over-the-counter, on-line exchanges. Prices reflect the average of the bid-ask mid-point prices obtained from all sources that Generation believes provide the most liquid market for the commodity. The terms for which such price information is available vary by commodity, region and product. The remainder of the assets represents contracts for which external valuations are not available, primarily option contracts. These contracts are valued using the Black model, an industry standard option valuation model. The fair values in each category reflect the level of forward prices and volatility factors as of December 31, 2006 and may change as a result of changes in these factors. Management uses its best estimates to determine the fair value of commodity and derivative contracts Generation holds and sells. These estimates consider various factors including closing exchange and over-the-counter price quotations, time value, volatility factors and credit exposure. It is possible, however, that future market prices could vary from those used in recording assets and liabilities from energy marketing and trading activities and such variations could be material.

The following table, which presents maturity and source of fair value of mark-to-market energy contract net assets (liabilities), provides two fundamental pieces of information. First, the table provides the source of fair value used in determining the carrying amount of Generation's total mark-to-market asset or liability. Second, the table provides the maturity, by year, of Generation's net assets (liabilities), giving an indication of when these mark-to-market amounts will settle and either generate or require cash.

(in millions)	Maturities within 2007	2008	2009	2010	2011	2012 and Beyond	Total Fair Value
Normal Operations, qualifying cash-flow hedge contracts [(a)]:							
Actively quoted prices	$ (4)	$—	$—	$—	$—	$—	$ (4)
Prices provided by other external sources	345	59	14	1	—	—	419
Total	$ 341	$ 59	$ 14	$ 1	$—	$—	$415
Normal Operations, other derivative contracts [(b)]:							
Actively quoted prices	$(122)	$ 25	$ (1)	$—	$—	$—	$ (98)
Prices provided by other external sources	232	—	1	—	—	—	233
Prices based on model or other valuation methods	(50)	(1)	—	—	—	—	(51)
Total	$ 60	$ 24	$—	$—	$—	$—	$ 84

(a) Mark-to-market gains and losses on contracts that qualify as cash-flow hedges are recorded in other comprehensive income.

(b) Mark-to-market gains and losses on other non-trading and trading derivative contracts that do not qualify as cash-flow hedges are recorded in earnings.

The table below provides details of effective cash-flow hedges under SFAS No. 133 included in the balance sheet as of December 31, 2006. The data in the table gives an indication of the magnitude of SFAS No. 133 hedges Generation has in place; however, since under SFAS No. 133 not all hedges are recorded in OCI, the table does not provide an all-encompassing picture of Generation's hedges. The table also includes a roll-forward of accumulated OCI related to cash-flow hedges for the years ended December 31, 2006 and December 31, 2005, providing insight into the drivers of the changes (new hedges entered into during the period and changes in the value of existing hedges). Information related to energy merchant activities is presented separately from interest-rate hedging activities.

(in millions)	Total Cash-Flow Hedge OCI Activity, Net of Income Tax: Power Team Normal Operations and Hedging Activities	Interest-Rate and Other Hedges	Total Cash-Flow Hedges
Accumulated OCI derivative loss at January 1, 2005	$(137)	$ (9)	$(146)
Changes in fair value	(533)	5	(528)
Reclassifications from OCI to net income	356	—	356
Accumulated OCI derivative loss at December 31, 2005	(314)	(4)	(318)
Changes in fair value	476	1	477
Reclassifications from OCI to net income	88	—	88
Accumulated OCI derivative gain (loss) at December 31, 2006	$ 250	$ (3)	$ 247

ComEd

ComEd has derivatives related to one wholesale contract and certain other contracts to manage the market price exposures to several wholesale contracts that extend into 2007, which is beyond the expiration of ComEd's PPA with Generation. Additionally, the supplier forward contracts that ComEd has entered into as part of the initial ComEd auction (see Note 4 of the Combined Notes to Consolidated Financial Statements) are deemed to be derivatives that qualify for the normal purchases and normal sales exception to SFAS No. 133. ComEd does not enter into derivatives for speculative or trading purposes. As of December 31, 2006, the fair value of the derivative wholesale contract of $5 million was recorded on ComEd's Consolidated Balance Sheet, which is classified as a current liability. The financial derivative used to manage the market price exposure to several wholesale contracts is designated and effective as a cash flow hedge, as defined in SFAS No. 133. As such, changes in the fair value of the derivative are recorded in OCI and gains and losses are recognized in earnings when the underlying transaction occurs. As of December 31, 2006, the fair value of this contract of $6 million was recorded on ComEd's Consolidated Balance Sheet as a current liability.

ComEd has exposure to commodity price risk in relation to ancillary services that are purchased from PJM.

Credit Risk (Exelon, Generation, ComEd and PECO)

Generation

Generation's PPA with ComEd expired at the end of 2006. In September 2006, Generation participated in and won portions of the ComEd and Ameren auctions. As a result of the expiration of the PPA and the results of the auctions, beginning in 2007, Generation will sell more electricity through bilateral agreements with other new and existing counterparties. Generation has credit risk associated with counterparty performance on energy contracts which includes, but is not limited to, the risk of financial default or slow payment; therefore, Generation's credit risk profile is anticipated to change based on the credit worthiness of the new and existing counterparties, including ComEd and Ameren. Additionally, due to the possibility of rate freeze legislation in Illinois affecting both ComEd and Ameren, Generation may be subject to the risk of default and, in the event of a bankruptcy filing by ComEd or Ameren, a risk that the bankruptcy may result in rejection of contracts for the purchase of electricity. A default by ComEd or Ameren on contracts for purchase of electricity, or a rejection of those contracts in a bankruptcy proceeding, could result in a disruption in the wholesale power markets. For additional information on the Illinois auction, the proposed legislation and the various regulatory proceedings, see Note 4 of the Combined Notes to Consolidated Financial Statements.

Generation manages counterparty credit risk through established policies, including counterparty credit limits, and in some cases, requiring deposits or letters of credit to be posted by certain counterparties. Generation's counterparty credit limits are based on a scoring model that considers a variety of factors, including leverage, liquidity, profitability, credit ratings and risk management capabilities. Generation has entered into payment netting agreements or enabling agreements that allow for payment netting with the majority of its large counterparties, which reduce Generation's exposure to counterparty risk by providing for the offset of amounts payable to the counterparty against amounts receivable from the counterparty. The credit department monitors current and forward credit exposure to counterparties and their affiliates, both on an individual and an aggregate basis.

The following tables provide information on Generation's credit exposure, net of collateral, as of December 31, 2006 and 2005. The tables further delineate that exposure by credit rating of the counterparties and provide guidance on the concentration of credit risk to individual counterparties and an indication of the maturity of a company's credit risk by credit rating of the counterparties. The figures in the tables below do not include sales to Generation's affiliates or exposure through RTOs and Independent System Operators (ISOs) which are discussed below.

Rating as of December 31, 2006 (a)	Total Exposure Before Credit Collateral	Credit Collateral	Net Exposure	Number Of Counterparties Greater than 10% of Net Exposure	Net Exposure Of Counterparties Greater than 10% of Net Exposure
Investment grade	$1,005	$268	$737	1	$ 95
Non-investment grade	53	9	44	—	—
No external ratings					
Internally rated—investment grade	10	1	9	—	—
Internally rated—non-investment grade	4	3	1	—	—
Total	$1,072	$281	$791	1	$ 95

(a) This table does not include accounts receivable exposure.

Rating as of December 31, 2005 (a)	Total Exposure Before Credit Collateral	Credit Collateral	Net Exposure	Number Of Counterparties Greater than 10% of Net Exposure	Net Exposure Of Counterparties Greater than 10% of Net Exposure
Investment grade	$472	$ 53	$419	2	$147
Non-investment grade	60	11	49	—	—
No external ratings					
Internally rated—investment grade	41	—	41	—	—
Internally rated—non-investment grade	38	—	38	—	—
Total	$611	$ 64	$547	2	$147

(a) This table does not include accounts receivable exposure.

	Maturity of Credit Risk Exposure			
Rating as of December 31, 2006 (a)	Less than 2 Years	2-5 Years	Exposure Greater than 5 Years	Total Exposure Before Credit Collateral
Investment grade	$944	$ 61	$—	$1,005
Non-investment grade	40	13	—	53
No external ratings				
Internally rated—investment grade	10	—	—	10
Internally rated—non-investment grade	3	1	—	4
Total	$997	$ 75	$—	$1,072

(a) This table does not include accounts receivable exposure.

Collateral. As part of the normal course of business, Generation routinely enters into physical or financially settled contracts for the purchase and sale of capacity, energy, fuels and emissions allowances. These contracts either contain express provisions or otherwise permit Generation and its counterparties to demand adequate assurance of future performance when there are reasonable grounds for doing so. In accordance with the contracts and applicable law, if Generation is downgraded by a credit rating agency, especially if such downgrade is to a level below investment grade, it is possible that a counterparty would attempt to rely on such a downgrade as a basis for making a demand for adequate assurance of future performance. Depending on Generation's net position with a counterparty, the demand could be for the posting of collateral. In the absence of expressly agreed-to provisions that specify the collateral that must be provided, the obligation to supply the collateral requested will be a function of the facts and circumstances of the situation at the time of the demand. If Generation can reasonably claim that it is willing and financially able to perform its obligations, it may be possible to successfully argue that no collateral should be posted or that only an amount equal to two or three months of future payments should be sufficient.

Generation sells output through bilateral contracts. Generation's sales to counterparties other than ComEd and PECO will increase due to the expiration of the PPA with ComEd at the end of 2006. The bilateral contracts are subject to credit risk, which relates to the ability of counterparties to meet their contractual payment obligations. Any failure to collect these payments from counterparties could have a material impact on Exelon's and Generation's results of operations, cash flows and financial position. As market prices rise above contracted price levels, Generation is required to post collateral with purchasers; as market prices fall below contracted price levels, counterparties are required to post collateral with Generation. Under the Illinois auction rules and the supplier forward contracts that Generation entered into with ComEd and Ameren, beginning in 2007, collateral postings will be one-sided from Generation only. That is, if market prices fall below ComEd's or Ameren's contracted price levels, neither ComEd nor Ameren is required to post collateral; however, if market prices rise above contracted price levels with ComEd or Ameren, Generation may be required to post collateral. See Note 4 of the Combined Notes to the Consolidated Financial Statements for further information on contracted clearing prices related to the ComEd and Ameren auctions.

As of December 31, 2006, Generation had $26 million of collateral deposit payments being held by counterparties and Generation was holding $273 million of collateral deposits received from counterparties.

RTOs and ISOs. Generation participates in the following established, real-time energy markets that are administered by: PJM, ISO-NE, New York ISO, MISO, Southwest Power Pool, Inc. and the Electric Reliability Council of Texas. In these areas, power is traded through bilateral agreements between buyers and sellers and on the spot markets that are operated by the RTOs or ISOs, as applicable. In areas where there is no spot market, electricity is purchased and sold solely through bilateral agreements. For sales into the spot markets administered by an RTO or ISO, the RTO or ISO maintains financial assurance policies that are established and enforced by those administrators. The credit policies of the RTOs and ISOs may under certain circumstances require that losses arising from the default of one member on spot market transactions be shared by the remaining participants. Non-performance or non-payment by a major counterparty could result in a material adverse impact on Generation's financial condition, results of operations or net cash flows.

ComEd and PECO

Credit risk for ComEd and PECO is managed by credit and collection policies which are consistent with state regulatory requirements. ComEd and PECO are each currently obligated to provide service to all electric customers within their respective franchised territories. ComEd and PECO record a provision for uncollectible accounts, based upon historical experience and third-party studies, to provide for the potential loss from nonpayment by these customers. ComEd is currently unable to predict the impact of the reverse-auction power prices, effective in January 2007, on its provision for uncollectible accounts. ComEd will monitor nonpayment from customers and will make any necessary adjustments to the provision for uncollectible accounts. PECO has experienced an increase in its provision for uncollectible accounts in 2006 as compared to 2005 as a result of higher average accounts receivable balances in 2006 resulting from increased revenues, changes in PAPUC-approved regulations related to customer payment terms and an increase in the number of low-income customers participating in customer assistance programs, which allow for the forgiveness of certain receivables. PECO's provision for uncollectible accounts will continue to be affected by changes in prices as well as changes in PAPUC regulations. For the year ended December 31, 2006, ComEd's ten largest customers represented approximately 3.5% of its electric revenues and PECO's ten largest customers represented approximately 5.9% of its retail electric and gas revenues.

Under Pennsylvania's Competition Act, licensed entities, including competitive electric generation suppliers, may act as agents to provide a single bill and provide associated billing and collection services to retail customers located in PECO's retail electric service territory. Currently, there are no third parties providing billing of PECO's charges to customers or advanced metering; however, if this occurs, PECO would be subject to credit risk related to the ability of the third parties to collect such receivables from the customers.

Exelon

Exelon's consolidated balance sheets included a $529 million net investment in direct financing leases as of December 31, 2006. The investment in direct financing leases represents future minimum lease payments due at the end of the thirty-year lives of the leases of $1.5 billion, less unearned income of $963 million. The future minimum lease payments are supported by collateral and credit enhancement measures including letters of credit, surety bonds and credit swaps issued by high credit quality financial institutions. Management regularly evaluates the credit worthiness of Exelon's counterparties to these direct financing leases.

Interest-Rate Risk (Exelon, Generation, ComEd and PECO)

Variable Rate Debt. The Registrants use a combination of fixed-rate and variable-rate debt to reduce interest-rate exposure. The Registrants may also use interest-rate swaps when deemed appropriate to adjust exposure based upon market conditions. Additionally, the Registrants may use forward-starting interest-rate swaps and treasury rate locks to lock in interest-rate levels in anticipation of future financings. These strategies are employed to achieve a lower cost of capital. At December 31, 2006, the Registrants did not have any material fair-value or cash-flow interest-rate hedges outstanding. As of December 31, 2006, a hypothetical 10% increase in the interest rates associated with variable-rate debt would result in a $4 million, $2 million, $1 million and $1 million decrease in Exelon's, Generation's, ComEd's and PECO's, respectively, pre-tax earnings.

Fair-Value Hedges. During 2006, ComEd settled its interest-rate swaps designated as fair-value hedges in the aggregate notional amount of $240 million for a cash payment of approximately $1 million.

Cash-Flow Hedges. In 2005, ComEd settled its interest-rate swaps designated as cash-flow hedges in the aggregate notional amount of $325 million due to the underlying transaction for which these interest-rate swaps were entered into was no longer probable of occurring. As a result, Exelon and ComEd recognized a pre-tax loss of $15 million which was included in other, net within the Consolidated Statements of Operations and within Cash Flows From Investing Activities on the Consolidated Statements of Cash Flows. In addition, during 2005, Exelon settled interest-rate swaps in the aggregate notional amount of $1.5 billion and recorded pre-tax losses of $39 million which will be recorded as additional interest expense over the remaining life of the related debt.

Equity Price Risk (Exelon and Generation)

Exelon and Generation maintain trust funds, as required by the NRC, to fund certain costs of decommissioning Generation's nuclear plants. As of December 31, 2006, Generation's decommissioning trust funds are reflected at fair value on its Consolidated Balance Sheets. The mix of securities in the trust funds is designed to provide returns to be used to fund decommissioning and to compensate Generation for inflationary increases in decommissioning costs; however, the equity securities in the trust funds are exposed to price fluctuations in equity markets, and the value of fixed-rate, fixed-income securities are exposed to changes in interest rates. Generation actively monitors the investment performance of the trust funds and periodically reviews asset allocation in accordance with Generation's nuclear decommissioning trust fund investment policy. A hypothetical 10% increase in interest rates and decrease in equity prices would result in a $460 million reduction in the fair value of the trust assets.

Exelon and Generation maintain trust assets associated with defined benefit pension and other postretirement benefits. See Defined Benefit Pension and Other Postretirement Benefits in the Critical Accounting Estimates section for information regarding the pension and other postretirement benefit trust assets.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

Generation

Executive Overview

A discussion of items pertinent to Generation's executive overview is set forth under "EXELON CORPORATION—Executive Overview" of this Report.

Results of Operation

Year Ended December 31, 2006 Compared To Year Ended December 31, 2005

A discussion of Generation's results of operations for 2006 compared to 2005 is set forth under "Results of Operations—Generation" in "EXELON CORPORATION—Results of Operations" of this Report.

Year Ended December 31, 2005 Compared To Year Ended December 31, 2004

A discussion of Generation's results of operations for 2005 compared to 2004 is set forth under "Results of Operations—Generation" in "EXELON CORPORATION—Results of Operations" of this Report.

Liquidity and Capital Resources

Generation's business is capital intensive and requires considerable capital resources. Generation's capital resources are primarily provided by internally generated cash flows from operations and, to the extent necessary, external financing, including the issuance of commercial paper, participation in the intercompany money pool or capital contributions from Exelon. Generation's access to external financing at reasonable terms is dependent on its credit ratings and general business conditions, as well as that of the utility industry in general. If these conditions deteriorate to where Generation no longer has access to the capital markets at reasonable terms, Generation has access to a revolving credit facility that Generation currently utilizes to support is commercial paper program. See the "Credit Issues" section of "Liquidity and Capital Resources" for further discussion.

Capital resources are used primarily to fund Generation's capital requirements, including construction, retirement of debt, the payment of distributions to Exelon, contributions to Exelon's pension plans and investments in new and existing ventures. Future acquisitions could require external financing or borrowings or capital contributions from Exelon.

Cash Flows from Operating Activities

A discussion of items pertinent to Generation's cash flows from operating activities is set forth under "Cash Flows from Operating Activities" in "EXELON CORPORATION—Liquidity and Capital Resources" of this Report.

Cash Flows from Investing Activities

A discussion of items pertinent to Generation's cash flows from investing activities is set forth under "Cash Flows from Investing Activities" in "EXELON CORPORATION—Liquidity and Capital Resources" of this Report.

Cash Flows from Financing Activities

A discussion of items pertinent to Generation's cash flows from financing activities is set forth under "Cash Flows from Financing Activities" in "EXELON CORPORATION—Liquidity and Capital Resources" of this Report.

Credit Issues

A discussion of credit issues pertinent to Generation is set forth under "Credit Issues" in "EXELON CORPORATION—Liquidity and Capital Resources" of this Report.

Contractual Obligations and Off-Balance Sheet Obligations

A discussion of Generation's contractual obligations, commercial commitments and off-balance sheet obligations is set forth under "Contractual Obligations and Off-Balance Sheet Obligations" in "EXELON CORPORATION—Liquidity and Capital Resources" of this Report.

Critical Accounting Policies and Estimates

See Exelon, Generation, ComEd and PECO—Critical Accounting Policies and Estimates above for a discussion of Generation's critical accounting policies and estimates.

New Accounting Pronouncements

See Note 1 of the Combined Notes to Consolidated Financial Statements for information regarding new accounting pronouncements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Generation

Generation is exposed to market risks associated with commodity price, credit, interest rates and equity price. These risks are described above under "Quantitative and Qualitative Disclosures about Market Risk—Exelon."

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

ComEd

Executive Overview

A discussion of items pertinent to ComEd's executive overview is set forth under "EXELON CORPORATION—Executive Overview" of this Report.

Results of Operations

Year Ended December 31, 2006 Compared to Year Ended December 31, 2005

A discussion of ComEd's results of operations for 2006 compared 2005 is set forth under "Results of Operations—ComEd" in "EXELON CORPORATION—Results of Operations" of this Report.

Year Ended December 31, 2005 Compared to Year Ended December 31, 2004

A discussion of ComEd's results of operations for 2005 compared to 2004 is set forth under "Results of Operations—ComEd" in "EXELON CORPORATION—Results of Operations" of this Report.

Liquidity and Capital Resources

ComEd's business is capital intensive and requires considerable capital resources. ComEd's capital resources are primarily provided by internally generated cash flows from operations and, to the extent necessary, external financing, including the issuance of commercial paper, or capital contributions from Exelon. ComEd's access to external financing at reasonable terms is dependent on its credit ratings and general business conditions, as well as that of the utility industry in general. If these conditions deteriorate to where ComEd no longer has access to the capital markets at reasonable terms, ComEd has access to a revolving credit facility that ComEd currently utilizes to support its commercial paper program. See the "Credit Issues" section of "Liquidity and Capital Resources" for further discussion.

Capital resources are used primarily to fund ComEd's capital requirements, including construction, retirement of debt, the payment of dividends and contributions to Exelon's pension plans. ComEd did not pay a dividend during 2006.

Cash Flows from Operating Activities

A discussion of items pertinent to ComEd's cash flows from operating activities is set forth under "Cash Flows from Operating Activities" in "EXELON CORPORATION—Liquidity and Capital Resources" of this Report.

Cash Flows from Investing Activities

A discussion of items pertinent to ComEd's cash flows from investing activities is set forth under "Cash Flows from Investing Activities" in "EXELON CORPORATION—Liquidity and Capital Resources" of this Report.

Cash Flows from Financing Activities

A discussion of items pertinent to ComEd's cash flows from financing activities is set forth under "Cash Flows from Financing Activities" in "EXELON CORPORATION—Liquidity and Capital Resources" of this Report.

Credit Issues

A discussion of credit issues pertinent to ComEd is set forth under "Credit Issues" in "EXELON CORPORATION—Liquidity and Capital Resources" of this Report

Contractual Obligations and Off-Balance Sheet Obligations

A discussion of ComEd's contractual obligations, commercial commitments and off-balance sheet obligations is set forth under "Contractual Obligations and Off-Balance Sheet Obligations" in "EXELON CORPORATION—Liquidity and Capital Resources" of this Report.

Critical Accounting Policies and Estimates

See Exelon, Generation, ComEd and PECO—Critical Accounting Policies and Estimates above for a discussion of ComEd's critical accounting policies and estimates.

New Accounting Pronouncements

See Note 1 of the Combined Notes to Consolidated Financial Statements for information regarding new accounting pronouncements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

ComEd

ComEd is exposed to market risks associated with commodity price, credit and interest rates. These risks are described above under "Quantitative and Qualitative Disclosures about Market Risk—Exelon."

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

PECO

Executive Overview

A discussion of items pertinent to PECO's executive overview is set forth under "EXELON CORPORATION—Executive Overview" of this Report.

Results of Operations

Year Ended December 31, 2006 Compared To Year Ended December 31, 2005

A discussion of PECO's results of operations for 2006 compared to 2005 is set forth under "Results of Operations—PECO" in "EXELON CORPORATION—Results of Operations" of this Report.

Year Ended December 31, 2005 Compared to Year Ended December 31, 2004

A discussion of PECO's results of operations for 2005 compared to 2004 is set forth under "Results of Operations—PECO" in "EXELON CORPORATION—Results of Operations" of this Report.

Liquidity and Capital Resources

PECO's business is capital intensive and requires considerable capital resources. PECO's capital resources are primarily provided by internally generated cash flows from operations and, to the extent necessary, external financing, including the issuance of commercial paper, participation in the intercompany money pool or capital contributions from Exelon. PECO's access to external financing at reasonable terms is dependent on its credit ratings and general business conditions, as well as that of the utility industry in general. If these conditions deteriorate to where PECO no longer has access to the capital markets at reasonable terms, PECO has access to a revolving credit facility that PECO currently utilizes to support its commercial paper program. See the "Credit Issues" section of "Liquidity and Capital Resources" for further discussion.

Capital resources are used primarily to fund PECO's capital requirements, including construction, retirement of debt, the payment of dividends and contributions to Exelon's pension plans.

Cash Flows from Operating Activities

A discussion of items pertinent to PECO's cash flows from operating activities is set forth under "Cash Flows from Operating Activities" in "EXELON CORPORATION—Liquidity and Capital Resources" of this Report.

Cash Flows from Investing Activities

A discussion of items pertinent to PECO's cash flows from investing activities is set forth under "Cash Flows from Investing Activities" in "EXELON CORPORATION—Liquidity and Capital Resources" of this Report.

Cash Flows from Financing Activities

A discussion of items pertinent to PECO's cash flows from financing activities is set forth under "Cash Flows from Financing Activities" in "EXELON CORPORATION—Liquidity and Capital Resources" of this Report.

Credit Issues

A discussion of credit issues pertinent to PECO is set forth under "Credit Issues" in "EXELON CORPORATION—Liquidity and Capital Resources" of this Report.

Contractual Obligations and Off-Balance Sheet Obligations

A discussion of PECO's contractual obligations and off-balance sheet obligations is set forth under "Contractual Obligations, Commercial Commitments and Off-Balance Sheet Obligations" in "EXELON CORPORATION—Liquidity and Capital Resources" of this Report.

Critical Accounting Policies and Estimates

See Exelon, Generation, ComEd and PECO—Critical Accounting Policies and Estimates above for a discussion of PECO's critical accounting policies and estimates.

New Accounting Pronouncements

See Note 1 of the Combined Notes to Consolidated Financial Statements for information regarding new accounting pronouncements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

PECO

PECO is exposed to market risks associated with credit and interest rates. These risks are described above under "Quantitative and Qualitative Disclosures about Market Risk—Exelon."

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Management's Report on Internal Control Over Financial Reporting

The management of Exelon Corporation (Exelon) is responsible for establishing and maintaining adequate internal control over financial reporting. Exelon's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Exelon's management conducted an assessment of the effectiveness of Exelon's internal control over financial reporting as of December 31, 2006. In making this assessment, management used the criteria in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, Exelon's management concluded that, as of December 31, 2006, Exelon's internal control over financial reporting was *effective*.

Management's assessment of the effectiveness of Exelon's internal control over financial reporting as of December 31, 2006 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears on the next page of this Annual Report on Form 10-K.

February 13, 2007

Report of Independent Registered Public Accounting Firm

To The Shareholders and Board of Directors of Exelon Corporation:

We have completed integrated audits of Exelon Corporation's consolidated financial statements and of its internal control over financial reporting as of December 31, 2006, in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements and financial statement schedule

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1)(i) present fairly, in all material respects, the financial position of Exelon Corporation and its subsidiaries at December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(1)(ii) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the consolidated financial statements, Exelon Corporation changed its method of accounting for conditional asset retirement obligations as of December 31, 2005, its method of accounting for stock-based compensation as of January 1, 2006, and its method of accounting for its defined benefit pension and other postretirement plans as of December 31, 2006.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 8, that the Company maintained effective internal control over financial reporting as of December 31, 2006 based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control—Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP
Chicago, Illinois
February 13, 2007

Report of Independent Registered Public Accounting Firm

To the Member and Board of Directors of Exelon Generation Company, LLC

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(2)(i) present fairly, in all material respects, the financial position of Exelon Generation Company, LLC and its subsidiaries (Generation) at December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2)(ii) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and the financial statement schedule are the responsibility of Generation's management. Our responsibility is to express an opinion on these financial statements and the financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the consolidated financial statements, Generation changed its method of accounting for conditional asset retirement obligations as of December 31, 2005, and its method of accounting for stock-based compensation as of January 1, 2006.

PricewaterhouseCoopers LLP
Chicago, Illinois
February 13, 2007

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of Commonwealth Edison Company:

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(3)(i) present fairly, in all material respects, the financial position of Commonwealth Edison Company and its subsidiaries (ComEd) at December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(3)(ii) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and the financial statement schedule are the responsibility of ComEd's management. Our responsibility is to express an opinion on these financial statements and the financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the consolidated financial statements, ComEd changed its method of accounting for conditional asset retirement obligations as of December 31, 2005, and its method of accounting for stock-based compensation as of January 1, 2006.

PricewaterhouseCoopers LLP
Chicago, Illinois
February 13, 2007

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of PECO Energy Company:

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(4)(i) present fairly, in all material respects, the financial position of PECO Energy Company and its subsidiaries (PECO) at December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(4)(ii) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and the financial statement schedule are the responsibility of PECO's management. Our responsibility is to express an opinion on these financial statements and the financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the consolidated financial statements, PECO changed its method of accounting for conditional asset retirement obligations as of December 31, 2005, and its method of accounting for stock-based compensation as of January 1, 2006.

PricewaterhouseCoopers LLP
Chicago, Illinois
February 13, 2007

Exelon Corporation and Subsidiary Companies

Consolidated Statements of Operations

(in millions, except per share data)	For the Years Ended December 31, 2006	2005	2004
Operating revenues	$15,655	$15,357	$14,133
Operating expenses			
Purchased power	2,683	3,162	2,709
Fuel	2,549	2,508	2,220
Operating and maintenance	3,868	3,694	3,700
Impairment of goodwill	776	1,207	—
Depreciation and amortization	1,487	1,334	1,295
Taxes other than income	771	728	710
Total operating expenses	12,134	12,633	10,634
Operating income	3,521	2,724	3,499
Other income and deductions			
Interest expense	*(616)*	*(513)*	*(471)*
Interest expense to affiliates, net	(264)	(316)	(357)
Equity in losses of unconsolidated affiliates	(111)	(134)	(154)
Other, net	266	134	60
Total other income and deductions	(725)	(829)	(922)
Income from continuing operations before income taxes and minority interest	2,796	1,895	2,577
Income taxes	1,206	944	713
Income from continuing operations before minority interest	1,590	951	1,864
Minority interest	—	—	6
Income from continuing operations	1,590	951	1,870
Discontinued operations			
Loss from discontinued operations (net of taxes of $0, $(3) and $(40), respectively)	(2)	(4)	(61)
Gain on disposal of discontinued operations (net of taxes of $2, $6 and $19, respectively)	4	18	32
Income (loss) from discontinued operations	2	14	(29)
Income before cumulative effect of changes in accounting principles	1,592	965	1,841
Cumulative effect of changes in accounting principles (net of income taxes of $0, $(27) and $17, respectively)	—	(42)	23
Net income	$ 1,592	$ 923	$ 1,864
Average shares of common stock outstanding			
Basic	670	669	661
Diluted	676	676	669
Earnings per average common share—basic:			
Income from continuing operations	$ 2.37	$ 1.42	$ 2.83
Income (loss) from discontinued operations	—	0.02	(0.04)
Cumulative effect of changes in accounting principles	—	(0.06)	0.03
Net income	$ 2.37	$ 1.38	$ 2.82
Earnings per average common share—diluted:			
Income from continuing operations	$ 2.35	$ 1.40	$ 2.79
Income (loss) from discontinued operations	—	0.02	(0.04)
Cumulative effect of changes in accounting principles	—	(0.06)	0.03
Net income	$ 2.35	$ 1.36	$ 2.78
Dividends per common share	$ 1.60	$ 1.60	$ 1.26

See Combined Notes to Consolidated Financial Statements

Exelon Corporation and Subsidiary Companies

Consolidated Statements of Cash Flows

(in millions)	For the Years Ended December 31, 2006	2005	2004
Cash flows from operating activities			
Net income	$ 1,592	$ 923	$ 1,864
Adjustments to reconcile net income to net cash flows provided by operating activities:			
Depreciation, amortization and accretion, including nuclear fuel	2,132	1,967	1,933
Cumulative effect of changes in accounting principles (net of income taxes)	—	42	(23)
Impairment charges	894	1,207	11
Deferred income taxes and amortization of investment tax credits	73	493	202
Net realized and unrealized mark-to-market and hedging transactions	(83)	(30)	49
Other non-cash operating activities	197	423	461
Changes in assets and liabilities:			
Accounts receivable	(62)	(279)	(123)
Inventories	(59)	(118)	(60)
Accounts payable, accrued expenses and other current liabilities	67	172	133
Counterparty collateral asset	259	(244)	42
Counterparty collateral liability	172	57	31
Income taxes	69	138	293
Pension and non-pension postretirement benefit contributions	(180)	(2,225)	(580)
Other assets and liabilities	(236)	(379)	165
Net cash flows provided by operating activities	4,835	2,147	4,398
Cash flows from investing activities			
Capital expenditures	(2,418)	(2,165)	(1,921)
Proceeds from nuclear decommissioning trust fund sales	4,793	5,274	2,320
Investment in nuclear decommissioning trust funds	(5,081)	(5,501)	(2,587)
Acquisitions of businesses, net of cash acquired	—	(97)	—
Proceeds from sales of investments, long-lived assets and wholly owned subsidiaries, net of $32 of cash sold during 2005	2	107	381
Change in restricted cash	(9)	21	52
Other investing activities	(49)	(126)	16
Net cash flows used in investing activities	(2,762)	(2,487)	(1,739)
Cash flows from financing activities			
Issuance of long-term debt	1,370	1,788	232
Retirement of long-term debt	(402)	(508)	(1,629)
Retirement of long-term debt to financing affiliates	(910)	(835)	(728)
Issuance of short-term debt	—	2,500	—
Retirement of short-term debt	(300)	(2,200)	—
Change in short-term debt	(685)	500	164
Dividends paid on common stock	(1,071)	(1,070)	(831)
Proceeds from employee stock plans	184	222	240
Purchase of treasury stock	(186)	(362)	(82)
Other financing activities	11	(54)	7
Net cash flows used in financing activities	(1,989)	(19)	(2,627)
Increase (decrease) in cash and cash equivalents	84	(359)	32
Cash and cash equivalents at beginning of period	140	499	467
Cash and cash equivalents at end of period	$ 224	$ 140	$ 499

See Combined Notes to Consolidated Financial Statements

Exelon Corporation and Subsidiary Companies

Consolidated Balance Sheets

(in millions)	December 31, 2006	December 31, 2005
Assets		
Current assets		
Cash and cash equivalents	$ 224	$ 140
Restricted cash and investments	58	49
Accounts receivable, net		
Customer	1,747	1,858
Other	462	337
Mark-to-market derivative assets	1,418	916
Inventories, net, at average cost		
Fossil fuel	300	311
Materials and supplies	431	351
Deferred income taxes	—	80
Other	352	595
Total current assets	4,992	4,637
Property, plant and equipment, net	22,775	21,981
Deferred debits and other assets		
Regulatory assets	5,808	4,734
Nuclear decommissioning trust funds	6,415	5,585
Investments	643	613
Investments in affiliates	167	200
Goodwill	2,694	3,475
Mark-to-market derivative assets	171	371
Other	654	1,201
Total deferred debits and other assets	16,552	16,179
Total assets	$44,319	$42,797

See Combined Notes to Consolidated Financial Statements

Exelon Corporation and Subsidiary Companies

Consolidated Balance Sheets

(in millions)	December 31, 2006	December 31, 2005
Liabilities and shareholders' equity		
Current liabilities		
Commercial paper and notes payable	$ 305	$ 1,290
Long-term debt due within one year	248	407
Long-term debt to ComEd Transitional Funding Trust and PECO Energy Transition Trust due within one year	581	507
Accounts payable	1,382	1,467
Mark-to-market derivative liabilities	1,015	1,282
Accrued expenses	1,180	1,005
Other	1,084	605
Total current liabilities	5,795	6,563
Long-term debt	8,896	7,759
Long-term debt due to ComEd Transitional Funding Trust and PECO Energy Transition Trust	2,470	3,456
Long-term debt to other financing trusts	545	545
Deferred credits and other liabilities		
Deferred income taxes and unamortized tax credits	5,424	5,078
Asset retirement obligations	3,780	4,157
Pension obligations	747	268
Non-pension postretirement benefits obligations	1,817	1,014
Spent nuclear fuel obligation	950	906
Regulatory liabilities	2,975	2,518
Mark-to-market derivative liabilities	78	522
Other	782	798
Total deferred credits and other liabilities	16,553	15,261
Total liabilities	34,259	33,584
Commitments and contingencies		
Minority interest of consolidated subsidiaries	—	1
Preferred securities of subsidiaries	87	87
Shareholders' equity		
Common stock (No par value, 2,000 shares authorized, 670 and 666 shares outstanding at December 31, 2006 and 2005, respectively)	8,314	7,987
Treasury stock, at cost (13 and 9 shares held at December 31, 2006 and 2005, respectively)	(630)	(444)
Retained earnings	3,426	3,206
Accumulated other comprehensive loss, net	(1,137)	(1,624)
Total shareholders' equity	9,973	9,125
Total liabilities and shareholders' equity	$44,319	$42,797

See Combined Notes to Consolidated Financial Statements

Exelon Corporation and Subsidiary Companies

Consolidated Statements of Changes in Shareholders' Equity

(Dollars in millions, shares in thousands)	Issued Shares	Common Stock	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance, December 31, 2003	656,366	$7,347	$ —	$ 2,320	$(1,109)	$ 8,558
Net income	—	—	—	1,864	—	1,864
Long-term incentive plan activity	10,013	307	—	—	—	307
Employee stock purchase plan issuances	309	10	—	—	—	10
Common stock purchases	—	—	(82)	—	—	(82)
Common stock dividends declared	—	—	—	(831)	—	(831)
Adjustments to accumulated other comprehensive loss due to the consolidation of Sithe	—	—	—	—	(6)	(6)
Other comprehensive loss, net of income taxes of $(190)	—	—	—	—	(331)	(331)
Balance, December 31, 2004	666,688	7,664	(82)	3,353	(1,446)	9,489
Net income	—	—	—	923	—	923
Long-term incentive plan activity	8,862	311	—	—	—	311
Employee stock purchase plan issuances	259	12	—	—	—	12
Common stock purchases	—	—	(362)	—	—	(362)
Common stock dividends declared	—	—	—	(1,070)	—	(1,070)
Other comprehensive loss, net of income taxes of $(127)	—	—	—	—	(178)	(178)
Balance, December 31, 2005	675,809	7,987	(444)	3,206	(1,624)	9,125
Net income	—	—	—	1,592	—	1,592
Long-term incentive plan activity	6,385	313	—	—	—	313
Employee stock purchase plan issuances	280	14	—	—	—	14
Common stock purchases	—	—	(186)	—	—	(186)
Common stock dividends declared	—	—	—	(1,372)	—	(1,372)
Adjustment to initially apply SFAS No. 158, net of income taxes of $773	—	—	—	—	(1,302)	(1,302)
Other comprehensive income, net of income taxes of $1,179	—	—	—	—	1,789	1,789
Balance, December 31, 2006	682,474	$8,314	$(630)	$ 3,426	$(1,137)	$ 9,973

See Combined Notes to Consolidated Financial Statements

Exelon Corporation and Subsidiary Companies

Consolidated Statements of Comprehensive Income

(In millions)	For the Years Ended December 31, 2006	2005	2004
Net income	$1,592	$ 923	$1,864
Other comprehensive income (loss)			
Minimum pension liability, net of income taxes of $674, $3, and $(228), respectively	1,138	10	(392)
Net unrealized gain (loss) on cash-flow hedges, net of income taxes of $368, $(133), and $6, respectively	561	(199)	8
Foreign currency translation adjustment, net of income taxes of $0, $(1), and $1, respectively	—	(3)	1
Unrealized gain on marketable securities, net of income taxes of $137, $4, and $31, respectively	92	14	52
State income tax rate alignment	(2)	—	—
Other comprehensive income (loss)	1,789	(178)	(331)
Comprehensive income	$3,381	$ 745	$1,533

See Combined Notes to Consolidated Financial Statements

Exelon Generation Company, LLC and Subsidiary Companies

Consolidated Statements of Operations

(in millions)	For the Years Ended December 31, 2006	2005	2004
Operating revenues			
Operating revenues	$4,401	$4,198	$3,862
Operating revenues from affiliates	4,742	4,848	3,841
Total operating revenues	9,143	9,046	7,703
Operating expenses			
Purchased power	2,027	2,569	2,307
Fuel	1,951	1,913	1,704
Operating and maintenance	2,041	2,051	1,962
Operating and maintenance from affiliates	264	237	239
Depreciation and amortization	279	254	286
Taxes other than income	185	170	166
Total operating expense	6,747	7,194	6,664
Operating income	2,396	1,852	1,039
Other income and deductions			
Interest expense	(155)	(125)	(100)
Interest expense to affiliates, net	(4)	(3)	(3)
Equity in losses of unconsolidated affiliates	(9)	(1)	(14)
Other, net	41	95	130
Total other income and deductions	(127)	(34)	13
Income from continuing operations before income taxes and minority interest	2,269	1,818	1,052
Income taxes	866	709	401
Income from continuing operations before minority interest	1,403	1,109	651
Minority interest	—	—	6
Income from continuing operations	1,403	1,109	657
Discontinued operations			
Loss from discontinued operations (net of taxes of $0, $(1) and $(29), respectively)	—	—	(16)
Gain on disposal of discontinued operations (net of taxes of $2, $6 and $0, respectively)	4	19	—
Income (loss) from discontinued operations	4	19	(16)
Income before cumulative effect of changes in accounting principles	1,407	1,128	641
Cumulative effect of changes in accounting principles (net of income taxes of $0, $(19) and $22, respectively)	—	(30)	32
Net income	$1,407	$1,098	$ 673

See Combined Notes to Consolidated Financial Statements

Exelon Generation Company, LLC and Subsidiary Companies

Consolidated Statements of Cash Flows

(In millions)	For the Years Ended December 31, 2006	2005	2004
Cash flows from operating activities			
Net income	$ 1,407	$ 1,098	$ 673
Adjustments to reconcile net income to net cash flows provided by operating activities:			
Depreciation, amortization and accretion, including nuclear fuel	924	886	923
Cumulative effect of changes in accounting principles (net of income taxes)	—	30	(32)
Deferred income taxes and amortization of investment tax credits	174	330	124
Net realized and unrealized mark-to-market and hedging transactions	(107)	(6)	37
Other non-cash operating activities	53	22	103
Changes in assets and liabilities:			
Accounts receivable	(9)	(64)	(67)
Receivables from and payables to affiliates, net	(35)	(101)	11
Inventories	(1)	(82)	(35)
Accounts payable, accrued expenses and other current liabilities	(27)	143	45
Counterparty collateral asset	259	(244)	42
Counterparty collateral liability	172	57	31
Income taxes	97	178	228
Pension and non-pension postretirement benefit contributions	(78)	(962)	(220)
Other assets and liabilities	(279)	(313)	84
Net cash flows provided by operating activities	2,550	972	1,947
Cash flows from investing activities			
Capital expenditures	(1,109)	(1,067)	(960)
Proceeds from nuclear decommissioning trust fund sales	4,793	5,274	2,320
Investment in nuclear decommissioning trust funds	(5,081)	(5,501)	(2,587)
Acquisition of businesses, net of cash acquired	—	(97)	—
Proceeds from sales of investments	—	103	24
Changes in Exelon intercompany money pool contributions	(13)	—	—
Change in restricted cash	1	(1)	36
Other investing activities	3	(5)	64
Net cash flows used in investing activities	(1,406)	(1,294)	(1,103)
Cash flows from financing activities			
Issuance of long-term debt	—	—	157
Retirement of long-term debt	(12)	(14)	(62)
Change in short-term debt	(311)	311	—
Changes in Exelon intercompany money pool borrowings	(92)	(191)	(162)
Distribution to member	(609)	(857)	(662)
Contribution from member	25	843	17
Other financing activities	(51)	1	(27)
Net cash flows (used in) provided by financing activities	(1,050)	93	(739)
Increase (decrease) in cash and cash equivalents	94	(229)	105
Cash and cash equivalents at beginning of period	34	263	158
Cash and cash equivalents at end of period	$ 128	$ 34	$ 263

See Combined Notes to Consolidated Financial Statements

Exelon Generation Company, LLC and Subsidiary Companies

Consolidated Balance Sheets

(In millions)	December 31, 2006	2005
Assets		
Current assets		
Cash and cash equivalents	$ 128	$ 34
Restricted cash and investments	2	3
Accounts receivable, net		
Customer	575	585
Other	122	109
Mark-to-market derivative assets	1,408	916
Receivables from affiliates	437	411
Inventories, net, at average cost		
Fossil fuel	127	160
Materials and supplies	335	290
Deferred income taxes	—	35
Contributions to Exelon intercompany money pool	13	—
Prepayments and other current assets	286	497
Total current assets	3,433	3,040
Property, plant and equipment, net	7,514	7,464
Deferred debits and other assets		
Nuclear decommissioning trust funds	6,415	5,585
Investments	18	15
Investments in affiliates	97	105
Prepaid pension asset	996	1,013
Mark-to-market derivative assets	171	286
Other	265	216
Total deferred debits and other assets	7,962	7,220
Total assets	$18,909	$17,724

See Combined Notes to Consolidated Financial Statements

Exelon Generation Company, LLC and Subsidiary Companies

Consolidated Balance Sheets

(In millions)	December 31, 2006	December 31, 2005
Liabilities and member's equity		
Current liabilities		
Commercial paper	$ —	$ 311
Long-term debt due within one year	12	12
Accounts payable	899	954
Mark-to-market derivative liabilities	1,003	1,282
Payables to affiliates	—	4
Borrowings from Exelon intercompany money pool	—	92
Accrued expenses	496	415
Deferred income taxes	142	—
Other	362	330
Total current liabilities	2,914	3,400
Long-term debt	1,778	1,788
Deferred credits and other liabilities		
Asset retirement obligations	3,602	3,986
Pension obligation	37	13
Non-pension postretirement benefits obligations	538	541
Spent nuclear fuel obligation	950	906
Deferred income taxes and unamortized investment tax credits	1,383	865
Payables to affiliates	1,911	1,503
Mark-to-market derivative liabilities	77	460
Other	238	280
Total deferred credits and other liabilities	8,736	8,554
Total liabilities	13,428	13,742
Commitments and contingencies		
Minority interest of consolidated subsidiary	1	2
Member's equity		
Membership interest	3,267	3,220
Undistributed earnings	1,800	1,002
Accumulated other comprehensive income (loss), net	413	(242)
Total member's equity	5,480	3,980
Total liabilities and member's equity	$18,909	$17,724

See Combined Notes to Consolidated Financial Statements

Exelon Generation Company, LLC and Subsidiary Companies

Consolidated Statements of Changes in Member's Equity

(in millions)	Membership Interest	Undistributed Earnings	Accumulated Other Comprehensive Income (Loss)	Total Member's Equity
Balance, December 31, 2003	$2,490	$ 602	$(136)	$2,956
Net income	—	673	—	673
Non-cash distribution to member	—	(9)	—	(9)
Distribution to member	(157)	(505)	—	(662)
Transfer of Exelon Energy	(4)	—	2	(2)
Consolidation of Sithe in accordance with FIN 46-R	—	—	(6)	(6)
Contribution from member	6	—	—	6
Allocation of tax benefit from member	26	—	—	26
Other comprehensive income, net of income taxes of $30	—	—	57	57
Balance, December 31, 2004	2,361	761	(83)	3,039
Net income	—	1,098	—	1,098
Distribution to member	—	(857)	—	(857)
Contribution from member	843	—	—	843
Allocation of tax benefit from member	16	—	—	16
Other comprehensive loss, net of income taxes of ($112)	—	—	(159)	(159)
Balance, December 31, 2005	3,220	1,002	(242)	3,980
Net income	—	1,407	—	1,407
Distribution to member	—	(609)	—	(609)
Allocation of tax benefit from member	47	—	—	47
Adjustment to initially apply SFAS No. 158, net of income taxes of $0	—	—	(1)	(1)
Other comprehensive income, net of income taxes of $507	—	—	656	656
Balance, December 31, 2006	$3,267	$1,800	$ 413	$5,480

See Combined Notes to Consolidated Financial Statements

Exelon Generation Company, LLC and Subsidiary Companies

Consolidated Statements of Comprehensive Income

(in millions)	For the Years Ended December 31, 2006	2005	2004
Net income	$1,407	$1,098	$673
Other comprehensive income (loss)			
Net unrealized gain (loss) on cash-flow hedges, net of income taxes of $371, $(116) and $8, respectively	565	(172)	7
Foreign currency translation adjustment, net of income taxes of $0, $0 and $0, respectively	—	(1)	1
Unrealized gain on marketable securities, net of income taxes of $136, $4 and $31, respectively	91	14	49
Other comprehensive income (loss)	656	(159)	57
Comprehensive income	$2,063	$ 939	$730

See Combined Notes to Consolidated Financial Statements

Commonwealth Edison Company and Subsidiary Companies

Consolidated Statements of Operations

(In millions)	For the Years Ended December 31, 2006	2005	2004
Operating revenues			
Operating revenues	$6,091	$6,253	$5,782
Operating revenues from affiliates	10	11	21
Total operating revenues	6,101	6,264	5,803
Operating expenses			
Purchased power	363	346	214
Purchased power from affiliate	2,929	3,174	2,374
Operating and maintenance	525	640	705
Operating and maintenance from affiliates	220	193	192
Impairment of goodwill	776	1,207	—
Depreciation and amortization	430	413	410
Taxes other than income	303	303	291
Total operating expenses	5,546	6,276	4,186
Operating income (loss)	555	(12)	1,617
Other income and deductions			
Interest expense	(236)	(203)	(258)
Interest expense to affiliates, net	(72)	(88)	(91)
Equity in losses of unconsolidated affiliates	(10)	(14)	(19)
Other, net	96	4	(116)
Total other income and deductions	(222)	(301)	(484)
Income (loss) before income taxes and cumulative effect of a change in accounting principle	333	(313)	1,133
Income taxes	445	363	457
Income (loss) before cumulative effect of a change in accounting principle	(112)	(676)	676
Cumulative effect of a change in accounting principle (net of income taxes of $0, $(6) and $0, respectively)	—	(9)	—
Net income (loss)	$ (112)	$ (685)	$ 676

See Combined Notes to Consolidated Financial Statements

Commonwealth Edison Company and Subsidiary Companies

Consolidated Statements of Cash Flows

(In millions)	For the Years Ended December 31, 2006	2005	2004
Cash flows from operating activities			
Net income (loss)	$ (112)	$ (685)	$ 676
Adjustments to reconcile net income (loss) to net cash flows provided by operating activities:			
Depreciation, amortization and accretion	431	413	410
Cumulative effect of a change in accounting principle (net of income taxes)	—	9	—
Deferred income taxes and amortization of investment tax credits	103	226	153
Impairment of goodwill	776	1,207	—
Net realized and unrealized mark-to-market and hedging transactions	5	—	—
Other non-cash operating activities	(134)	140	248
Changes in assets and liabilities:			
Accounts receivable	6	(108)	(82)
Inventories	(34)	(1)	(4)
Accounts payable, accrued expenses and other current liabilities	38	45	61
Receivables from and payables to affiliates, net	(58)	28	30
Income taxes	14	(137)	109
Pension and non-pension postretirement benefit contributions	(47)	(865)	(244)
Other assets and liabilities	(1)	(25)	(27)
Net cash flows provided by operating activities	987	247	1,330
Cash flows from investing activities			
Capital expenditures	(911)	(776)	(721)
Changes in Exelon intercompany money pool contributions	—	308	97
Receipt of notes receivable from affiliates	—	—	1,071
Change in restricted cash	—	—	20
Other investing activities	17	(11)	19
Net cash flows provided by (used in) investing activities	(894)	(479)	486
Cash flows from financing activities			
Issuance of long-term debt	1,074	91	—
Retirement of long-term debt	(327)	(417)	(1,231)
Retirement of long-term debt to ComEd Transitional Funding Trust	(339)	(354)	(335)
Change in Exelon intercompany money pool borrowings	(140)	140	—
Retirement of preferred stock	—	(9)	—
Change in short-term debt	(399)	459	—
Dividends paid on common stock	—	(498)	(457)
Contributions from parent	37	834	175
Other financing activities	(2)	(6)	28
Net cash flow provided by (used in) financing activities	(96)	240	(1,820)
Increase (decrease) in cash and cash equivalents	(3)	8	(4)
Cash and cash equivalents at beginning of period	38	30	34
Cash and cash equivalents at end of period	$ 35	$ 38	$ 30

See Combined Notes to Consolidated Financial Statements

Commonwealth Edison Company and Subsidiary Companies

Consolidated Balance Sheets

(In millions)	December 31, 2006	December 31, 2005
Assets		
Current assets		
Cash and cash equivalents	$ 35	$ 38
Accounts receivable, net		
Customer	740	806
Other	62	46
Inventories, net, at average cost	83	50
Deferred income taxes	29	13
Receivables from affiliates	18	37
Other	40	34
Total current assets	1,007	1,024
Property, plant and equipment, net	10,457	9,906
Deferred debits and other assets		
Regulatory assets	532	280
Investments	44	41
Investments in affiliates	20	34
Goodwill	2,694	3,475
Receivables from affiliates	1,774	1,447
Prepaid pension asset	914	938
Other	332	346
Total deferred debits and other assets	6,310	6,561
Total assets	$17,774	$17,491

See Combined Notes to Consolidated Financial Statements

Commonwealth Edison Company and Subsidiary Companies

Consolidated Balance Sheets

(In millions)	December 31, 2006	December 31, 2005
Liabilities and shareholders' equity		
Current liabilities		
Commercial paper	$ 60	$ 459
Long-term debt due within one year	147	328
Long-term debt to ComEd Transitional Funding Trust due within one year	308	307
Accounts payable	203	223
Accrued expenses	467	417
Payables to affiliates	219	278
Borrowings from Exelon intercompany money pool	—	140
Customer deposits	114	110
Other	82	46
Total current liabilities	1,600	2,308
Long-term debt	3,432	2,500
Long-term debt to ComEd Transitional Funding Trust	340	680
Long-term debt to other financing trusts	361	361
Deferred credits and other liabilities		
Deferred income taxes and unamortized investment tax credits	2,310	2,190
Asset retirement obligations	156	151
Non-pension postretirement benefits obligations	176	175
Regulatory liabilities	2,824	2,450
Other	277	280
Total deferred credits and other liabilities	5,743	5,246
Total liabilities	11,476	11,095
Commitments and contingencies		
Shareholders' equity		
Common stock	1,588	1,588
Other paid in capital	4,906	4,890
Retained deficit	(193)	(81)
Accumulated other comprehensive loss, net	(3)	(1)
Total shareholders' equity	6,298	6,396
Total liabilities and shareholders' equity	$17,774	$17,491

See Combined Notes to Consolidated Financial Statements

Commonwealth Edison Company and Subsidiary Companies

Consolidated Statements of Changes in Shareholders' Equity

(in millions)	Common Stock	Preferred and Preference Stock	Other Paid In Capital	Receivable from Parent	Retained Earnings (Deficits) Unappropriated	Retained Earnings Appropriated	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance, December 31, 2003	$1,588	$ 7	$4,115	$(250)	$ 174	$ 709	$ (1)	$6,342
Net income	—	—	—	—	676	—	—	676
Repayment of receivable from parent	—	—	—	125	—	—	—	125
Allocation of tax benefit from parent	—	—	55	—	—	—	—	55
Appropriation of retained earnings for future dividends	—	—	—	—	(676)	676	—	—
Common stock dividends	—	—	—	—	(174)	(283)	—	(457)
Resolution of certain tax matters	—	—	(2)	—	—	—	—	(2)
Other comprehensive income, net of income taxes of $2	—	—	—	—	—	—	1	1
Balance, December 31, 2004	1,588	7	4,168	(125)	—	1,102	—	6,740
Net loss	—	—	—	—	(685)	—	—	(685)
Repayment of receivable from parent	—	—	—	125	—	—	—	125
Capital contribution from parent	—	—	709	—	—	—	—	709
Allocation of tax benefit from parent	—	—	27	—	—	—	—	27
Appropriation of retained earnings for future dividends	—	—	—	—	(495)	495	—	—
Common stock dividends	—	—	—	—	—	(498)	—	(498)
Redemption of preferred stock	—	(7)	—	—	—	—	—	(7)
Resolution of certain tax matters	—	—	(14)	—	—	—	—	(14)
Other comprehensive loss, net of income taxes of $(1)	—	—	—	—	—	—	(1)	(1)
Balance, December 31, 2005	1,588	—	4,890	—	(1,180)	1,099	(1)	6,396
Net loss	—	—	—	—	(112)	—	—	(112)
Allocation of tax benefit from parent	—	—	21	—	—	—	—	21
Appropriation of retained earnings for future dividends	—	—	—	—	(340)	340	—	—
Resolution of certain tax matters	—	—	(5)	—	—	—	—	(5)
Other comprehensive loss, net of income taxes of $(1)	—	—	—	—	—	—	(2)	(2)
Balance, December 31, 2006	$1,588	$—	$4,906	$ —	$(1,632)	$1,439	$ (3)	$6,298

See Combined Notes to Consolidated Financial Statements

Commonwealth Edison Company and Subsidiary Companies

Consolidated Statements of Comprehensive Income (Loss)

(in millions)	For the Years Ended December 31, 2006	2005	2004
Net income (loss)	$(112)	$(685)	$676
Other comprehensive income (loss)			
Foreign currency translation adjustment, net of income taxes of $0, $(1) and $1, respectively	—	(2)	—
Unrealized gain on marketable securities, net of income taxes of $1, $0 and $1, respectively	2	1	1
Unrealized loss on cash-flow hedges, net of income taxes of $(2), $0 and $0, respectively	(4)	—	—
Other comprehensive income (loss)	(2)	(1)	1
Comprehensive income (loss)	$(114)	$(686)	$677

See Combined Notes to Consolidated Financial Statements

PECO Energy Company and Subsidiary Companies

Consolidated Statements of Operations

(in millions)	For the Years Ended December 31, 2006	2005	2004
Operating revenues			
Operating revenues	$5,153	$4,893	$4,468
Operating revenues from affiliates	15	17	19
Total operating revenues	5,168	4,910	4,487
Operating expenses			
Purchased power	293	248	197
Purchased power from affiliate	1,811	1,670	1,447
Fuel	598	596	511
Fuel from affiliate	—	1	17
Operating and maintenance	498	440	440
Operating and maintenance from affiliates	130	109	107
Depreciation and amortization	710	566	518
Taxes other than income	262	231	236
Total operating expenses	4,302	3,861	3,473
Operating income	866	1,049	1,014
Other income and deductions			
Interest expense	(73)	(56)	(56)
Interest expense to affiliates, net	(193)	(223)	(247)
Equity in losses of unconsolidated affiliates	(9)	(16)	(25)
Other, net	30	13	18
Total other income and deductions	(245)	(282)	(310)
Income before income taxes and cumulative effect of a change in accounting principle	621	767	704
Income taxes	180	247	249
Income before cumulative effect of a change in accounting principle	441	520	455
Cumulative effect of a change in accounting principle (net of income taxes of $0, ($2) and $0, respectively)	—	(3)	—
Net income	441	517	455
Preferred stock dividends	4	4	3
Net income on common stock	$ 437	$ 513	$ 452

See Combined Notes to Consolidated Financial Statements

PECO Energy Company and Subsidiary Companies

Consolidated Statements of Cash Flows

(in millions)	For the Years Ended December 31, 2006	2005	2004
Cash flows from operating activities			
Net income	$ 441	$ 517	$ 455
Adjustments to reconcile net income to net cash flows provided by operating activities:			
Depreciation, amortization and accretion	710	566	518
Cumulative effect of a change in accounting principle (net of income taxes)	—	3	—
Deferred income taxes and amortization of investment tax credits	(220)	(82)	(98)
Other non-cash operating activities	109	95	118
Changes in assets and liabilities:			
Accounts receivable	(69)	(118)	(59)
Inventories	(24)	(35)	(21)
Accounts payable, accrued expenses and other current liabilities	14	13	18
Receivables from and payables to affiliates, net	26	31	(4)
Income taxes	13	(99)	57
Pension and non-pension postretirement benefit contributions	(32)	(189)	(14)
Other assets and liabilities	49	2	13
Net cash flows provided by operating activities	1,017	704	983
Cash flows from investing activities			
Capital expenditures	(345)	(298)	(225)
Changes in Exelon intercompany money pool contributions	8	26	(34)
Change in restricted cash	(2)	27	(3)
Other investing activities	7	4	11
Net cash flows used in investing activities	(332)	(241)	(251)
Cash flows from financing activities			
Issuance of long-term debt	296	—	75
Retirement of long-term debt	(13)	(16)	(235)
Retirement of long-term debt to PECO Energy Transition Trust	(571)	(481)	(393)
Change in short-term debt	(125)	220	(46)
Changes in Exelon intercompany money pool borrowings	45	—	—
Dividends paid on common and preferred stock	(506)	(473)	(394)
Contribution from parent	181	250	312
Other financing activities	—	—	5
Net cash flows used in financing activities	(693)	(500)	(676)
Increase (decrease) in cash and cash equivalents	(8)	(37)	56
Cash and cash equivalents at beginning of period	37	74	18
Cash and cash equivalents at end of period	$ 29	$ 37	$ 74

See Combined Notes to Consolidated Financial Statements

PECO Energy Company and Subsidiary Companies

Consolidated Balance Sheets

(In millions)	December 31, 2006	2005
Assets		
Current assets		
Cash and cash equivalents	$ 29	$ 37
Restricted cash	4	2
Accounts receivable, net		
Customer	426	454
Other	79	57
Affiliate	—	13
Inventories, net, at average cost		
Gas	173	151
Materials and supplies	13	11
Contributions to Exelon intercompany money pool	—	8
Deferred income taxes	25	7
Deferred energy costs	—	39
Other	13	16
Total current assets	762	795
Property, plant and equipment, net	4,651	4,471
Deferred debits and other assets		
Regulatory assets	3,896	4,454
Investments	21	22
Investment in affiliates	64	73
Receivable from affiliate	151	68
Other	228	203
Total deferred debits and other assets	4,360	4,820
Total assets	$9,773	$10,086

See Combined Notes to Consolidated Financial Statements

PECO Energy Company and Subsidiary Companies

Consolidated Balance Sheets

(In millions)	December 31, 2006	2005
Liabilities and shareholders' equity		
Current liabilities		
Commercial paper	$ 95	$ 220
Borrowings from Exelon intercompany money pool	45	—
Long-term debt to PECO Energy Transition Trust due within one year	273	199
Accounts payable	175	182
Accrued expenses	121	92
Payables to affiliates	203	178
Customer deposits	50	54
Over-recovered energy costs	6	—
Other	10	11
Total current liabilities	978	936
Long-term debt	1,469	1,183
Long-term debt to PECO Energy Transition Trust	2,131	2,776
Long-term debt to other financing trusts	184	184
Deferred credits and other liabilities		
Deferred income taxes and unamortized investment tax credits	2,601	2,798
Asset retirement obligations	21	20
Non-pension postretirement benefit obligations	283	278
Regulatory liabilities	151	68
Other	146	139
Total deferred credits and other liabilities	3,202	3,303
Total liabilities	7,964	8,382
Commitments and contingencies		
Shareholders' equity		
Common stock	2,223	2,193
Preferred stock	87	87
Receivable from parent	(1,090)	(1,232)
Retained earnings	584	649
Accumulated other comprehensive income, net	5	7
Total shareholders' equity	1,809	1,704
Total liabilities and shareholders' equity	$ 9,773	$10,086

See Combined Notes to Consolidated Financial Statements

PECO Energy Company and Subsidiary Companies

Consolidated Statements of Changes in Shareholders' Equity

(in millions)	Common Stock	Preferred Stock	Receivable from Parent	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance, December 31, 2003	$1,999	$ 87	$(1,623)	$ 546	$ 7	$1,016
Net income	—	—	—	455	—	455
Common stock dividends	—	—	—	(391)	—	(391)
Preferred stock dividends	—	—	—	(3)	—	(3)
Repayment of receivable from parent	—	—	141	—	—	141
Capital contribution from parent	156	—	—	—	—	156
Allocation of tax benefit from parent	21	—	—	—	—	21
Other comprehensive income, net of income taxes of $(2)	—	—	—	—	3	3
Balance, December 31, 2004	2,176	87	(1,482)	607	10	1,398
Net income	—	—	—	517	—	517
Common stock dividends	—	—	—	(469)	—	(469)
Preferred stock dividends	—	—	—	(4)	—	(4)
Repayment of receivable from parent	—	—	250	—	—	250
Allocation of tax benefit from parent	15	—	—	—	—	15
Other comprehensive loss, net of income taxes of $(3)	—	—	—	—	(3)	(3)
Other	2	—	—	(2)	—	—
Balance, December 31, 2005	2,193	87	(1,232)	649	7	1,704
Net income	—	—	—	441	—	441
Common stock dividends	—	—	—	(502)	—	(502)
Preferred stock dividends	—	—	—	(4)	—	(4)
Repayment of receivable from parent	—	—	142	—	—	142
Allocation of tax benefit from parent	30	—	—	—	—	30
Other comprehensive loss, net of income taxes of $(2)	—	—	—	—	(2)	(2)
Balance, December 31, 2006	$2,223	$ 87	$(1,090)	$ 584	$ 5	$1,809

See Combined Notes to Consolidated Financial Statements

PECO Energy Company and Subsidiary Companies

Consolidated Statements of Comprehensive Income

(in millions)	For the Years Ended December 31, 2006	2005	2004
Net income	$441	$517	$455
Other comprehensive income (loss)			
Change in net unrealized gain (loss) on cash-flow hedges, net of income taxes of $(2), $(3) and $(1), respectively	(2)	(3)	1
Unrealized gain on marketable securities, net of income taxes of $0, $0 and $(1), respectively	—	—	2
Other comprehensive income (loss)	(2)	(3)	3
Comprehensive income	$439	$514	$458

See Combined Notes to Consolidated Financial Statements

Exelon Corporation and Subsidiary Companies
Exelon Generation Company, LLC and Subsidiary Companies
Commonwealth Edison Company and Subsidiary Companies
PECO Energy Company and Subsidiary Companies

Combined Notes to Consolidated Financial Statements
(Dollars in millions, except per share data unless otherwise noted)

1. Significant Accounting Policies

Description of Business (Exelon, Generation, ComEd and PECO)

Exelon Corporation (Exelon) is a utility services holding company engaged, through its subsidiaries, in the generation, energy delivery and other businesses discussed below. The generation business consists of the electric generating facilities, the wholesale energy marketing operations and competitive retail sales operations of Exelon Generation Company, LLC (Generation). The energy delivery businesses include the purchase and regulated retail and wholesale sale of electricity and the provision of distribution and transmission services by Commonwealth Edison Company (ComEd) in northern Illinois, including the City of Chicago, and by PECO Energy Company (PECO) in southeastern Pennsylvania, including the City of Philadelphia, and the purchase and regulated retail sale of natural gas and the provision of distribution services by PECO in the Pennsylvania counties surrounding the City of Philadelphia. Exelon sold or wound down substantially all components of Exelon Enterprises Company, LLC (Enterprises) in 2004 and 2003. As a result, as of January 1, 2005, Enterprises is no longer reported as a segment. See Note 2—Acquisitions and Dispositions for information regarding the disposition of businesses within the Enterprises segment and Note 20—Segment Information for information regarding Exelon's operating segments.

Basis of Presentation (Exelon, Generation, ComEd and PECO)

Exelon's consolidated financial statements include the accounts of entities in which Exelon has a controlling financial interest, other than certain financing trusts of ComEd and PECO described below, and Generation's and PECO's proportionate interests in jointly owned electric utility property, after the elimination of intercompany transactions. A controlling financial interest is evidenced by either a voting interest greater than 50% or a risk and rewards model that identifies Exelon or one of its subsidiaries as the primary beneficiary of the variable interest entity. Investments and joint ventures in which Exelon does not have a controlling financial interest and certain financing trusts of ComEd and PECO are accounted for under the equity or cost methods of accounting.

Exelon owns 100% of all significant consolidated subsidiaries, either directly or indirectly, except for ComEd, of which Exelon owns more than 99%; PECO, of which Exelon owns 100% of the common stock but none of PECO's preferred stock; and Southeast Chicago Energy Project, LLC (SCEP), of which Exelon and Generation owned 72% through the second quarter of 2006 when they purchased the remaining interest in SCEP. Exelon has reflected the third-party interests in the above majority-owned investments as minority interests in its consolidated financial statements.

Generation's consolidated financial statements include the accounts of its subsidiaries, including AmerGen Energy Company, LLC, and Exelon Energy Company, LLC. All intercompany transactions have been eliminated.

ComEd's consolidated financial statements include the accounts of ComEd and Commonwealth Edison Company of Indiana, Inc. Edison Development Canada Inc. (EDCAN) and Edison Finance Partnership (EFP) were consolidated prior to their accounting liquidation in 2005 and are pending legal dissolution, which is expected in 2007. All intercompany transactions have been eliminated.

PECO's consolidated financial statements include the accounts of its subsidiaries, including ExTel Corporation, LLC, Adwin Realty Company and PECO Wireless, LP, except certain financing trusts as described below. All intercompany transactions have been eliminated.

In accordance with Financial Accounting Standards Board (FASB) Interpretation No. (FIN) 46 (revised December 2003), "Consolidation of Variable Interest Entities" (FIN 46-R), Sithe Energies, Inc. (Sithe) was consolidated in Exelon's and Generation's financial statements as of March 31, 2004. As further discussed in Note 2 - Acquisitions and Dispositions, Generation sold its investment in Sithe on January 31, 2005. Additionally, certain trusts and limited partnerships that are financing subsidiaries of ComEd and PECO have issued debt or mandatorily redeemable preferred securities. Due to the adoption of FIN 46-R, these subsidiaries are no longer consolidated as of December 31, 2003, or as of July 1, 2003 for PECO Energy Capital Trust IV (PECO Trust IV). See "Variable Interest Entities" below for further discussion of the adoption of FIN 46-R and the resulting consolidation of Sithe and the deconsolidation of these financing subsidiaries.

The share and per-share amounts included in Exelon's Combined Notes to Consolidated Financial Statements have been adjusted for all periods presented to reflect a 2-for-1 stock split of Exelon's common stock with a distribution date of May 5, 2004. See Note 16 - Common Stock for additional information regarding the stock split.

Reclassifications (Exelon, Generation, ComEd and PECO)

Certain prior year amounts have been reclassified in the financial statements for comparative purposes. The reclassifications did not affect net income.

Use of Estimates (Exelon, Generation, ComEd and PECO)

The preparation of financial statements of each of Exelon, Generation, ComEd and PECO (collectively, the Registrants) in conformity with accounting principles generally accepted in the United States (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Areas in which significant estimates have been made include, but are not limited to, the accounting for nuclear decommissioning costs and other asset retirement obligations, inventory reserves, allowance for doubtful accounts, goodwill and asset impairments, pension and other postretirement benefits, derivative instruments, fixed asset depreciation, environmental costs, taxes, severance and unbilled energy revenues.

Accounting for the Effects of Regulation (Exelon, ComEd and PECO)

Exelon, ComEd and PECO account for their regulated operations in accordance with accounting policies prescribed by the regulatory authorities having jurisdiction, principally the Illinois Commerce Commission (ICC) and the Pennsylvania Public Utility Commission (PAPUC) under state public utility laws, the Federal Energy Regulatory Commission (FERC) under various Federal laws, and the

Securities and Exchange Commission (SEC) under the Public Utility Holding Company Act of 1935 (PUHCA) prior to its repeal effective February 8, 2006, and ComEd and PECO apply Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation," (SFAS No. 71). SFAS No. 71 requires ComEd and PECO to record in their financial statements the effects of rate regulation for utility operations that meet the following criteria: (1) third-party regulation of rates; (2) cost-based rates; and (3) a reasonable assumption that all costs will be recoverable from customers through rates. Exelon believes that it is probable that its currently recorded regulatory assets and liabilities will be recovered in future rates. However, Exelon, ComEd and PECO continue to evaluate their abilities to apply SFAS No. 71, including, in the case of ComEd, incorporating the current events related to the regulatory and political environment in Illinois. If a separable portion of ComEd's or PECO's business was no longer able to meet the provisions of SFAS No. 71, Exelon, ComEd and PECO would be required to eliminate from their financial statements the effects of regulation for that portion, which could have a material impact on their financial condition and results of operations. See Note 4—Regulatory Issues for further information regarding the repeal of PUHCA effective February 8, 2006 and the regulatory and political environment in Illinois.

Segment Information (Generation, ComEd and PECO)

Generation, ComEd and PECO each constitute one operating segment. See Note 20 – Segment Information for information regarding Exelon's operating segments.

Variable Interest Entities (Exelon, Generation, ComEd and PECO)

FIN 46 and its revision FIN 46-R addressed the requirements for consolidating certain variable interest entities. FIN 46 was effective for the Registrants' variable interest entities created after January 31, 2003. FIN 46-R was effective December 31, 2003 for the Registrants' variable interest entities that were considered to be special-purpose entities and as of March 31, 2004 for all other variable interest entities.

Exelon and Generation consolidated Sithe, 50% owned through a wholly owned subsidiary of Generation, as of March 31, 2004 pursuant to the provisions of FIN 46-R and recorded income of $32 million (net of income taxes) as a result of the reversal of guarantees of Sithe's commitments previously recorded by Generation. This income was reported as a cumulative effect of a change in accounting principle in the first quarter of 2004. As of March 31, 2004, Generation was a 50% owner of Sithe, and Exelon had accounted for Sithe as an unconsolidated equity method investment prior to March 31, 2004. Sithe owned and operated power-generating facilities and was sold by Generation on January 31, 2005. See Note 2—Acquisitions and Dispositions for additional information regarding the sale of Sithe in 2005.

PECO Trust IV, a financing subsidiary of PECO created in May 2003, was deconsolidated from the financial statements of Exelon pursuant to the provisions of FIN 46 as of July 1, 2003. Pursuant to the provisions of FIN 46-R, as of December 31, 2003, the financing trusts formed prior to December 31, 2003 of ComEd, namely ComEd Financing II, ComEd Financing III, ComEd Funding LLC and ComEd Transitional Funding Trust, and the other financing trusts of PECO, namely PECO Trust III and PECO Energy Transition Trust (PETT), were deconsolidated from Exelon's, ComEd's and

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

PECO's financial statements. The following table shows the amounts recorded as debt to financing trusts within the Consolidated Balance Sheets:

As of the Year Ended December 31,	Exelon	ComEd	PECO
2006	$3.6 billion	$1.0 billion	$2.6 billion
2005	4.5 billion	1.3 billion	3.2 billion

This change in presentation related to the financing trusts had no effect on Exelon's, ComEd's or PECO's net income. In accordance with FIN 46-R, prior periods were not restated. The maximum exposure to loss as a result of ComEd's and PECO's involvement with the financing trusts was $34 million and $64 million respectively, at December 31, 2006 and $46 million and $73 million, respectively, at December 31, 2005.

Revenues (Exelon, Generation, ComEd and PECO)

Operating Revenues. Operating revenues are recorded as service is rendered or energy is delivered to customers. At the end of each month, the Registrants accrue an estimate for the unbilled amount of energy delivered or services provided to customers (see Note 5—Accounts Receivable).

Option Contracts, Swaps, and Commodity Derivatives. Premiums received and paid on option contracts and swap arrangements considered "normal" derivatives pursuant to SFAS No. 133, "Accounting for Derivatives and Hedging Activities" (SFAS No. 133) are amortized to revenue and expense over the lives of the contracts. Certain option contracts and swap arrangements which meet the definition of derivative instruments are recorded at fair value with subsequent changes in fair value recognized as revenues and expenses, unless hedge accounting is applied. If the derivatives meet hedging criteria, changes in fair value are recorded in OCI. Commodity derivatives used for trading purposes are accounted for using the mark-to-market method with unrealized gains and losses recognized in operating revenues.

Trading Activities. Exelon and Generation account for their trading activities under the provisions of Emerging Issues Task Force (EITF) Issue No. 02-3, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities" (EITF 02-3), which requires revenues and energy costs related to energy trading contracts to be presented on a net basis in the income statement.

Physically Settled Derivative Contracts. Exelon and Generation account for realized gains and losses on physically settled derivative contracts not "held for trading purposes" in accordance with EITF Issue No. 03-11, "Reporting Realized Gains and Losses on Derivative Instruments That Are Subject to FASB Statement No. 133, 'Accounting for Derivative Instruments and Hedging Activities,' and Not 'Held for Trading Purposes' as Defined in EITF Issue No. 02-3, 'Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities'" (EITF 03-11).

EITF 03-11 states that determining whether realized gains and losses on physically settled derivative contracts not "held for trading purposes" should be reported in the income statement on a gross or net basis is a matter of judgment that depends on the relevant facts and circumstances.

Exelon and Generation present, net within revenues, purchased power and fuel expenses totaling $561 million, $1,099 million and $980 million during 2006, 2005 and 2004, respectively.

Income Taxes (Exelon, Generation, ComEd and PECO)

Deferred Federal and state income taxes are provided on all significant temporary differences between the book basis and the tax basis of assets and liabilities and for tax benefits carried forward. Investment tax credits previously utilized for income tax purposes have been deferred on the Registrants' Consolidated Balance Sheets and are recognized in book income over the life of the related property.

Pursuant to the Internal Revenue Code and relevant state taxing authorities, Exelon and its subsidiaries file consolidated income tax returns for Federal and certain state jurisdictions, which include its subsidiaries in which it owns at least 80% of the outstanding stock. The Registrants record an income tax valuation allowance for deferred tax assets which are not more likely than not to be realized in the future (see Note 12—Income Taxes).

Generation, ComEd and PECO are parties to an agreement (Tax Sharing Agreement) with Exelon that provides for the allocation of consolidated tax liabilities. The Tax Sharing Agreement generally provides that each party is allocated an amount of tax similar to that which would be owed had the party been separately subject to tax. Any net benefit attributable to the parent is reallocated to other members. That allocation is treated as a contribution to the capital of the party receiving the benefit.

Losses on Reacquired and Retired Debt (Exelon, Generation, ComEd and PECO)

Consistent with rate recovery for rate-making purposes, ComEd's and PECO's recoverable losses on reacquired debt related to regulated operations are deferred and amortized to interest expense over the life of the new debt issued to finance the debt redemption, or over the life of the original debt issuance if the debt is not refinanced. Losses on other reacquired debt are recognized as incurred in the Registrants' Consolidated Statements of Operations.

Comprehensive Income (Exelon, Generation, ComEd and PECO)

Comprehensive income includes all changes in equity during a period except those resulting from investments by and distributions to shareholders. See the Consolidated Statements of Changes in Shareholders' / Member's Equity and the Consolidated Statements of Comprehensive Income for further detail, including the components of comprehensive income.

Cash and Cash Equivalents (Exelon, Generation, ComEd and PECO)

The Registrants consider all temporary cash investments purchased with an original maturity of three months or less to be cash equivalents.

Restricted Cash and Investments (Exelon, Generation and PECO)

As of December 31, 2006 and 2005, Exelon's restricted cash and investments primarily represented restricted funds for payment of medical, dental, vision and long-term disability benefits. As of December 31, 2006 and 2005, Generation's restricted cash and investments primarily represented restricted funds for payment of certain environmental liabilities. As of December 31, 2006 and 2005, PECO's restricted cash primarily represented funds from the sales of assets that were subject to PECO's Mortgage Indenture. PECO's restricted cash is not available for general operations until released from the Mortgage Indenture.

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

Restricted cash and investments not available for general operations or to satisfy current liabilities are classified as noncurrent assets. As of December 31, 2006 and 2005, Exelon and Generation had restricted cash and investments in the nuclear decommissioning trust funds classified as noncurrent assets.

Allowance for Uncollectible Accounts (Exelon, Generation, ComEd and PECO)

The allowance for uncollectible accounts reflects the Registrants' best estimates of probable losses in the accounts receivable balances. The allowance is based on known troubled accounts, historical experience and other currently available evidence. For ComEd and PECO, customer accounts are generally considered delinquent if the amount billed is not received by the time the next bill is issued, which normally occurs on a monthly basis. Customer accounts are written off based upon approved regulatory requirements.

The following table summarizes the provision for uncollectible accounts for the years ended December 31, 2006, 2005 and 2004:

For the Year Ended December 31,	Exelon	Generation	ComEd	PECO
2006	$94	$ 2	$33	$58
2005	77	—	24	45
2004	87	2	37	47

Inventories (Exelon, Generation, ComEd and PECO)

Inventory is recorded at the lower of cost or market, and provisions are made for excess and obsolete inventory.

Fossil Fuel. Fossil fuel inventory includes the weighted average costs of stored natural gas, propane, coal and oil. The costs of natural gas, propane, coal and oil are generally included in inventory when purchased and charged to fuel expense when used. PECO has several long-term storage contracts for natural gas as well as a liquefied natural gas storage facility.

Materials and Supplies. Materials and supplies inventory generally includes the average costs of transmission, distribution and generating plant materials. Materials are generally charged to inventory when purchased and then expensed or capitalized to plant, as appropriate, when installed.

Emission Allowances (Exelon and Generation)

Emission allowances are included in inventory and other deferred debits and are carried at the lower of weighted average cost or market and charged to fuel expense as they are used in operations. Exelon's and Generation's emission allowance balances as of December 31, 2006 and 2005 were $94 million and $112 million, respectively.

Marketable Securities (Exelon, Generation, ComEd and PECO)

Marketable securities are classified as available-for-sale securities and are reported at fair value pursuant to SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (SFAS No. 115). Realized gains and losses, net of tax, on nuclear decommissioning trust funds transferred to Generation from ComEd and PECO are considered in the determination of the regulatory liabilities at Exelon and in the noncurrent payables to affiliates at Generation. Unrealized gains on nuclear decommissioning trust funds are included in Exelon's regulatory liabilities or other comprehensive income at Exelon and in noncurrent payables to affiliates or other comprehensive income at Generation. See Note 19—Supplemental Financial Information for additional information regarding ComEd's and PECO's regulatory assets and liabilities. Unrealized gains, net of tax, for ComEd's and PECO's available-for-sale securities are reported in other comprehensive income.

Beginning in 2006 and in connection with the issuance of FASB Staff Position FAS 115-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" (FSP 115-1), Generation considers all nuclear decommissioning trust fund investments in an unrealized loss position to be other-than-temporarily impaired. As a result of certain Nuclear Regulatory Commission (NRC) restrictions, Generation is unable to demonstrate its ability and intent to hold the nuclear decommissioning trust fund investments through a recovery period and accordingly recognizes any unrealized holding losses immediately. At December 31, 2006 and 2005, the Registrants had no held-to-maturity securities. See Note 9—Fair Value of Financial Assets and Liabilities for information regarding marketable securities held by nuclear decommissioning trust funds.

Purchased Gas Adjustment Clause (Exelon and PECO)

PECO's natural gas rates are subject to a fuel adjustment clause designed to recover or refund the difference between the actual cost of purchased gas and the amount included in rates. Differences between the amounts billed to customers and the actual costs recoverable are deferred and recovered or refunded in future periods by means of prospective quarterly adjustments to rates. At December 31, 2006, over-recovered energy costs of $6 million were recorded as current liabilities on Exelon's and PECO's Consolidated Balance Sheets. At December 31, 2005, deferred energy costs of $39 million were recorded as current assets on Exelon's and PECO's Consolidated Balance Sheets.

Leases (Exelon, Generation, ComEd and PECO)

The Registrants account for leases in accordance with SFAS No. 13, "Accounting for Leases" and determine whether their long-term purchase power and sales contracts are leases pursuant to EITF Issue No. 01-8, "Determining Whether an Arrangement is a Lease" (EITF 01-8). At the inception of the lease, or subsequent modification, the Registrants determine whether the lease is an operating or capital lease based upon its terms and characteristics. Several of Generation's long-term power purchase agreements (PPAs) which have been determined to be operating leases have significant contingent rental payments that are dependent on the future operating characteristics of the associated plants such as plant availability. Generation recognizes contingent rental expense when it becomes probable of payment.

Property, Plant and Equipment (Exelon, Generation, ComEd and PECO)

Property, plant and equipment is recorded at cost. The cost of maintenance, repairs and minor replacements of property is charged to maintenance expense as incurred.

For Generation, upon retirement, the cost of property is charged to accumulated depreciation. For ComEd and PECO, upon retirement, the cost of regulated property, net of salvage, is charged to accumulated depreciation in accordance with the composite method of depreciation. ComEd's and PECO's depreciation expense, which is included in cost of service for rate purposes, includes the estimated cost of dismantling and removing plant from service upon retirement. For ComEd, removal costs reduce the related regulatory liability. For PECO, removal costs are capitalized when incurred and depreciated over the life of the new asset constructed consistent with PECO's regulatory recovery method. For unregulated property, the cost and accumulated depreciation of property, plant and equipment retired or otherwise disposed of are removed from the related accounts.

See Note 6—Property, Plant and Equipment, Note 7—Jointly Owned Electric Utility Plant and Note 19—Supplemental Financial Information for additional information regarding property, plant and equipment.

Nuclear Fuel (Exelon and Generation)

The cost of nuclear fuel is capitalized and charged to fuel expense using the unit-of-production method. The estimated cost of disposal of Spent Nuclear Fuel (SNF) is established per the Standard Waste Contract with the Department of Energy (DOE) and is expensed through fuel expense at one mill ($.001) per kilowatthour (kWh) of net nuclear generation. On-site SNF storage costs are capitalized or expensed, as incurred, based upon the nature of the work performed.

Nuclear Outage Costs (Exelon and Generation)

Costs associated with nuclear outages are recorded in the period incurred.

New Site Development Costs (Exelon and Generation)

New site development costs represent certain costs incurred in the planning and evaluation stage of new stations and are capitalized when the project is considered probable of occurrence, which is based on various factors.

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

Capitalized Software Costs (Exelon, Generation, ComEd and PECO)

Costs incurred during the application development stage of software projects that are developed or obtained for internal use are capitalized. Such capitalized amounts are amortized ratably over the expected lives of the projects when they become operational, generally not to exceed ten years. Certain capitalized software costs are being amortized over five to fifteen years pursuant to regulatory approval. The following table presents net unamortized capitalized software costs and amortization of capitalized software costs by year:

Net unamortized software costs	Exelon	Generation	ComEd	PECO
December 31, 2006	$295	$46	$118	$63
December 31, 2005	264	31	122	30

Amortization of capitalized software costs	Exelon	Generation	ComEd	PECO
2006	$77	$13	$21	$22
2005	76	11	22	23
2004	80	16	34	12

Depreciation and Amortization (Exelon, Generation, ComEd and PECO)

Depreciation is generally provided over the estimated service lives of property, plant and equipment on a straight-line basis using the composite method. ComEd's depreciation includes a provision for estimated removal costs as authorized by the ICC. Annual depreciation provisions for financial reporting purposes, presented by average service life and as a percentage of average service life for each asset category, are presented in the tables below. See Note 6—Property, Plant and Equipment for information regarding a change in PECO's depreciation rates.

Average Service Life in Years by Asset Category	Exelon	Generation	ComEd	PECO
2006				
Electric—transmission and distribution	5-75	N/A	5-75	5-65
Electric—generation	5-61	5-61	N/A	N/A
Gas	5-66	N/A	N/A	5-66
Common—electric and gas	5-50	N/A	N/A	5-50

Average Service Life in Years by Asset Category	Exelon	Generation	ComEd	PECO
2005				
Electric—transmission and distribution	5-75	N/A	5-75	5-65
Electric—generation	5-62	5-62	N/A	N/A
Gas	5-85	N/A	N/A	5-85
Common—electric and gas	5-46	N/A	N/A	5-46

Average Service Life in Years by Asset Category	Exelon	Generation	ComEd	PECO
2004				
Electric—transmission and distribution	5-75	N/A	5-75	5-65
Electric—generation	5-63	5-63	N/A	N/A
Gas	5-85	N/A	N/A	5-85
Common—electric and gas	5-46	N/A	N/A	5-46

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

Average Service Life Percentage by Asset Category	Exelon	Generation	ComEd	PECO
2006				
Electric—transmission and distribution [(a)]	2.95%	N/A	3.34%	2.01%
Electric—generation	3.18%	3.18%	N/A	N/A
Gas [(a)]	1.73%	N/A	N/A	1.73%
Common—electric and gas [(a)]	6.04%	N/A	N/A	6.04%

Average Service Life Percentage by Asset Category	Exelon	Generation	ComEd	PECO
2005				
Electric—transmission and distribution	3.05%	N/A	3.44%	2.11%
Electric—generation	3.50%	3.50%	N/A	N/A
Gas	2.32%	N/A	N/A	2.32%
Common—electric and gas	8.06%	N/A	N/A	8.06%

Average Service Life Percentage by Asset Category	Exelon	Generation	ComEd	PECO
2004				
Electric—transmission and distribution	3.08%	N/A	3.49%	2.14%
Electric—generation	3.26%	3.26%	N/A	N/A
Gas	2.52%	N/A	N/A	2.52%
Common—electric and gas	4.60%	N/A	N/A	4.60%

(a) With respect to PECO, the decrease in depreciation percentages from 2005 to 2006 reflects extensions of service lives for significant property, plant and equipment resulting from the latest depreciation study for which results were implemented during 2006.

Amortization of regulatory assets is provided over the recovery period specified in the related legislation or regulatory agreement. See Note 19—Supplemental Financial Information for further information regarding Generation's nuclear fuel, Generation's asset retirement obligation, Generation's intangible assets and the amortization of ComEd's and PECO's regulatory assets.

Nuclear Generating Station Decommissioning (Exelon and Generation)

Exelon and Generation account for the costs of decommissioning Generation's nuclear generating stations in accordance with FASB Statement No. 143, "Accounting for Asset Retirement Obligations" (SFAS No. 143). To estimate the fair value of its obligation, Generation uses a probability-weighted, discounted cash flow model which considers multiple outcome scenarios based upon significant estimates and assumptions, including decommissioning cost studies, cost escalation studies, probabilistic cash flow models and discount rates. See Note 13—Asset Retirement Obligations for information regarding the application of SFAS No. 143.

Capitalized Interest and Allowance for Funds Used During Construction (Exelon, Generation, ComEd and PECO)

Exelon and Generation apply SFAS No. 34, "Capitalization of Interest Cost," to calculate the costs during construction of debt funds used to finance non-regulated construction projects.

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

Exelon, ComEd and PECO apply SFAS No. 71 to calculate the allowance for funds used during construction (AFUDC), which is the cost, during the period of construction, of debt and equity funds used to finance construction projects for regulated operations. AFUDC is recorded as a charge to construction work in progress and as a non-cash credit to AFUDC that is included in interest expense for debt-related funds and other income and deductions for equity-related funds. The rates used for capitalizing AFUDC are computed under a method prescribed by regulatory authorities (see Note 19—Supplemental Financial Information).

The following table summarizes total cost incurred, capitalized interest and credits of AFUDC by year:

		Exelon	Generation	ComEd	PECO
2006	Total incurred interest [a]	$914	$180	$317	$269
	Capitalized interest	22	21	—	—
	Credits to AFUDC debt and equity	15	—	12	3
2005	Total incurred interest [a]	844	140	297	281
	Capitalized interest	12	12	—	—
	Credits to AFUDC debt and equity	10	—	7	3
2004	Total incurred interest [a]	840	114	369	304
	Capitalized interest	11	11	—	—
	Credits to AFUDC debt and equity	5	—	3	2

(a) Includes interest expense to affiliates.

Guarantees (Exelon, Generation, ComEd and PECO)

In accordance with FIN 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others (FIN 45)," the Registrants recognize, at the inception of a guarantee, a liability for the fair market value of the obligations they have undertaken in issuing the guarantee, including the ongoing obligation to perform over the term of the guarantee in the event that the specified triggering events or conditions occur.

The liability that is initially recognized at the inception of the guarantee is reduced as the Registrants are released from risk under the guarantee. Depending on the nature of the guarantee, the Registrant's release from risk may be recognized only upon the expiration or settlement of the guarantee or by a systematic and rational amortization method over the term of the guarantee. The recognition and subsequent adjustment of the liability are highly dependent upon the nature of the associated guarantee. See Note 2—Acquisitions and Dispositions and Note 18—Commitments and Contingencies for further information.

Asset Impairments (Exelon, Generation, ComEd and PECO)

Long-Lived Assets. The Registrants evaluate the carrying value of long-lived assets to be held and used for impairment whenever indications of impairment exist in accordance with the requirements of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS No. 144).

The carrying value of long-lived assets is considered impaired when the projected undiscounted cash flows are less than the carrying value. In that event, a loss would be recognized based on the amount by which the carrying value exceeds the fair value. Fair value is determined primarily by available market valuations or, if applicable, discounted cash flows.

Upon meeting certain criteria defined in SFAS No. 144, the assets and associated liabilities that compose a disposal group are classified as held for sale and presented separately on the Consolidated Balance Sheets. The carrying value of these assets is adjusted downward, if necessary, to the estimated sales price, less cost to sell.

Investments. Beginning in 2006, and in connection with the issuance of FSP 115-1, Generation considers all nuclear decommissioning trust fund investments in an unrealized loss position to be other-than-temporarily impaired. As a result of certain NRC restrictions, Generation is unable to demonstrate its ability and intent to hold the nuclear decommissioning trust fund investments through a recovery period and accordingly recognizes any unrealized holding losses immediately.

Prior to 2006, Exelon and Generation evaluated, among other factors, general market conditions, the duration and extent to which the fair value is less than cost, as well as their intent and ability to hold the investment to determine whether an investment was considered other-then-temporarily impaired. Exelon and Generation also considered specific adverse conditions related to the financial health of and business outlook for the investee. Once a decline in fair value was determined to be other-than-temporary, an impairment charge was recorded and a new cost basis was established.

See Note 9—Fair Value of Financial Assets and Liabilities for a description of the other-than-temporary impairments in the nuclear decommissioning trust funds determined in 2006 and 2005.

Goodwill. Goodwill represents the excess of the purchase price paid over the estimated fair value of the assets acquired and liabilities assumed in the acquisition of a business. Pursuant to SFAS No. 142, "Goodwill and Other Intangible Assets" (SFAS No. 142), goodwill is not amortized but is tested for impairment at least annually or on an interim basis if an event occurs or circumstances change that would reduce the fair value of a reporting unit below its carrying value. See Note 8—Intangible Assets for information regarding the application of SFAS No. 142 and the results of goodwill impairment studies that have been performed, which include the $776 million and $1.2 billion goodwill impairment charges Exelon and ComEd recorded in 2006 and 2005, respectively.

Derivative Financial Instruments (Exelon, Generation, ComEd and PECO)

The Registrants may enter into derivatives to manage their exposure to fluctuations in interest rates, changes in interest rates related to planned future debt issuances and changes in the fair value of outstanding debt. Generation utilizes derivatives with respect to energy transactions to manage the utilization of its available generating capability and the supply of wholesale energy to its affiliates. Generation also utilizes energy option contracts and energy financial swap arrangements to limit the market price risk associated with forward energy commodity prices. Additionally, Generation enters into energy-related derivatives for trading purposes. ComEd has derivatives related to one wholesale contract and certain other contracts to manage the market price exposures to several wholesale contracts that extend into 2007, which is beyond the expiration of ComEd's PPA with Generation. The supplier forward contracts that ComEd has entered into as part of the initial ComEd procurement auction (See Note 4—Regulatory Issues) are deemed to be derivatives that qualify for the normal purchase exception to SFAS No. 133. ComEd does not enter into derivatives for speculative or trading purposes. The Registrants' derivative activities are in accordance with Exelon's Risk Management Policy (RMP).

The Registrants account for derivative financial instruments under SFAS No. 133. Under the provisions of SFAS No. 133, all derivatives are recognized on the balance sheet at their fair value unless they qualify for a normal purchases or normal sales exception. Derivatives on the balance sheet are presented as current or noncurrent mark-to-market derivative assets or liabilities. Cash inflows and outflows related to derivative instruments are included as a component of operating, investing or financing cash flows in the statement of cash flows, depending on the underlying nature of the Registrants' hedged items. The majority of Generation's derivatives are from hedges and therefore treated as operating cash flows. Changes in the fair value of derivatives are recognized in earnings unless specific hedge accounting criteria are met, in which case those changes are recorded in earnings as an offset to the changes in fair value of the exposure being hedged or deferred in accumulated other comprehensive income and recognized in earnings as hedged transactions occur. Amounts recorded in earnings are included in revenue, purchased power and fuel or other, net on the Consolidated Statements of Operations.

Revenues and expenses on contracts that qualify as normal purchases or normal sales are recognized when the underlying physical transaction is completed. "Normal" purchases and sales are contracts where physical delivery is probable, quantities are expected to be used or sold in the normal course of business over a reasonable period of time, and price is not tied to an unrelated underlying derivative. As part of Generation's energy marketing business, Generation enters into contracts to buy and sell energy to meet the requirements of its customers. These contracts include short-term and long-term commitments to purchase and sell energy and energy-related products in the retail and wholesale markets with the intent and ability to deliver or take delivery. While these contracts are considered derivative financial instruments under SFAS No. 133, the majority of these transactions have been designated as "normal" purchases or "normal" sales and are thus not required to be recorded at fair value, but on an accrual basis of accounting. If it were determined that a transaction designated as a "normal" purchase or a "normal" sale no longer met the scope exceptions, the fair value of the related contract would be recorded on the balance sheet and immediately recognized through earnings.

A derivative financial instrument can be designated as a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (fair-value hedge), or a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability (cash-flow hedge). Changes in the fair value of a derivative that is highly effective, and is designated and qualifies as, a fair-value hedge, are recognized in earnings as offsets to the changes in fair value of the exposure being hedged. Changes in the fair value of a derivative that is highly effective, and is designated and qualifies as, a cash-flow hedge are deferred in accumulated other comprehensive income and are recognized in earnings as the hedged transactions occur. Any ineffectiveness is recognized in earnings immediately. On an ongoing basis, the Registrants assess the hedge effectiveness of all derivatives that are designated as hedges for accounting purposes in order to determine that each derivative continues to be highly effective in offsetting changes in fair values or cash flows of hedged items. If it is determined that the derivative is not highly effective as a hedge, hedge accounting will be discontinued prospectively.

Generation enters into contracts to buy and sell energy for trading purposes subject to Exelon's Risk Management Policy. These contracts are recognized on the balance sheet at fair value and changes in the fair value of these derivative financial instruments are recognized in earnings.

Severance Benefits (Exelon, Generation, ComEd and PECO)

The Registrants account for their ongoing severance plans in accordance with SFAS No. 112, "Employer's Accounting for Postemployment Benefits, an amendment of FASB Statements No. 5 and 43" (SFAS No. 112) and SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits." Generation, ComEd and PECO participate in Exelon's ongoing severance plans. Amounts associated with severance benefits that are considered probable and can be reasonably estimated are accrued. See Note 10—Severance Accounting for further discussion of Exelon's accounting for severance benefits.

Retirement Benefits (Exelon, Generation, ComEd and PECO)

Exelon's defined benefit pension plans and postretirement benefit plans are accounted for in accordance with SFAS No. 87, "Employer's Accounting for Pensions" (SFAS No. 87), SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits", SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions" (SFAS No. 106), FASB Staff Position (FSP) FAS 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" (FSP FAS 106-2) and SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)" (SFAS No. 158), and are disclosed in accordance with SFAS No. 132-R, "Employers' Disclosures about Pensions and Other Postretirement Benefits—an Amendment of FASB Statements No. 87, 88, and 106" (revised 2003) (SFAS No. 132-R) and SFAS No. 158. Generation, ComEd and PECO participate in Exelon's defined benefit pension plans and postretirement plans. See Note 14—Retirement Benefits for further discussion of Exelon's and Generation's accounting for retirement benefits.

FSP FAS 106-2. Through Exelon's postretirement benefit plans, the Registrants provide retirees with prescription drug coverage. The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (Prescription Drug Act) was enacted on December 8, 2003. The Prescription Drug Act introduced a prescription drug benefit under Medicare as well as a Federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to the Medicare prescription drug benefit. Management believes the prescription drug benefit provided under Exelon's postretirement benefit plans is at least actuarially equivalent to the Medicare prescription drug benefit. In response to the enactment of the Prescription Drug Act, in May 2004, the FASB issued FSP

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

FAS 106-2, which provided transition guidance for accounting for the effects of the Prescription Drug Act and superseded FSP FAS 106-1, which had been issued in January 2004. FSP FAS 106-1 permitted a plan sponsor of a postretirement health care plan that provides a prescription drug benefit to make a one-time election to defer the accounting for the effects of the Prescription Drug Act. The Registrants made the one-time election allowed by FSP FAS 106-1 during the first quarter of 2004.

During the second quarter of 2004, Exelon early adopted the provisions of FSP FAS 106-2, resulting in a remeasurement of its postretirement benefit plans' assets and accumulated postretirement benefit obligations (APBO) as of December 31, 2003. Upon adoption, the effect of the subsidy on benefits attributable to past service was accounted for as an actuarial experience gain, resulting in a decrease of the APBO of approximately $186 million. Exelon's annualized reduction in the net periodic postretirement benefit cost was approximately $40 million, $40 million and $33 million in 2006, 2005 and 2004, respectively, compared to the annual cost calculated without considering the effects of the Prescription Drug Act. The effect of the subsidy on the components of net periodic postretirement benefit cost for 2006, 2005 and 2004 included in the consolidated financial statements and Note 14—Retirement Benefits was as follows:

	2006	2005	2004
Amortization of the actuarial experience loss	$16	$18	$15
Reduction in current period service cost	9	8	6
Reduction in interest cost on the APBO	15	14	12

Treasury Stock (Exelon)

Treasury shares are recorded at cost. Any shares of common stock repurchased are held as treasury shares unless cancelled or reissued.

Foreign Currency Translation (Exelon, Generation and ComEd)

The financial statements of Exelon's, Generation's and ComEd's foreign subsidiaries were prepared in their respective local currencies and translated into U.S. dollars based on the current exchange rates at the end of the periods for the Consolidated Balance Sheets and on weighted-average rates for the periods for the Consolidated Statements of Operations. Starting in 2006, ComEd does not report any foreign currency translation adjustments since ComEd no longer owns any foreign subsidiaries. Foreign currency translation adjustments, net of deferred income tax benefits, are reflected as a component of other comprehensive income on the Consolidated Statements of Comprehensive Income and, accordingly, have no effect on net income.

New Accounting Pronouncements (Exelon, Generation, ComEd and PECO)

Exelon has identified the following new accounting pronouncements that either have been recently adopted or issued that may affect the Registrants upon adoption.

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

SFAS No. 123-R

Exelon grants stock-based awards through its Long-Term Incentive Plans (LTIPs), which primarily include stock options and performance share awards. Prior to January 1, 2006, Exelon accounted for these stock-based awards under the intrinsic value method of Accounting Principles Board (APB) No. 25, "Accounting for Stock Issued to Employees" (APB No. 25). This method under APB No. 25 resulted in no expense being recorded for stock option grants in 2005. On January 1, 2006, Exelon adopted Financial Accounting Standards Board (FASB) Statement No. 123 (revised 2004), "Share-Based Payment" (SFAS No. 123-R), which replaces SFAS No. 123, "Accounting for Stock-Based Compensation" (SFAS No. 123) and supersedes APB No. 25. SFAS No. 123-R requires that compensation cost relating to stock-based payment transactions be recognized in the financial statements. That cost is measured on the fair value of the equity or liability instruments issued. SFAS No. 123-R applies to all of Exelon's outstanding unvested stock-based awards as of January 1, 2006 and all prospective awards using the modified prospective transition method without restatement of prior periods. At December 31, 2006, there were approximately 28 million shares remaining for issuance under the LTIPs.

The following table shows the effect of adopting SFAS No. 123-R on selected reported items:

	Year Ended December 31, 2006
Income from continuing operations before income taxes and minority interest	$ (49)
Net income	(31)
Basic earnings per share	(0.05)
Diluted earnings per share	(0.05)
Cash flows provided by operating activities	(60)
Cash flows used in financing activities	60

The following table presents the stock-based compensation expense included in Exelon's Consolidated Statements of Operations and Comprehensive Income during the twelve months ended December 31, 2006, 2005 and 2004:

	Year Ended December 31,		
Components of Stock-Based Compensation Expense	**2006**	**2005**	**2004**
Stock options	$ 39	$—	$—
Performance shares	84	49	51
Other stock-based awards	5	8	14
Total stock-based compensation included in operating and maintenance expense	128	57	65
Income tax benefit	(48)	(23)	(26)
Total after-tax stock-based compensation expense	$ 80	$ 34	$ 39

Combined Notes to Consolidated Financial Statements—(Continued)
(Dollars in millions, except per share data unless otherwise noted)

The following table presents stock-based compensation expense (pre-tax) during the twelve months ended December 31, 2006, 2005 and 2004:

Registrant	Year Ended December 31, 2006	2005	2004
Generation	$48	$21	$22
ComEd	12	2	3
PECO	3	1	1
Exelon Corporate [(a)]	65	33	39

(a) Represents amounts billed to Exelon's subsidiaries through intercompany allocations.

Stock Options

Non-qualified stock options to purchase shares of Exelon's common stock are granted under the LTIPs. The exercise price of the stock options is equal to the fair market value of the underlying stock on the date of option grant. Stock options granted under the LTIPs generally become exercisable upon a specified vesting date. Shares subject to stock options are typically issued from authorized but unissued common stock shares. All stock options expire ten years from the date of grant. The vesting period of stock options outstanding as of December 31, 2006 generally ranged from three years to four years. The value of stock options at the date of grant is either amortized through expense or capitalized over the requisite service period using the straight-line method. For stock options granted to retirement eligible employees, the value of the stock option is recognized immediately on the date of grant. There were no significant stock-based compensation costs capitalized during the twelve months ended December 31, 2006, 2005 and 2004.

Exelon grants most of its stock options in the first quarter of each year. Stock options granted during the remaining quarters of 2006, 2005 and 2004 were not material.

The fair value of each option is estimated on the date of grant using the Black-Scholes-Merton option-pricing model with the following weighted average assumptions used for grants for the twelve months ended December 31, 2006, 2005 and 2004:

	Year Ended December 31, 2006	2005	2004
Dividend yield	3.2%	3.6%	3.3%
Expected volatility	25.5%	18.1%	19.7%
Risk-free interest rate	4.27%	3.83%	3.25%
Expected life (years)	6.25	6.25	5.0

The dividend yield is based on several factors, including Exelon's most recent dividend payment at the grant date and the average stock price over the previous twelve months. Expected volatility is based on implied volatilities of traded stock options in Exelon's common stock and historical volatility over the estimated expected life of the stock options. The risk-free interest rate for a security with a term equal to the expected life is based on a yield curve constructed from U.S. Treasury strips at the time of grant. The expected life represents the period of time the stock options are expected to be outstanding and is based on the "simplified method". Additionally, Exelon uses historical data to estimate employee forfeitures. Exelon reviews the actual and estimated forfeitures on an annual basis and records an adjustment if necessary.

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

Utilizing the Black-Scholes-Merton option-pricing model and the assumptions discussed above, the weighted average grant-date fair value of stock options granted during the twelve months ended December 31, 2006, 2005 and 2004 was $13.22, $6.33 and $4.79, respectively.

Information with respect to stock options at December 31, 2006 is as follows:

	Shares	Weighted Average Exercise Price (per share)	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Balance of shares outstanding at December 31, 2005	21,674,270	$31.23		
Options granted	4,084,645	58.55		
Options exercised	(5,900,095)	29.06		
Options forfeited/cancelled	(483,710)	42.40		
Balance of shares outstanding at December 31, 2006	19,375,110	37.35	6.74	$475,397,402
Exercisable at December 31, 2006 [(a)]	8,836,049	31.18	5.39	271,355,375

(a) Includes stock options issued to retirement-eligible employees.

Intrinsic value for stock-based instruments is defined as the difference between the current market value and the exercise price. The total intrinsic value of stock options exercised during the twelve months ended December 31, 2006, 2005 and 2004 was $170 million, $191 million and $102 million, respectively.

During the twelve months ended December 31, 2006, cash received from stock options exercised was $171 million, and the actual tax benefit realized for tax deductions from stock options exercised was $68 million. SFAS No. 123-R requires the benefits of tax deductions in excess of the compensation cost recognized for stock options exercised (excess tax benefits) to be classified as financing cash flows. There was $53 million of excess tax benefits related to stock options exercised included as a cash inflow in other financing activities in Exelon's Consolidated Statement of Cash Flows for the twelve months ended December 31, 2006. Prior to the adoption of SFAS No. 123-R, Exelon presented these benefits as operating cash flows in the Consolidated Statement of Cash Flows.

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

The following table summarizes Exelon's nonvested stock option activity for the twelve months ended December 31, 2006:

	Shares	Weighted Average Exercise Price (per share)
Nonvested at December 31, 2005	12,000,284	$35.42
Granted	4,084,645	58.55
Vested	(5,071,953)	38.35
Forfeited	(473,915)	43.63
Nonvested at December 31, 2006	10,539,061	38.56

As of December 31, 2006, $44 million of total unrecognized compensation costs related to nonvested stock options are expected to be recognized over the remaining weighted-average period of two years. The total grant date fair value of stock options vested, including the capitalized amount, during the twelve months ended December 31, 2006, 2005 and 2004 was $41 million, $23 million and $34 million, respectively.

Performance Share Awards

In addition to the stock options discussed above, Exelon grants performance share awards under the LTIPs. These performance share awards will generally vest and settle over a three-year period. The holders of the performance share awards will receive shares of common stock and/or cash annually during the vesting period. The combination of common stock and/or cash is based on certain stock ownership requirements.

In January 2006, the Compensation Committee of the Board of Directors of Exelon granted 1,106,919 performance share awards, of which Exelon estimates that 601,306 will be settled in common stock and 505,613 will be settled in cash.

Performance share awards to be settled in stock are fair valued at the date of grant. Performance share awards to be settled in cash are remeasured each reporting period throughout the vesting period. As a result, the compensation costs for cash settled awards are subject to variability. The fair value of each performance share award granted during the twelve months ended December 31, 2006 was estimated using historical data for the previous two plan years and a Monte Carlo simulation model for the current plan year. This model requires assumptions regarding Exelon's total shareholder return relative to certain stock market indices and the stock beta and volatility of Exelon's common stock and all stocks represented in these indices. Expected volatility is based on historical information. Additionally, Exelon uses historical data to estimate employee forfeitures, which are compared to actual forfeitures on a quarterly basis and adjusted if necessary.

For non retirement-eligible employees, stock-based compensation costs are accrued and recognized over the vesting period of three years using the graded vesting method. As a result of adopting SFAS No. 123-R, Exelon recognizes ratably throughout the year of grant the entire compensation cost of new common stock awards in which retirement-eligible employees are fully vested in the year of grant (non-substantive vesting approach). Prior to the adoption of SFAS No. 123-R on January 1, 2006, such compensation cost was recognized over the nominal vesting period of performance with any remaining compensation cost recognized at the date of retirement. The impact of using the non-substantive vesting approach for retirement-eligible employees related to performance share awards was $10 million during 2006.

During the twelve months ended December 31, 2006, Exelon settled 436,660 and 407,073 performance share awards in common stock and cash, respectively, related to awards granted prior to 2006. Exelon paid $24 million in cash during 2006 to settle the 407,073 performance share awards.

At December 31, 2006, Exelon had an obligation related to outstanding awards not yet settled of $95 million, of which $38 million, $27 million and $30 million are included in current liabilities, deferred credits and other liabilities, and common stock, respectively, in Exelon's Consolidated Balance Sheet. At December 31, 2005, Exelon had an obligation related to outstanding awards not yet settled of $51 million, of which $27 million is included in common stock and $24 million is included in deferred credits and other liabilities in Exelon's Consolidated Balance Sheet.

SFAS No. 123-R requires the benefits of tax deductions in excess of the compensation cost recognized for stock options exercised (excess tax benefits) to be classified as financing cash flows. There was $7 million of excess tax benefits related to performance share awards exercised included as a cash inflow in other financing activities in Exelon's Consolidated Statement of Cash Flows for the twelve months ended December 31, 2006. Prior to the adoption of SFAS No. 123-R, Exelon presented these benefits as operating cash flows in the Consolidated Statement of Cash Flows.

Other Stock-Based Awards

Exelon also issues common stock through an employee stock purchase plan and through restricted stock units and accounts for these awards in accordance with SFAS No. 123-R. The compensation cost of these types of issuances was immaterial during the twelve months ended December 31, 2006 and 2005. However, at December 31, 2006 and 2005, Exelon had obligations related to outstanding restricted stock not yet settled of $13 million and $19 million, respectively, which are included in common stock in Exelon's Consolidated Balance Sheets.

Prior to January 1, 2007, directors and executives were able to defer stock awards granted to them through Exelon's stock-based compensation programs into the Exelon Corporation Stock Deferral Plan. At December 31, 2006 and 2005, Exelon had an obligation related to this plan of $37 million and $30 million, respectively, which are included in common stock in Exelon's Consolidated Balance Sheets.

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

2005 and 2004 Pro Forma Information

The table below shows the effect on Exelon's net income and earnings per share had Exelon elected to account for all of its stock-based compensation plans using the fair-value method under SFAS No. 123 for the twelve months ended December 31, 2005 and 2004:

	Year Ended December 31, 2005	Year Ended December 31, 2004
Net income—as reported	$ 923	$1,864
Add: Stock-based compensation expense included in reported net income, net of income taxes	34	39
Deduct: Total stock-based compensation expense determined under fair-value method for all awards, net of income taxes [(a)]	(48)	(60)
Pro forma net income	$ 909	$1,843
Earnings per share:		
Basic—as reported	$1.38	$ 2.82
Basic—pro forma	1.36	2.79
Diluted—as reported	1.36	2.78
Diluted—pro forma	1.35	2.75

(a) The fair value of stock options granted was estimated using a Black-Scholes-Merton option-pricing model.

SFAS No. 155

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments, amendment of FASB Statements No. 133 and 140" (SFAS No. 155). SFAS No. 155 gives entities the option of applying fair value accounting to certain hybrid financial instruments in their entirety if they contain embedded derivatives that would otherwise require bifurcation under SFAS No. 133. SFAS No. 155 was effective for the Registrants as of January 1, 2007. The adoption of this standard did not have a material impact on the Registrants.

FSP FIN 46(R)-6

In April 2006, the FASB issued FSP FIN 46(R)-6, "Determining the Variability to Be Considered in Applying FASB Interpretation No. 46(R)" (FSP 46(R)-6). This pronouncement provides guidance on how a reporting enterprise should determine the variability to be considered in applying FIN 46-R, which could impact the assessment of whether certain variable interest entities are consolidated. FSP 46(R)-6 was effective for the Registrants on July 1, 2006. The adoption of this standard did not have a material impact on the Registrants in 2006. As the provisions of FSP 46(R)-6 are applied prospectively, the impact to the Registrants cannot be determined until the transactions occur.

FIN 48

In June 2006, the FASB issued FIN 48, "Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109" (FIN 48), which clarifies the accounting for uncertainty in income taxes recognized in accordance with SFAS No. 109, "Accounting for Income Taxes." FIN 48 applies to all income tax positions taken on previously filed tax returns or expected to be taken on a future tax return. FIN 48 prescribes a benefit recognition model with a two-step approach, a more-likely-than-not recognition criterion and a measurement attribute that measures the position as the largest amount of tax benefit that is greater than 50% likely of being ultimately realized upon ultimate settlement. If it is not more likely than not that the benefit will be sustained on its technical merits, no benefit will be recorded. Uncertain tax positions that relate only to timing of when an item is included on a tax return are considered to have met the recognition threshold for purposes of applying FIN 48. Therefore, if it can be established that the only uncertainty is when an item is taken on a tax return, such positions have satisfied the recognition step for purposes of FIN 48 and uncertainty related to timing should be assessed as part of measurement. FIN 48 also requires that the amount of interest expense and income to be recognized related to uncertain tax positions be computed by applying the applicable statutory rate of interest to the difference between the tax position recognized in accordance with FIN 48 and the amount previously taken or expected to be taken in a tax return.

FIN 48 was effective for the Registrants as of January 1, 2007. The change in net assets as a result of applying this pronouncement will be a change in accounting principle with the cumulative effect of the change required to be treated as an adjustment to the opening balance of retained earnings. Adjustments to goodwill or regulatory accounts associated with the implementation of FIN 48 will be based on other applicable accounting standards. The Registrants have not fully completed the process of evaluating the impact of adopting FIN 48, including the apportionment of the tax and interest impacts to the Registrants in Exelon's affiliated group. Nevertheless, the Registrants have performed procedures to identify a range of the anticipated impacts of the adoption of FIN 48. The adoption of FIN 48 is not anticipated to have a material impact on the Registrants' January 1, 2007 balance of retained earnings. The estimated impact of the adoption of FIN 48 on the Registrants' financial statements is subject to change due to potential changes in interpretation of FIN 48 by the FASB and other regulatory bodies and the finalization of the Registrants' adoption efforts.

EITF 06-3

In June 2006, the FASB ratified EITF Issue No. 06-3, "How Sales Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross Versus Net Presentation)" (EITF 06-3). EITF 06-3 provides guidance on disclosing the accounting policy for the income statement presentation of any tax assessed by a governmental authority that is directly imposed on a revenue-producing transaction between a seller and a customer on either a gross (included in revenues and costs) or a net (excluded from revenues) basis. In addition, EITF 06-3 requires disclosure of any such taxes that are reported on a gross basis as well as the amounts of those taxes in interim and annual financial statements for each period for which an income statement is presented. EITF 06-3 will be effective for the Registrants as of January 1, 2007. The

Registrants disclose taxes that are imposed on and concurrent with a specific revenue-producing transaction in accordance with EITF Issue No. 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent." Exelon's, ComEd's and PECO's utility taxes are presented on a gross basis (see Note 19—Supplemental Financial Information and Note 20—Segment Information). As EITF 06-3 provides only disclosure requirements, the adoption of this standard did not have a material impact on the Registrants.

SFAS No. 157

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements but does not change the requirements to apply fair value in existing accounting standards. Under SFAS No. 157, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. The standard clarifies that fair value should be based on the assumptions market participants would use when pricing the asset or liability. SFAS No. 157 will be effective for the Registrants as of January 1, 2008 and the Registrants are currently assessing the impact that SFAS No. 157 may have on their financial statements.

SFAS No. 158

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)", which was effective for the Exelon and Generation as of December 31, 2006. SFAS No. 158 requires Exelon and Generation to recognize the overfunded or underfunded status of its defined benefit postretirement plans as an asset or liability on its balance sheet. The adoption of this standard did not materially impact the Registrants' debt or credit agreement covenants. SFAS No. 158 also prescribes the measurement date of a plan to be the date of its year-end balance sheet, which is the measurement date Exelon and Generation already use for their plans. In addition, Exelon and Generation are required to disclose additional information about certain effects on net periodic benefit cost for the next fiscal year. See Note 14—Retirement Benefits for additional information. ComEd and PECO were not impacted by SFAS No. 158.

SAB No. 108

In September 2006, the SEC issued Staff Accounting Bulletin No. 108 (SAB No. 108) regarding the quantification of financial statement misstatements. SAB No. 108 requires a "dual approach" for quantifications of errors using both a method that focuses on the income statement impact, including the cumulative effect of prior years' misstatements, and a method that focuses on the period-end balance sheet. SAB No. 108 will be effective for the Registrants as of January 1, 2007. The adoption of this standard did not have a material impact on the Registrants.

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

Cumulative Effect of Changes in Accounting Principles

FIN 47. In March 2005, the FASB issued FIN 47, which clarifies that the term "conditional asset retirement obligation" as used in SFAS No. 143 refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. FIN 47 requires an entity to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. FIN 47 was effective for the Registrants as of December 31, 2005. See Note 13—Asset Retirement Obligations for further information. The following table shows the charge the Registrants recorded as a cumulative effect of a change in accounting principle pursuant to the adoption of FIN 47 in 2005.

	Exelon	Generation	ComEd	PECO
Charge recorded, net of tax	$42	$30	$9	$3
Related tax impact	27	19	6	2

EITF 03-16. In March 2004, the EITF reached a consensus on and the FASB ratified EITF Issue No. 03-16, "Accounting for Investments in Limited Liability Companies" (EITF 03-16). The EITF concluded that if investors in a limited liability company have specific ownership accounts, they should follow the guidance prescribed in Statement of Position 78-9, "Accounting for Investments in Real Estate Ventures," and EITF Topic No. D-46, "Accounting for Limited Partnership Investments." Otherwise, investors should follow the significant influence model prescribed in Accounting Principles Board Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock." EITF 03-16 was effective for Exelon and its subsidiaries during the third quarter of 2004. Exelon recorded a charge of $9 million (net of an income tax benefit of $5 million) as a cumulative effect of a change in accounting principle in connection with its adoption of EITF 03-16 as of July 1, 2004. This charge related to certain investments in limited liability partnerships held by Enterprises.

FIN 46-R. See discussion of the adoption of FIN 46-R within the "Variable Interest Entities" discussion above.

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

The following tables set forth Exelon's net income and basic and diluted earnings per common share for the years ended December 31, 2005 and 2004, adjusted as if FIN 46-R, EITF 03-16, and FIN 47 had been applied during those periods. FIN 46-R, EITF 03-16 and FIN 47 had adoption dates of March 31, 2004, July 1, 2004, and December 31, 2005, respectively.

	2005	2004
Reported income before cumulative effect of changes in accounting principles	$ 965	$1,841
Pro forma earnings effects (net of income taxes):		
FIN 47	(5)	(4)
EITF 03-16	—	(1)
Pro forma income before cumulative effect of changes in accounting principles	$ 960	$1,836
Reported net income	$ 923	$1,864
Pro forma earnings effects (net of income taxes):		
FIN 47	(5)	(4)
EITF 03-16	—	(1)
Reported cumulative effects of changes in accounting principles:		
FIN 47	42	—
EITF 03-16	—	9
FIN 46-R	—	(32)
Pro forma net income	$ 960	$1,836

	2005	2004
Basic earnings per common share:		
Reported income before cumulative effect of changes in accounting principles	$1.44	$ 2.79
Pro forma income before cumulative effect of changes in accounting principles	1.43	2.78
Reported net income	1.38	2.82
Pro forma net income	1.43	2.78

	2005	2004
Diluted earnings per common share:		
Reported income before cumulative effect of changes in accounting principles	$1.42	$ 2.75
Pro forma income before cumulative effect of changes in accounting principles	1.42	2.74
Reported net income	1.36	2.78
Pro forma net income	1.42	2.74

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

The following tables set forth Generation's net income for the years ended December 31, 2005 and 2004, adjusted as if FIN 46-R and FIN 47 had been applied during those periods. FIN 46-R and FIN 47 had adoption dates of March 31, 2004 and December 31, 2005, respectively.

	2005	2004
Reported income before cumulative effect of changes in accounting principles	$1,128	$641
Pro forma earnings effects (net of income taxes):		
FIN 47	(4)	(4)
Pro forma income before cumulative effect of changes in accounting principles	$1,124	$637
Reported net income	$1,098	$673
Pro forma earnings effects (net of income taxes):		
FIN 47	(4)	(4)
Reported cumulative effects of changes in accounting principles:		
FIN 47	30	—
FIN 46-R	—	(32)
Pro forma net income	$1,124	$637

The adoption of these standards did not have a material impact on the historical income statements of ComEd and PECO.

2. Acquisitions and Dispositions (Exelon and Generation)

Termination of Proposed Merger with PSEG (Exelon)

On December 20, 2004, Exelon entered into an Agreement and Plan of Merger (Merger Agreement) with Public Service Enterprise Group Incorporated (PSEG), a public utility holding company primarily located and serving customers in New Jersey, whereby PSEG would have been merged with and into Exelon (Merger). All regulatory approvals or reviews necessary to complete the Merger had been completed with the exception of the approval from the New Jersey Board of Public Utilities (NJBPU). On September 14, 2006, Exelon gave formal notice to PSEG that Exelon had terminated the Merger Agreement and the companies agreed to withdraw their application for Merger approval, which had been pending before the NJBPU for more than 19 months. Exelon also terminated pending dockets and/or appeals in numerous other jurisdictions, including before the FERC and the Antitrust Division of the United States Department of Justice. See Note 4—Regulatory Issues for information regarding PECO's proposed partial settlement before the PAPUC.

Exelon capitalized certain external costs associated with the Merger since the execution of the Merger Agreement on December 20, 2004. As required under GAAP, Exelon recorded Merger-related expenses of approximately $93 million (pre-tax) in operating and maintenance expense on Exelon's Consolidated Statement of Operations, of which $55 million ($35 million after tax) was recorded in the third quarter of 2006 to write off the capitalized costs associated with the Merger. Including this $93 million of expenses, total Merger-related expenses incurred since the inception of the Merger discussions were approximately $130 million. Total capitalized costs of $46 million were included in deferred debits and other assets on Exelon's Consolidated Balance Sheets as of December 31, 2005.

Disposition of Enterprises Entities (Exelon)

Exelon Thermal Holdings, Inc. On June 30, 2004, Enterprises sold the Chicago businesses of Exelon Thermal Holdings, Inc. (Thermal) for net cash proceeds of $134 million and proceeds of $2 million from a working capital settlement, resulting in a pre-tax gain of $45 million. Prior to closing, Enterprises repaid $37 million of related debt, resulting in prepayment penalties of $9 million.

On September 29, 2004, Enterprises sold ETT Nevada, Inc., the holding company for its investment in Northwind Aladdin, LLC, for a net cash outflow of $1 million, resulting in a pre-tax loss of $3 million.

On October 28, 2004, Northwind Windsor, of which Enterprises owned a 50% interest, sold substantially all of its assets, providing Enterprises with cash proceeds of $8 million, resulting in a pre-tax gain of $2 million.

Exelon Services, Inc. During 2004, Enterprises disposed of or wound down all of the operating businesses of Exelon Services, Inc. (Exelon Services), including Exelon Solutions, the mechanical services businesses and the Integrated Technology Group. Total expected proceeds and the net pre-tax gain on sale recorded during 2004 related to these dispositions were $60 million and $8 million, respectively. A pre-tax impairment charge of $5 million related to Exelon Services' tangible assets was recorded in 2004. As of December 31, 2006 and 2005, Exelon Services had remaining assets of $52 million and $51 million, respectively, and liabilities of $5 million and $5 million, respectively, which primarily consisted of tax assets, affiliate receivables and payables, and sales proceeds to be collected.

PECO TelCove. On June 30, 2004, Enterprises sold its investment in PECO TelCove, a communications joint venture, along with certain telecommunications assets, for proceeds of $49 million. A pre-tax gain of $9 million was recorded in other income and deductions on Exelon's Consolidated Statements of Operations.

InfraSource. On September 24, 2003, Enterprises sold the electric construction and services, underground and telecom businesses of InfraSource. Cash proceeds to Enterprises from the sale were approximately $175 million, net of transaction costs and cash transferred to the buyer upon sale, plus a $30 million subordinated note receivable maturing in 2011. At the time of closing, the present value of the note receivable was approximately $12 million. The note was collected in full during the second quarter of 2004, resulting in pre-tax income of $18 million. In connection with the transaction, Enterprises entered into an agreement that would have resulted in certain payments to InfraSource if the amount of services Exelon purchases from InfraSource during the period from closing through 2006 were below specified thresholds. All specified thresholds were met or exceeded. Due to Exelon's involvement with InfraSource through this agreement and in accordance with SFAS No. 144 and EITF 03-13, "Applying the Conditions in Paragraph 42 of FASB Statement No. 144 in Determining Whether to Report a Discontinued Operation," the results of InfraSource have not been classified as a discontinued operation within Exelon's Consolidated Statements of Operations.

Sale of Investments. On December 1, 2004, Enterprises sold its limited partnership interest in EnerTech Capital Partners II, L.P. and its limited liability company interests in Kinetic Ventures I, LLC and Kinetic Ventures II, LLC for $8 million in cash and the assumption by the buyers of approximately $10 million in unfunded capital commitments. Prior to the sale, in 2004, these investments were written down to their expected sales price, resulting in pre-tax impairment charges totaling $18 million. As such, there was no net gain or loss recorded associated with the sale.

The results of Thermal and Exelon Services have been included in discontinued operations within Exelon's Consolidated Statements of Operations. See Note 3—Discontinued Operations for additional information.

Investments in Synthetic Fuel-Producing Facilities (Exelon)

In November 2003, Exelon purchased interests in two synthetic fuel-producing facilities. The purchase price for these facilities included a combination of cash, notes payable and contingent consideration dependent upon the production level of the facilities. The notes payable recorded for the purchase of the facilities were $238 million. Exelon's right to acquire a fixed amount of tax credits generated by the facilities was recorded as an intangible asset which was amortized as the tax credits were earned; however, Exelon recorded an impairment charge to fully impair this intangible asset in the second quarter of 2006.

In July 2004, Exelon purchased an interest in a limited partnership that indirectly owns four synthetic fuel-producing facilities. Exelon's purchase price for these facilities included a combination of a note payable and contingent consideration dependent upon the production levels of the facilities. The note payable recorded for the purchase of the facilities was $22 million. Exelon's right to acquire a fixed amount of tax credits generated by the facilities was recorded as an intangible asset which was amortized as these tax credits are earned; however, Exelon recorded an impairment charge to fully impair this intangible asset in the second quarter of 2006.

See Note 12—Income Taxes for additional information regarding Exelon's investments in synthetic fuel-producing facilities.

Investments in Affordable Housing (Exelon)

On October 15, 2004 and November 12, 2004, Exelon sold investments in affordable housing for total proceeds of $78 million and recognized a net gain on sale of $4 million before income taxes.

Acquisition of Southeast Chicago Energy Project, LLC (SCEP) (Exelon and Generation)

Generation and Peoples Calumet, LLC (Peoples Calumet), a subsidiary of Peoples Energy Corporation, were joint owners of SCEP, a 350-megawatt natural gas-fired, peaking electric power plant located in Chicago, Illinois, which began operation in 2002. In 2002, Generation and Peoples Calumet owned 70% and 30%, respectively, of SCEP. Pursuant to the joint owners agreement, Generation was obligated to purchase Peoples Calumet's 30% interest ratably over a 20-year period.

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

Generation had reflected the third-party interest in this majority-owned investment as a long-term liability in its consolidated financial statements. On March 31, 2006, Generation entered into an agreement to accelerate the acquisition of Peoples Calumet's interest in SCEP. This transaction closed on May 31, 2006. Under the agreement, Generation paid Peoples Calumet approximately $47 million for its remaining interest in SCEP. Generation financed this transaction using short-term debt and available cash.

Acquisition and Disposition of Sithe Energies, Inc. (Sithe) (Exelon and Generation)

On January 31, 2005, subsidiaries of Generation completed a series of transactions that resulted in Generation's sale of its investment in Sithe. Specifically, subsidiaries of Generation closed on the acquisition of Reservoir Capital Group's (Reservoir) 50% interest in Sithe and the sale of 100% of Sithe to Dynegy, Inc. (Dynegy). Prior to closing on the sale to Dynegy, subsidiaries of Generation received approximately $65 million in cash distributions from Sithe. As a result of the sale, Exelon and Generation deconsolidated approximately $820 million of debt from its balance sheets and was no longer required to provide $125 million of credit support to Dynegy on behalf of Sithe. Dynegy acquired $32 million of cash as part of the sale of Sithe. In connection with the sale, Exelon recorded $55 million of liabilities related to certain indemnifications provided to Dynegy and other guarantees directly resulting from the transaction. Generation issued certain guarantees associated with income tax indemnifications to Dynegy in connection with the sale that were valued at approximately $8 million (included in the $55 million accrual discussed above), of which $7 million had expired as of December 31, 2006. These guarantees are being accounted for under the provisions of FIN 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others" (FIN 45). The remaining exposures covered by these indemnities are anticipated to expire in 2007 and beyond. These liabilities were taken into account in the determination of the net gain on the sale of $24 million (before income taxes). As of December 31, 2006, Exelon's accrued liabilities related to these indemnifications and guarantees were $42 million, including $1 million related to income tax indemnifications. The net decrease for the accrual initially established was due to the expiration of certain guarantees, tax indemnifications and accrued interest on certain indemnifications. The estimated maximum possible exposure to Exelon related to the guarantees provided as part of the sales transaction to Dynegy was approximately $175 million at December 31, 2006.

Exelon and Generation's Consolidated Statements of Operations and Comprehensive Income for 2006, 2005 and 2004, included the following financial results related to Sithe:

	2006	2005 (a)	2004 (b)
Operating revenues	$ —	$ 30	$ 248
Operating income	—	5	1
Net income (loss)	4(d)	18(c)	(27)

(a) Sithe was sold on January 31, 2005. Accordingly, results include only one month of operations.
(b) Results include Exelon and Generation's equity-method losses from Sithe prior to its consolidation on March 31, 2004, as well as transmission congestion contract (TCC) revenues for 2004, and are not included in the discontinued operations of Sithe (see Note 3—Discontinued Operations for further information regarding the disposal of Sithe). These equity-method losses and TCC revenues are presented within income from continuing operations on the Consolidated Statements of Operations.

(c) Net income for 2005 included a pre-tax gain on sale of Sithe of $24 million.
(d) Net income for 2006 included a pre-tax gain on sale of Sithe as a result of the expiration of certain tax indemnifications and the collection of a receivable arising from the sale of Sithe that had been fully reserved.

Acquisition of Sithe International, Inc. Tamuin International, Inc. (TII), a wholly owned subsidiary of Generation (formerly Sithe International, Inc.), through its subsidiaries, has 49.5% interests in two Mexican business trusts that own the Termoeléctrica del Golfo (TEG) and Termoeléctrica Peñoles (TEP) power stations, two 230 MW petcoke-fired generating facilities in Tamuín, Mexico that commenced commercial operations in the second quarter of 2004. On October 13, 2004, Sithe transferred all of the shares of Sithe International, Inc. and its subsidiaries to a subsidiary of Generation in exchange for cancellation of a $92 million note, which is eliminated as part of the consolidation of Sithe. Effective January 26, 2005, Sithe International's name was changed to Tamuin International Inc.

Accounting Prior to the Consolidation of Sithe on March 31, 2004. Generation had accounted for the investment in Sithe as an unconsolidated equity method investment prior to its consolidation on March 31, 2004 pursuant to FIN 46-R. The book value of Generation's investment in Sithe immediately prior to its consolidation on March 31, 2004 was $49 million. For the year ended December 31, 2004, Exelon recorded $2 million of equity method losses from Sithe prior to its consolidation.

Consolidation of Sithe as of March 31, 2004. The consolidation of Sithe at March 31, 2004 was accounted for as a step acquisition pursuant to purchase accounting policies. Under the provisions of FIN 46-R, the operating results of Sithe were included in Exelon's results of operations beginning April 1, 2004.

Sale of TEG and TEP. On November 6, 2006, Tamuin International Inc. (TII), a wholly owned subsidiary of Generation, entered into a purchase and sale agreement to sell its 49.5% ownership interests in TEG and TEP to a subsidiary of AES Corporation (AES) for $95 million in cash plus certain purchase price adjustments. This transaction closed on February 9, 2007 and is not expected to have a material impact on net income. In connection with the transaction, Generation entered into a guaranty agreement under which Generation guarantees the timely payment of TII's obligations to the subsidiary of AES expressly covered under the purchase and sale agreement. Generation would be required to perform in the event that TII does not pay any obligation covered by the guaranty that is not otherwise subject to a dispute resolution process. Generation's maximum obligation under the guaranty is $95 million. Generation has not recorded a liability associated with this guaranty. The exposures covered by this guaranty are anticipated to expire in the second half of 2008 and beyond.

Sale of Ownership Interest in Boston Generating, LLC (Exelon and Generation)

On May 25, 2004, Generation completed the sale, transfer and assignment of ownership of its indirect wholly owned subsidiary Boston Generating, which owns the companies that own Mystic 4-7, Mystic 8 and 9 and Fore River generating facilities, to a special purpose entity owned by the lenders under Boston Generating's $1.25 billion credit facility (Boston Generating Credit Facility).

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

The sale was pursuant to a settlement agreement reached with Boston Generating's lenders on February 23, 2004. FERC approved the sale of Boston Generating on May 25, 2004. Responsibility for plant operations and power marketing activities were transferred to the lenders' special purpose entity on September 1, 2004.

Boston Generating was reported in the Generation segment of Exelon's consolidated financial statements prior to its sale. At the date of the sale, Boston Generating had approximately $1.2 billion in assets, primarily consisting of property, plant and equipment, and approximately $1.3 billion of liabilities of which approximately $1.0 billion was debt outstanding under the Boston Generating Credit Facility. As of the date of transfer, these amounts were eliminated from Exelon and Generation's Consolidated Balance Sheets. As a result of Boston Generating's liabilities being greater than its assets at the time of the sale, transfer and assignment of ownership, Exelon and Generation recorded a gain of $85 million ($52 million net of income taxes) in other income and deductions within the Consolidated Statements of Operations in the second quarter of 2004.

In connection with the sale, Exelon and Generation recorded a liability associated with an existing guarantee by its subsidiary Exelon New England Holdings, LLC (Exelon New England) of fuel purchase obligations of Boston Generating. At December 31, 2006, the liability associated with this guarantee was $14 million. Due to the existence of this guarantee and in accordance with SFAS No. 144 and EITF 03-13, Generation determined that it had retained risk and continuing involvement associated with the operations of Boston Generating and, as a result, the results of Boston Generating have not been classified as a discontinued operation within Exelon and Generation's Consolidated Statements of Operations. See Note 18—Commitments and Contingencies for further information regarding the guarantee.

Exelon and Generation's Consolidated Statements of Operations include the following results related to Boston Generating:

	2004
Operating revenues	$248
Operating loss	(49)
Net income [(a)]	21

(a) Net income for 2004 included an after-tax gain of $52 million related to the sale of Boston Generating in the second quarter of 2004.

3. Discontinued Operations (Exelon and Generation)

On January 31, 2005, subsidiaries of Generation completed a series of transactions that resulted in Generation's sale of its investment in Sithe. See Note 2—Acquisitions and Dispositions for additional information regarding the disposition of Sithe. In addition, during 2003 and 2004, Exelon sold or wound down substantially all components of Exelon Enterprises Company, LLC (Enterprises). As a result, the results of operations and any gain or loss on the sale of these entities are presented as discontinued operations for 2006, 2005 and 2004, within Exelon's (for Sithe and Enterprises) and Generation's (for

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

Sithe) Consolidated Statements of Operations and Comprehensive Income. Results related to these entities were as follows:

2006	Sithe [a]	Enterprises	AllEnergy	Total
Total operating revenues	$—	$(1)	$—	$(1)
Operating loss	—	(2)	—	(2)
Income (loss) before income taxes and minority interest	6	(2)	—	4

(a) Net income for 2006 included a pre-tax gain on the sale of Sithe as a result of the expiration of certain tax indemnifications and the collection of a receivable arising from the sale of Sithe that had been fully reserved.

2005	Sithe [a]	Enterprises [b]	AllEnergy	Total
Total operating revenues	$30	$18	$—	$48
Operating income (loss)	5	(8)	1	(2)
Income (loss) before income taxes and minority interest	23	(7)	1	17

(a) Sithe was sold on January 31, 2005. Accordingly, results only include one month of operations. See Note 2—Acquisitions and Dispositions for further information regarding the sale of Sithe.
(b) Excludes certain investments.

2004	Sithe [a]	Enterprises [b]	AllEnergy	Total
Total operating revenues	$227	$154	$ 8	$389
Operating loss	(7)	(57)	(2)	(66)
Loss before income taxes and minority interest	(58)	(5)	(2)	(65)

(a) Includes Sithe's results of operations from April 1, 2004 through December 31, 2004. See Note 2—Acquisitions and Dispositions for further information regarding the sale of Sithe.
(b) Excludes certain investments.

For the year ended December 31, 2006, Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income included $4 million of income (after tax) from discontinued operations related to Sithe, which represented an adjustment to the gain on sale as a result of the expiration of certain tax indemnifications, accrued interest on an indemnification and the collection of a receivable arising from the sale of Sithe that had been fully reserved.

4. Regulatory Issues (Exelon, Generation, ComEd and PECO)

The legislatively mandated transition and rate freeze period in Illinois ended in January 2007. Associated with the end of this rate freeze, ComEd is engaged in various regulatory and legislative proceedings to establish rates for the post-2006 period, which are more fully described below.

Illinois Procurement Case (Exelon and ComEd). On February 25, 2005, ComEd made a filing with the ICC to seek regulatory approval of tariffs that would authorize ComEd to bill its customers for electricity costs incurred under a reverse-auction competitive bidding process (the Procurement Case). On January 24, 2006, the ICC, by a unanimous vote, approved a reverse-auction competitive bidding process for procurement of electricity by ComEd after the end of the transition period. This approval, currently under appeal before the Illinois Appellate Court, should provide ComEd with stability and greater certainty that it will be able to procure energy through the auction process and pass through the costs of that energy to ComEd's customers through a transparent market mechanism. The energy price that resulted from the first auction is locked in until June 2008. The reverse-auction competitive bidding process is administered by an independent auction manager, with oversight by the ICC staff. On December 6, 2006, the ICC staff released its report on the auction, which generally spoke favorably of the process and the outcome. The report recommended the continued use of the reverse-auction for future electric power procurement. In order to mitigate the effects of changes in future prices, electricity to serve residential and commercial customers with loads less than 400kW will be procured through staggered contracts.

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

The ICC will subsequently review on an annual basis the prudence of ComEd's electricity purchases, but compliance with the ICC-approved reverse-auction process will establish a rebuttable presumption of prudence. Various parties, including governmental and consumer representatives and ComEd, have filed petitions for review of portions of the order with the Illinois Appellate Court. While ComEd is generally supportive of the order in the Procurement Case, ComEd has objected to the requirement for an after-the-fact prudence review. On June 2, 2006, the Illinois Attorney General filed a petition with the Illinois Supreme Court asking the Supreme Court to hear the matter on direct appeal, to grant expedited review of the pending appeals, and to stay implementation of the auction pending appeal. On August 4, 2006, the Illinois Supreme Court denied this petition. The Illinois Attorney General filed a petition with the Illinois Appellate Court asking for a stay of implementation of the ICC order in the Procurement Case pending the Illinois Appellate Court's decision on the appeals. That request was denied on August 23, 2006. On December 29, 2006, the Illinois Appellate Court denied the Illinois Attorney General's request for a stay of implementation of the ICC order in the Procurement Case. On January 11, 2007, the Illinois Supreme Court denied the Illinois Attorney General's motion for a stay. The appeals before the Illinois Appellate Court are still pending.

Initial ComEd Auction (Exelon and ComEd). The first procurement auction for ComEd's entire load took place during September 2006 for electricity to be delivered beginning in January 2007. Auction participants bid on several different products including 17-, 29- and 41-month contracts that will be "blended" together and used to serve residential and small commercial customers, a 17-month "annual" product that will be used to serve larger non-residential customers, and a variably priced "hourly" product that would be used to serve customers who either select hourly service or are not eligible to receive fixed price service. The ICC accepted the auction results related to the blended and annual products but rejected the auction results for the hourly product. Under ComEd's tariffs, electricity that would have been procured through the hourly auction is currently being purchased in the PJM Interconnection, LLC (PJM) administered wholesale electricity markets.

ComEd has entered into supplier forward contracts with all of those who have won shares of the ComEd products through the auction. Suppliers were limited to winning no more than 35% in either the fixed price section or the hourly price section of the auction (for either the ComEd or the Ameren Corporation (Ameren) auctions). In the ComEd auction, Generation won 35% of the fixed price auction. The following table presents the clearing prices for each product set in the first auction for ComEd:

	Price per MWh		
Product	**17-month contract**	**29-month contract**	**41-month contract**
Annual	$90.12	N/A	N/A
Blended	$63.96	$64.00	$63.33

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

The following table presents the tranches won by each supplier for the ComEd auction. Suppliers won bids for tranches or "slices" of electricity and are required to supply a fixed percentage of the total load regardless of that level of load. Each supplier is required to provide a variable quantity of power based on the tranches won.

Suppliers	Annual Product 17-month contract	Blended Product 17-month contract	Blended Product 29-month contract	Blended Product 41-month contract
American Electric Power Service Corporation	5	3	—	—
Conectiv Energy Supply, Inc.	3	—	6	1
Constellation Energy Commodities Group, Inc.	22	—	3	—
DTE Energy Trading, Inc	3	3	4	—
Edison Mission Marketing & Trading, Inc	—	19	22	—
Energy America, LLC	—	4	—	—
Exelon Generation Company, LLC	1	—	38	89
FPL Energy Power Marketing, Inc	9	6	—	—
J. Aron & Company	—	15	10	—
J.P. Morgan Ventures Energy Corporation	—	27	4	1
Morgan Stanley Capital Group, Inc	37	6	—	—
PPL EnergyPlus, Inc	—	6	6	2
Sempra Energy Trading Corp	8	—	—	—
WPS Energy Services, Inc	—	3	—	—
	88	92	93	93

The next auction is scheduled for January 2008 for the period June 2008 through May 2009 (and up to May 2011 for portions of the blended product). Auctions will be held annually thereafter covering the next June to May twelve-month and thirty-six-month periods.

Rate Freeze Extension Proposal (Exelon and ComEd). On February 24, 2006, House Bill 5766 (HB 5766) was introduced in the Illinois General Assembly and was referred to the Rules Committee. HB 5766, if enacted, would extend the transition period rate freeze in Illinois until at least 2010. On October 9, 2006, an amendment was filed to Senate Bill 1714 (SB 1714), which was substantively the same as HB 5766, and the House Electric Utility Oversight Committee, by a 9 to 4 vote, with one member voting present, approved the amendment to SB 1714. Various similar bills and amendments followed, as did "compromise" legislation that would not freeze rates but would mandate interest-free phase-ins of the increases and require contributions of $33 million for customer assistance, renewable energy and efficiency programs. Rate freeze legislation, which was amended to include a rollback of rates to 2006 levels and was strongly supported by the Speaker of the Illinois House of Representatives (House), was passed by the House on January 7, 2007, but was not called for a vote in the Illinois Senate (Senate) before the end of that legislative session on January 9, 2007. The "compromise" legislation, strongly advocated by the Senate President and supported by the Senate and House minorities, was passed by the Senate in that legislative session, but it was not called for a vote in the House. That legislative session ended on January 9, 2007 without any legislation having passed both the House and the Senate. All legislation pending at the close of the legislative session on

January 9, 2007 expired. A new session is underway and legislation similar to previously proposed legislation has been reintroduced. ComEd is unable to predict the final disposition of any legislation that may be presented during 2007 to rollback rates, change the end of the mandated transition and rate freeze period in Illinois, or otherwise. ComEd believes a rate rollback and freeze, if enacted into law, would have serious detrimental effects on Illinois, ComEd and consumers of electricity. If legislation similar to the "compromise" bill previously passed by the Senate to phase-in the rate increases is enacted, there would be material adverse effects on Exelon's and ComEd's results of operations and cash flows as the "compromise" bill did not provide for the recovery of carrying charges. See "Post-2006 Summary" below for further detail. ComEd believes such legislation, if enacted into law, will violate Federal law and the U.S. Constitution, and ComEd is prepared to vigorously challenge any such legislation in court.

Residential Rate Stabilization Program (Exelon and ComEd). In a December 20, 2006 order, the ICC approved a program, proposed by ComEd, to mitigate the impact on ComEd's residential customers of ComEd's transition from almost a decade of reduced and frozen rates to rates that reflect the current cost of providing service. The program includes an "opt-in" feature to give residential customers the choice to participate in the program. Average annual residential electric rate increases would be capped at 10% in each of 2007, 2008 and 2009 for customers choosing to participate in the program. For those customers, costs that exceed the caps would be deferred and recovered over three years from 2010 to 2012. Deferred balances will be assessed an annual carrying charge of 3.25%. If ComEd's rate increases are less than the caps in 2008 and 2009, ComEd would begin to recover deferred amounts up to the caps with carrying costs. The program would terminate upon a force majeure event, upon a ComEd bankruptcy, or if ComEd's senior unsecured credit ratings from the three major credit rating agencies fall below investment grade. This order also strongly encouraged, but did not require, ComEd to make contributions to environmental and customer assistance programs—see "Renewable Energy Filings" below. This order is subject to rehearing and appeal.

Illinois Rate Case (Exelon and ComEd). On August 31, 2005, ComEd filed a rate case with the ICC to comprehensively review its tariff and to adjust ComEd's rates for delivering electricity effective January 2007 (Rate Case). ComEd proposed a revenue increase of $317 million. The ICC staff and several intervenors in the Rate Case, including the Illinois Attorney General, suggested and provided testimony that ComEd's rates for delivery services should be reduced. The commodity component of ComEd's rates will be established by the reverse-auction process in accordance with the ICC rate order in the Procurement Case. On June 8, 2006, the administrative law judges (ALJs) issued a proposed order recommending a revenue increase of $164 million which included ComEd's request for recovery of several items that previously were recorded as expense. On July 26, 2006, the ICC issued its order in the Rate Case which approved a delivery services revenue increase of approximately $8 million of the $317 million proposed revenue increase requested by ComEd. The ICC order approved ComEd's requested recovery of several items which previously were recorded as expense. However, the ICC disallowed rate base treatment (return) for ComEd's prepaid pension asset and disallowed the recovery of certain administrative and general expenses. These disallowances did not result in an immediate write-off because the prepaid pension asset should be recovered as pension cost is recognized and recovered from customers in the future. The ICC rate order also provided for lower returns on rate base than ComEd had requested. See Note 18—Commitments and Contingencies for further information. The ICC subsequently granted in part requests for rehearing of

ComEd and various other parties. On December 20, 2006, the ICC issued an order on rehearing that increased the amount previously approved by approximately $74 million, including a partial return on the pension asset, for a total rate increase of $83 million. ComEd and various other parties have appealed the rate order to the courts. It is unlikely the appeal will be resolved until the second half of 2007 at the earliest. In the event the order is ultimately changed, the changes should be prospective only.

Real-Time Pricing Program (Exelon and ComEd). In 2006, the ICC approved a real-time pricing program which will offer residential customers an alternative to standard flat-rate utility billing. Starting in 2007, residential customers registered in the program will be able to control their electricity bills by using less power during higher-priced time periods.

Original Cost Audit (Exelon and ComEd). In the Rate Case, the ICC ordered an "original cost" audit of ComEd's distribution assets. The ICC order did not find that any portion of ComEd's delivery service assets should be disallowed because it was unreasonable in amount, imprudently incurred or not used and useful. The ICC rate order does not provide for a new review of these issues but instead provides that the ICC-appointed auditors determine whether the costs of ComEd's distribution assets were properly recorded on ComEd's financial statements at their original costs. The result of this audit will be addressed through a separately docketed proceeding. The original cost audit report is expected to be finalized in 2007 with an ICC proceeding to follow the issuance of the report. This proceeding may extend into 2008. ComEd is unable to predict the results of this audit but does not believe the results of the audit will have a material impact on ComEd's financial position or results of operations.

Customers' Affordable Reliable Energy (Exelon and ComEd). In July 2006, ComEd implemented Customers' Affordable Reliable Energy (CARE), an initiative to help customers prepare for electricity rate increases coming in 2007 after the expiration of the rate freeze in Illinois. In addition to the residential rate stabilization program discussed above, CARE includes a variety of energy efficiency, low-income and senior citizen programs to help mitigate the impacts of the rate increase on customers' bills. ComEd spent approximately $9 million for CARE in 2006.

Renewable Energy Filings (Exelon and ComEd). The ICC, in a January 24, 2006 order, ordered its staff to initiate three separate rulemakings regarding demand response programs, energy efficiency programs and renewable energy resources. These rulemakings have proceeded with ComEd's active participation. On October 12, 2006, the ICC voted 5 to 0 to dismiss the three rulemaking proceedings.

On April 4, 2006, ComEd filed with the ICC a request for ICC approval to purchase and receive recovery of costs associated with the output of a portfolio of competitively procured wind resources of approximately 300 MW. The filing supports the ICC's resolution of July 19, 2005 which endorsed the Illinois Governor's proposal for a voluntary initiative in which electric suppliers would obtain resources equal to 2% of electricity sold to Illinois retail customers from renewable energy resources by the end of 2007 and gradually increasing to a target of 8% by 2013 (the Plan). This filing covers the first year's wind-only procurement associated with the Plan. ComEd asked, and the ALJ agreed, to continue these proceedings until February 2007.

In the ICC's December 20, 2006 order approving ComEd's residential rate stabilization program, the ICC also strongly encouraged, but did not require, ComEd to make contributions totaling $30 million to environmental and customer assistance programs. ComEd is currently evaluating this request. ComEd has 60 days from the date of this order to file a proposal for the programs it plans to fund or implement. The ICC has 150 days to approve or modify the proposal. ComEd is currently evaluating the manner in which it may offer renewable energy programs at the ICC's encouragement. ComEd has included energy efficiency and demand response programs as a part of its ComEd CARE initiative, sponsored to assist customers with mitigating impacts of higher prices beginning in 2007 and may undertake additional demand response, energy efficiency and renewable energy related initiatives in the future; however, such initiatives will likely be dependent on the resolution of other regulatory and legislative issues mentioned previously.

Post-2006 Summary (Exelon and ComEd). ComEd cannot predict the results of any rehearings or appeals in the Rate Case or the Procurement Case or whether the Illinois General Assembly might pass rate roll back and freeze legislation or take other action that could have a material effect on the outcome of the regulatory process. If the price which ComEd is ultimately allowed to bill to customers for electricity is below ComEd's cost to procure and deliver electricity, ComEd expects that it will suffer adverse consequences, which could be material. Exelon and ComEd believe that these potential material adverse consequences could include, but may not be limited to, reduced earnings for Exelon and ComEd, further reduction of ComEd's credit ratings, limited or lost access for ComEd to credit markets to finance operations and capital investment, and loss of ComEd's capacity to enter into bilateral long-term energy procurement contracts, which may force ComEd to procure electricity at more volatile spot market prices, all of which could lead ComEd to seek protection through a bankruptcy filing. Moreover, to the extent ComEd is not permitted to recover its costs, ComEd's ability to maintain and improve service may be diminished and its ability to maintain reliability may be impaired. In the nearer term, these prospects could have adverse effects on ComEd's liquidity if vendors reduce credit or shorten payment terms or if ComEd's financing alternatives become more limited and significantly less flexible. Additionally, if ComEd's ability to recover its costs from customers through rates is significantly affected, all or a portion of ComEd's business could be required to cease applying SFAS No. 71, which covers the accounting for the effects of rate regulation and which would require Exelon and ComEd to eliminate the financial statement effects of regulation for the portion of ComEd's business that ceases to meet the criteria. This would result in the elimination of all associated regulatory assets and liabilities that ComEd had recorded on its Consolidated Balance Sheets through the recording of a one-time extraordinary gain on its Consolidated Statements of Operations and Comprehensive Income (Loss). At December 31, 2006, the income statement gain could have been as much as $1.0 billion and $2.3 billion (before taxes) at Exelon and ComEd, respectively. Finally, the impacts and resolution of the above items could lead to an additional impairment of ComEd's goodwill, which would be significant and at least partially offset the extraordinary gain discussed above. See Note 8—Intangible Assets for further information related to ComEd's goodwill.

Return on Common Equity Threshold (Exelon and ComEd). Under Illinois legislation, if the two-year average of the earned return on common equity of a utility through December 31, 2006 exceeded an established threshold, one-half of the excess earnings must be refunded to customers. The threshold rate of return on common equity is based on a two-year average of the Monthly Treasury Bond Long-Term Average Rates (20 years and above) plus 8.5% in the years 2000 through 2006.

Earnings for purposes of ComEd's threshold include ComEd's net income calculated in accordance with GAAP and reflect the amortization of regulatory assets. Under Illinois statute, any impairment of goodwill would have no impact on the determination of the cap on ComEd's allowed equity return during the transition period. ComEd has not triggered the earnings sharing provision through 2006. Beginning in 2007, this provision is no longer applicable to ComEd.

Delivery Service Rates (Exelon and ComEd). On March 3, 2003, ComEd entered into, and the ICC subsequently entered orders that implemented, an agreement (Agreement) with various Illinois retail market participants and other interested parties that settled, among other things, delivery service rates and the market value index proceeding and facilitated competitive service declarations for large-load customers and an extension of ComEd's PPA with Generation. The effect of the Agreement was to lower competitive transition charge (CTC) collections that ComEd received from customers who took electricity from a competitive electric generation supplier or under the purchase power option (PPO) through 2006. The Agreement also allowed customers to lock in current CTCs for multiple years. ComEd collected $40 million, $105 million and $169 million in CTC revenues during 2006, 2005 and 2004, respectively. CTC collections ended with the transition on January 1, 2007.

Open Access Transmission Tariff (Exelon and ComEd). On November 10, 2003, FERC issued an order allowing ComEd to put into effect, subject to refund and rehearing, new transmission rates designed to reflect nearly $500 million of infrastructure investments made since 1998; however, because of the Illinois retail rate freeze and the method for calculating CTCs, the increase has not significantly increased operating revenues. As noted, both the rate freeze and CTCs ended in January 2007. During the third quarter of 2004, a settlement agreement was reached, which was approved by FERC during the fourth quarter of 2004, which established new rates that became effective May 1, 2004.

Partial Settlement before the PAPUC (Exelon and PECO). As a result of the termination of the Merger Agreement, the provisions of the PAPUC order and partial settlement approving the Merger will not become effective and will not be applicable to PECO or the other parties to the settlement.

Rate Limitations (Exelon and PECO). Pursuant to a settlement agreement with the PAPUC related to the merger of Exelon, Unicom Corporation and PECO on October 20, 2000 (PECO/Unicom Merger), PECO was subject to agreed-upon electric service rate reductions of $200 million, in aggregate, for the period January 1, 2002 through December 31, 2005. As required by the 1998 electric restructuring settlement and as modified by the PECO/Unicom Merger-related settlement agreement, PECO is subject to rate caps (subject to limited exceptions for significant increases in Federal or state income taxes or other significant changes in law or regulation that do not allow PECO to earn a fair rate of return) on its transmission and distribution rates through December 31, 2006, and is subject to rate caps on its energy rates through December 31, 2010.

Through and Out (T&O) Rates and Seams Elimination Charge/Cost Adjustment/Assignment (SECA) (Exelon, ComEd and PECO). In November 2004, FERC issued two orders authorizing ComEd and PECO to recover amounts for a limited time during a specified transitional period as a result of the elimination of T&O rates for transmission service scheduled out of, or across, their respective transmission systems and ending within pre-expansion territories of PJM or Midwest Independent System Operators (MISO). T&O rates were terminated pursuant to FERC orders, effective December 1, 2004. The new rates, known as SECA, were collected from load-serving entities and paid to transmission owners within PJM and MISO over a transitional period from December 1, 2004 through March 31, 2006, subject to refund, surcharge and hearing. As load-serving entities, ComEd and PECO were also required to pay SECA rates during the transitional period based on the benefits they received from the elimination of T&O rates of other transmission owners within PJM and MISO. Since the inception of the SECA rates in December 2004, ComEd has recorded approximately $49 million of SECA collections net of SECA charges, including $5 million during the year ended December 31, 2006, while PECO has recorded $11 million of SECA charges net of SECA collections, including $4 million during the year ended December 31, 2006. Management of each of ComEd and PECO believes that appropriate reserves have been established in the event that some portion of SECA collections are required to be refunded. A hearing was held in May 2006 and the ALJ issued an initial decision on August 10, 2006. The ALJ's initial decision indicated that the transmission owners overstated their lost revenues in their compliance filings and the SECA rate design was flawed. Additionally, the ALJ recommended that the transmission owners should be ordered to refile their respective compliance filings related to SECA rates. ComEd and PECO have filed exceptions to the initial decision and FERC, on review, will determine whether or not to accept the ALJ's recommendation. There is no timeline for FERC to act on this matter. Settlements have been reached with various parties. FERC has approved several of these settlements while others are still awaiting final execution and/or FERC approval. The ultimate outcome of the proceeding establishing SECA rates is uncertain, but ComEd and PECO do not believe ultimate resolution of this matter will be material to the results of operations or financial position.

PJM Transmission Design (Exelon, ComEd and PECO). On May 31, 2005, FERC issued an order creating an evidentiary hearing process to examine the existing PJM transmission rate design. A number of parties submitted testimony proposing the replacement of that rate design for existing facilities with several variations which could have an adverse impact on Exelon's pre-tax operating income. FERC staff submitted testimony opposing adoption of all of those variations, and in the alternative recommended that FERC supplant the existing design in which customers in a zone pay a transmission rate based on the cost of transmission in that zone, with a postage stamp rate design across PJM in which a single, uniform charge would be applied for all existing transmission facilities. This proposal, if adopted, would also be expected to produce an adverse impact on Exelon's pre-tax operating income. ComEd and PECO, as members of the Responsible Pricing Alliance (comprised of most of the PJM transmission owners), submitted testimony opposing all changes and urging retention of the existing rate design at least through January 2008.

On July 13, 2006, the ALJ in the case issued an initial decision that recommends that FERC implement the postage stamp rate suggested by FERC staff, effective as of April 1, 2006, but also allows for the potential to phase in rate changes. On review of the matter, FERC will determine whether changes in rate design should be made, what those changes should be and their effective date. There is no set timeline for FERC to act on this matter. ComEd and PECO cannot predict how FERC will ultimately rule on this matter, including the effective date and if there would be any rates that may be subject to refund. ComEd and PECO also cannot estimate the final impact on either company's results of operations and cash flows. However, ComEd anticipates that all impacts of any rate design changes effective after December 31, 2006 should be recoverable through retail rates. With the expiration of PECO's transmission and distribution rate caps on December 31, 2006, PECO has the right to file with the PAPUC for a change in retail rates to reflect the impact of any change in wholesale transmission rates.

Customer Choice (Exelon, ComEd and PECO). All of ComEd's retail customers are eligible to choose a competitive electric generation supplier and most non-residential customers may also buy electricity from ComEd at market-based prices under the PPO. One competitive electric generation supplier was granted approval to serve residential customers in the ComEd service territory. However, as of December 31, 2006, they are not currently supplying electricity to any of ComEd's residential customers. As of December 31, 2006, approximately 20,300 non-residential customers, or 28% of ComEd's annual retail kWh sales, had elected either the PPO or a competitive electric generation supplier. Customers who receive energy from a competitive electric generation supplier continue to pay a delivery charge.

All PECO customers may choose to purchase energy from a competitive electric generation supplier. As of December 31, 2006, approximately 34,400 customers, representing approximately 2% of PECO's annual kWh sales, had elected to purchase their electric energy from a competitive electric generation supplier. Customers who receive energy from a competitive electric generation supplier continue to pay delivery charges and CTCs.

Initial Illinois Auction (Exelon and Generation). As described in the "Initial ComEd Auction" section above, Generation participated and won portions of the ComEd and Ameren auctions. The results and clearing prices of the ComEd auction are described above. In the Ameren auction, Generation won 10 tranches, or 27% of the annual 17-month product, with clearing prices of $84.95 per MWh.

Post-2006 Summary (Exelon and Generation). Generation's PPA with ComEd expired at the end of 2006. In September 2006, Generation participated in and won portions of the ComEd and Ameren auctions. As a result of the expiration of the PPA and the results of the auctions, beginning in 2007, Generation will sell more power through bilateral agreements with other new and existing counterparties. Generation has credit risk associated with counterparty performance on energy contracts which includes, but is not limited to, the risk of financial default or slow payment; therefore, Generation's credit risk profile is anticipated to change based on the credit worthiness of the new and existing counterparties, including ComEd and Ameren. Additionally, due to the possibility of rate freeze legislation in Illinois affecting both ComEd and Ameren, Generation may be subject to the risk of default and, in the event of a bankruptcy filing by ComEd or Ameren, a risk that the bankruptcy may result in rejection of contracts for the purchase of power. A default by ComEd or Ameren on contracts for purchase of electricity, or a rejection of those contracts in a bankruptcy proceeding, could result in a disruption in the wholesale power markets.

Market-Based Rates Matters (Exelon and Generation). On July 5, 2005, FERC issued an order conditionally approving Exelon's entities' continued sales of power at market-based rates. As part of that order, FERC instituted a Section 206 proceeding on the basis that Exelon had not addressed the issue of affiliate abuse. On April 3, 2006, FERC terminated proceedings under Section 206, accepting Exelon's statements that, under the regulatory structures in Illinois and Pennsylvania, most of the load is served under fixed prices and that no customer is captive, a scenario that had not changed since the previous market-based rates filing in 2000 and that alleviated concerns of affiliate abuse or reciprocal dealing.

On May 19, 2006, FERC issued a Notice of Proposed Rule Making (NOPR) on Market-Based Rates for Wholesale Sales of Electric Energy, Capacity and Ancillary Services by Public Utilities. The NOPR proposes a set of regulations that would modify the tests that Exelon and other market participants must satisfy to be entitled to market-based rates. Exelon currently expects that FERC will rule on the NOPR in the first or second quarter of 2007, and that Exelon will be required to make its first filing with the FERC under the new standards in the second quarter of 2007. Exelon is not certain as to the impact of any new rules that are promulgated as a result of FERC's future ruling with respect to the NOPR.

On December 15, 2006, Exelon made a Change in Status (CIS) filing with FERC. The triggering event was the end of the full-requirements PPA between Generation and ComEd and the resulting increase in Generation's uncommitted capacity. A CIS filing is required when there is a material change in status relied upon by FERC when granting market-based rates authority. Exelon's filing, supported by an updated market-power analysis, demonstrated that Exelon continues to be entitled to market-based rates. The time period for interventions expired on January 5, 2007, no party intervened, and on February 9, 2007, FERC accepted Exelon's CIS filing.

Reliability Pricing Model (RPM) (Exelon and Generation). On August 31, 2005, PJM filed its RPM with FERC to replace its current capacity market rules. The RPM proposal provided for a forward capacity auction using a demand curve and locational deliverability zones for capacity phased in over a several year period beginning on June 1, 2006. On November 5, 2005, PJM proposed to delay the effective date of the RPM until June 1, 2007. On April 20, 2006, FERC issued an order generally finding aspects of PJM's RPM filing to be just and reasonable, but FERC also established further procedures to resolve the remaining issues and encouraged the parties to seek a negotiated resolution. A final settlement was filed with FERC on September 29, 2006 and FERC issued its order approving the settlement, subject to conditions, on December 22, 2006. FERC's adoption of the settlement proposal of September 2006 is expected to have a favorable impact for owners of generation facilities, and particularly for such facilities located in constrained zones. The final revenue impact of the settlement on Generation, particularly over an extended time period, however cannot be estimated at this time.

FERC has also denied requests for rehearing of its April 20, 2006 order. The time for filing a petition for review of FERC's April 2006 order will expire on February 20, 2007. In addition, FERC's order approving the settlement, subject to conditions, is subject to requests for rehearing and judicial review. PJM will almost certainly implement RPM in 2007 notwithstanding, as FERC's orders are rarely stayed, and therefore almost always remain in effect, pending appellate review. The first auction, which is scheduled to occur in April 2007, will allow Generation to better estimate the revenue impact for the period June 1, 2007 through May 31, 2008.

The Energy Policy Act of 2005 (Exelon, Generation, ComEd and PECO). The Energy Policy Act of 2005 (the Energy Policy Act), which was signed into law on August 8, 2005, implements several significant changes intended to improve electric reliability, promote investment in the transmission infrastructure, streamline electric regulation, improve wholesale competition, address problems identified in the western energy crisis and the Enron Corporation collapse, promote fuel diversity and cleaner fuel sources, and promote greater efficiency in electric generation, delivery and use.

The Energy Policy Act, through amendment of the Federal Power Act, also transferred to FERC certain additional authority. FERC was granted new authority to review the acquisition or merger of generating facilities, along with the responsibility to address more explicitly cross-subsidization issues in these situations. Additionally, FERC now has the authority to approve siting of electric transmission facilities located in national interest electric transmission corridors if states cannot or will not act in a timely manner to approve siting. The Energy Policy Act also required the creation of a self-regulating electric reliability organization with FERC oversight to enforce reliability rules. On July 20, 2006, pursuant to the Energy Policy Act, FERC certified the North American Electric Reliability Corporation (NERC) as the nation's Electric Reliability Organization. As a result, owners and operators of the bulk power transmission system, including Generation, ComEd and PECO, will be subject to mandatory reliability standards promulgated by NERC and enforced by FERC.

In addition, the Energy Policy Act extends the Price-Anderson Act to December 31, 2025. See Note 18—Commitments and Contingencies for further discussion of the Price-Anderson Act.

Additionally, the Energy Policy Act repealed PUHCA effective February 8, 2006. Since Exelon was a registered holding company under PUHCA, Exelon and its subsidiaries were subject to a number of restrictions. These restrictions involved financings, investments and affiliate transactions. Exelon had an order under PUHCA authorizing financing transactions within certain limits. Exelon also had an order under PUHCA authorizing development activities, the formation of new intermediate subsidiaries for internal corporate structuring, internal corporate reorganizations, and investments in certain non-U.S. energy-related subsidiaries. PUHCA also limited the businesses in which Exelon could engage in and the investments that Exelon could make, and required that Exelon's utility subsidiaries constituted a single system that could be operated in an efficient, coordinated manner. With the repeal of PUHCA, Exelon is no longer subject to those restrictions. However, Section 203 of the Federal Power Act, as amended by the Energy Policy Act and regulations thereunder, governs intercompany system financings and cash management arrangements, certain corporate internal reorganizations, and certain holding company acquisitions of public utility and holding company securities. FERC obtained additional jurisdiction for the review of affiliate transactions, and FERC's financing jurisdiction resumes to the extent that it was preempted by PUHCA. With the repeal of PUHCA, the SEC's financing jurisdiction under PUHCA for ComEd's and PECO's short-term financings and Generation's financings reverted to FERC. Exelon's financings are not subject to FERC jurisdiction.

In February 2006, ComEd and PECO received orders from FERC approving their requests for short-term financing authority with FERC in the amounts of $2.5 billion and $1.5 billion, respectively, effective February 8, 2006 through December 31, 2007.

Generation currently has blanket financing authority that it received from FERC with its market-based rate authority in November 2000 and that became effective again with the repeal of PUHCA. As reported previously, the pendency of FERC's review of Generation's market-based rate authority established the possibility that the 2000 blanket financing authority could have been revoked retrospectively. See "Market-Based Rates Matters" above for further information. Consequently, Generation continued its reliance on its SEC financing authority that was available under the grandfathering provision of PUHCA 2005. The FERC proceeding was terminated on April 3, 2006, thereby removing any uncertainty over Generation's market-based rate and blanket financing authority, and Generation subsequently informed FERC that Generation is continuing its reliance for financing authority on the 2000 blanket financing authority. Accordingly, Generation is no longer availing itself of the SEC financing authority under the grandfathering provision of PUHCA 2005 and is no longer subject to the conditions thereunder.

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

To the extent that the SEC's jurisdiction under PUHCA preempted certain aspects of state regulation of Exelon, the repeal of PUHCA will permit the states in which Exelon and its subsidiaries operate to adopt additional regulations if they so choose, absent any preemption by FERC.

License Renewals (Exelon and Generation). In December 2004, the NRC issued an order that will permit the Oyster Creek Generating Station (Oyster Creek) to operate beyond its license expiration in April 2009 if the NRC has not completed reviewing the application for renewal. In July 2005, Generation applied for license renewal for Oyster Creek on a timeline consistent and integrated with the other planned license renewal filings for the Generation nuclear fleet. The NRC has already approved 20-year renewals of the operating licenses for Generation's Peach Bottom, Dresden and Quad Cities generating stations. The licenses for Peach Bottom Unit 2, Peach Bottom Unit 3, Dresden Unit 2, Dresden Unit 3, Quad Cities Unit 1 and Quad Cities Unit 2 were renewed to 2033, 2034, 2029, 2031, 2032 and 2032, respectively. Depreciation provisions are based on the estimated useful lives of the stations, which assumes the renewal of the licenses for all nuclear generating stations. As a result, these license renewals had no impact on the Consolidated Statements of Operations.

5. Accounts Receivable (Exelon, Generation, ComEd and PECO)

Customer accounts receivable at December 31, 2006 and 2005 included estimated unbilled revenues, representing an estimate for the unbilled amount of energy or services provided to customers, and allowance for uncollectible accounts as follows:

2006	Exelon	Generation	ComEd	PECO
Unbilled revenues	$1,077	$538	$296	$243
Allowance for uncollectible accounts	91	17	20	51

2005	Exelon	Generation	ComEd	PECO
Unbilled revenues	$1,020	$524	$321	$175
Allowance for uncollectible accounts	77	15	20	39

PECO is party to an agreement with a financial institution under which it can sell or finance with limited recourse an undivided interest, adjusted daily, in up to $225 million of designated accounts receivable through November 2010. At December 31, 2006, PECO had sold a $225 million interest in accounts receivable, consisting of a $208 million interest in accounts receivable, which PECO accounted for as a sale under SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities—a Replacement of FASB Statement No. 125," (SFAS

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

No. 140) and a $17 million interest in special-agreement accounts receivable which was accounted for as a long-term note payable (see Note 11—Debt and Credit Agreements). At December 31, 2005, PECO had sold a $225 million interest in accounts receivable, consisting of a $195 million interest in accounts receivable which PECO accounted for as a sale under SFAS No. 140 and a $30 million interest in special-agreement accounts receivable which was accounted for as a long-term note payable. PECO retains the servicing responsibility for these receivables. The agreement requires PECO to maintain the $225 million interest, which, if not met, requires cash, which would otherwise be received by PECO under this program, to be held in escrow until the requirement is met. At December 31, 2006 and 2005, PECO met this requirement and was not required to make any cash deposits.

Beginning in 2007, this agreement will be subject to the provisions of SFAS No. 156, "Accounting for Servicing of Financial Assets, amendment of FASB Statement No. 140," which is not expected to have a material impact to PECO.

6. Property, Plant and Equipment (Exelon, Generation, ComEd and PECO)

The following tables present a summary of property, plant and equipment by asset category as of December 31, 2006 and 2005:

December 31, 2006	Exelon	Generation	ComEd	PECO
Asset Category				
Electric—transmission and distribution	$16,385	$ —	$11,632	$4,753
Electric—generation	8,154	8,154	—	—
Gas—transmission and distribution	1,537	—	—	1,537
Common	499	—	—	499
Nuclear fuel	2,205	2,205	—	—
Construction work in progress	861	509	256	77
Other property, plant and equipment (a)	384	60	14	13
Total property, plant and equipment	30,025	10,928	11,902	6,879
Less accumulated depreciation (b)	7,250	3,414	1,445	2,228
Property, plant and equipment, net	$22,775	$ 7,514	$10,457	$4,651

(a) For Exelon, also includes corporate operations, shared service entities, including Exelon Business Services Company (BSC), Enterprises and investments in synthetic fuel-producing facilities. For Generation, includes buildings under capital lease with a net carrying value of $37 million at December 31, 2006. The original cost basis of the buildings was $53 million and total accumulated amortization was $16 million at December 31, 2006. For ComEd and PECO, represents non-utility property.

(b) For Generation, includes accumulated amortization of nuclear fuel of $1,078 million at December 31, 2006.

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

December 31, 2005	Exelon	Generation	ComEd	PECO
Asset Category				
Electric—transmission and distribution	$15,463	$ —	$10,882	$4,581
Electric—generation	8,083	8,083	—	—
Gas—transmission and distribution	1,483	—	—	1,483
Common	476	—	—	476
Nuclear fuel	3,148	3,148	—	—
Construction work in progress	840	494	253	88
Other property, plant and equipment [(a)]	360	54	24	15
Total property, plant and equipment	29,853	11,779	11,159	6,643
Less accumulated depreciation [(b)]	7,872	4,315	1,253	2,172
Property, plant and equipment, net	$21,981	$ 7,464	$ 9,906	$4,471

(a) For Exelon, also includes corporate operations, shared service entities, including BSC, Enterprises and investments in synthetic fuel-producing facilities. For Generation, includes buildings under capital lease with a net carrying value of $40 million at December 31, 2005. The original cost basis of the buildings was $53 million and total accumulated amortization was $13 million at December 31, 2005. For ComEd and PECO, represents non-utility property.

(b) For Generation, includes accumulated amortization of nuclear fuel of $2,103 million at December 31, 2005.

As of December 31, 2006 and 2005, Exelon had recorded the following accumulated depreciation for regulated and unregulated property, plant and equipment:

	December 31, 2006		December 31, 2005	
	Regulated	Unregulated	Regulated	Unregulated
Accumulated depreciation	$3,673	$3,577[(a)]	$3,425	$4,447[(a)]

(a) Includes accumulated amortization of nuclear fuel in the reactor core of $1,078 million and $2,103 million as of December 31, 2006 and 2005, respectively.

License Renewals. Generation's depreciation provisions are based on the estimated useful lives of the stations, which assumes the renewal of the licenses for all nuclear generating stations. As a result, the receipt of license renewals has no impact on the Consolidated Statements of Operations. See Note 4—Regulatory Issues for further information on license renewals.

Depreciation Rate Study. In August 2005, PECO filed a depreciation rate study with the PAPUC for both its electric and gas assets, which resulted in the implementation of new depreciation rates effective March 2006. The impact of the new rates was not material.

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

7. Jointly Owned Electric Utility Plant (Exelon, Generation and PECO)

Exelon's, Generation's and PECO's undivided ownership interests in jointly owned electric plant at December 31, 2006 and 2005 were as follows:

	Nuclear generation			Fossil fuel generation			
	Quad Cities	Peach Bottom	Salem [a]	Keystone	Conemaugh	Wyman	Transmission/ Other
Operator	Generation	Generation	PSEG Nuclear	Reliant	Reliant	FP&L	[b],[c]
Ownership interest	75.00%	50.00%	42.59%	20.99%	20.72%	5.89%	[b],[c]
Exelon's share at December 31, 2006:							
Plant	$ 431	$ 461	$ 189	$ 182	$ 218	$ 2	$ 62
Accumulated depreciation	70	246	60	111	143	1	29
Construction work in progress	34	21	123	13	2	—	—
Exelon's share at December 31, 2005:							
Plant	$ 363	$ 449	$ 181	$ 171	$ 217	$ 2	$ 62
Accumulated depreciation	67	241	42	107	138	1	28
Construction work in progress	51	22	78	5	1	—	—

(a) Generation also owns a proportionate share in the fossil fuel combustion turbine at Salem, which is fully depreciated. The gross book value was $3 million at December 31, 2006 and 2005.

(b) PECO has a 22.00% ownership interest in 127 miles of 500,000 voltage lines located in Pennsylvania and a 42.55% ownership interest in 131 miles of 500,000 voltage lines located in Delaware and New Jersey.

(c) Generation has a 44.24% ownership interest in Merrill Creek Reservoir located in New Jersey with a book value of $1 million at December 31, 2006 and 2005.

Exelon's, Generation's and PECO's undivided ownership interests are financed with their funds and all operations are accounted for as if such participating interests were wholly owned facilities. Exelon's, Generation's and PECO's share of direct expenses of the jointly owned plants are included in the corresponding operating expenses on Exelon's, Generation's and PECO's Consolidated Statements of Operations.

8. Intangible Assets

Goodwill (Exelon and ComEd)

Pursuant to SFAS No. 142, goodwill is not amortized, but is subject to an assessment for impairment at least annually, or more frequently, if events or circumstances indicate that goodwill might be impaired. The impairment assessment is performed using a two-step, fair-value based test. The first step compares the fair value of the reporting unit to its carrying amount, including goodwill. If the carrying amount of the reporting unit exceeds its fair value, the second step is performed. The second step requires unrecognized intangible assets to be valued and then compares the carrying amount of the goodwill to the estimated fair value of the goodwill. If the fair value of goodwill is less than the carrying amount, an impairment loss is reported as a reduction to goodwill and a charge to operating expense.

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

Exelon assesses goodwill impairment at its ComEd operating segment; accordingly, any goodwill impairment charge at ComEd will affect Exelon's results of operations as the goodwill impairment test for Exelon considers the cash flows of only ComEd. In the assessment to estimate the fair value of ComEd, Exelon and ComEd used a probability-weighted, discounted cash flow model with multiple scenarios. The determination of the fair value was dependent on many sensitive, interrelated and uncertain variables including changing interest rates, utility sector market performance, capital structure, market prices for power, post-2006 rate regulatory structures, operating and capital expenditure requirements and other factors. Additionally, ComEd's estimate of its fair value was compared to a fair value estimate determined by a third-party valuation firm. Changes from the assumptions used in the impairment review could possibly result in a future impairment loss of ComEd's goodwill, which could be material.

The changes in the carrying amount of goodwill for the years ended December 31, 2006 and 2005 were as follows:

Balance as of January 1, 2005	$ 4,705
Resolution of certain tax matters	(23)
Impairment	(1,207)
Balance as of January 1, 2006	3,475
Resolution of certain tax matters	(5)
Impairment	(776)
Balance as of December 31, 2006	$ 2,694

2006 Interim Goodwill Impairment Assessment. Exelon and ComEd perform the annual goodwill impairment assessment in the fourth quarter of each year. However, due to the significant negative impact of the ICC's July 2006 order in ComEd's Rate Case to the cash flows and value of ComEd, an interim impairment assessment was completed during the third quarter of 2006. Based on the results of ComEd's interim goodwill impairment analysis, which was determined using the same model and assumptions discussed above, Exelon and ComEd recorded an impairment charge of $776 million associated with the write-off of the goodwill during the third quarter of 2006. See Note 4—Regulatory Issues for further information regarding the Rate Case and the Procurement Case.

2006 Annual Goodwill Impairment Assessment. The annual goodwill impairment assessment was performed as of November 1, 2006. The first step of the annual impairment analysis, comparing the fair value of ComEd to its carrying value, including goodwill, indicated no additional impairment of goodwill.

2005 Annual Goodwill Impairment Assessment. The annual goodwill impairment assessment was performed as of November 1, 2005. The first step of the annual impairment analysis, comparing the fair value of ComEd to its carrying value, including goodwill, indicated an impairment of goodwill existed. The second step of the analysis indicated ComEd's goodwill was impaired by $1.2 billion. This impairment was primarily driven by the fair value of ComEd's below market PPA with Generation, the end of ComEd's regulatory transition period at December 31, 2006 and the elimination of related transition revenues, developments in the regulatory and political environment as of November 1, 2005, anticipated increases in capital expenditures in future years and decreases in market valuations of comparable companies that are used to estimate the fair value of ComEd.

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

Other Intangible Assets (Exelon)

Exelon's other intangible assets, included in deferred debits and other assets, consisted of the following as of December 31, 2005:

	Gross	Accumulated Amortization	Net
Synthetic fuel investments (a)	$264	$(121)	$143
Intangible pension asset (b)	34	—	34
Total intangible assets	$298	$(121)	$177

(a) See Note 12—Income Taxes for a description of Exelon's right to acquire tax credits through investments in synthetic fuel-producing facilities. In the second quarter of 2006, Exelon recorded an impairment charge of $115 million (before income taxes) associated with the full write-off of the intangible asset related to its investment in synthetic fuel-producing facilities.

(b) See Note 14—Retirement Benefits for a description of the impact to Exelon's Consolidated Balance Sheet as a result of adopting SFAS No. 158, including the elimination of the intangible pension asset in 2006.

For the year ended December 31, 2006, Exelon's amortization expense related to intangible assets was $28 million. For the year ended December 31, 2005, the intangible pension asset decreased by $137 million as a result of an annual actuarial valuation associated with Exelon's pension plans. For the year ended December 31, 2005, Exelon's amortization expense related to intangible assets was $68 million, of which $4 million has been reflected as a reduction in revenues related to the energy purchase agreement and the tolling agreement. For the year ended December 31, 2004, Exelon's amortization expense related to intangible assets was $90 million, of which $32 million has been reflected as a reduction in revenues related to the energy purchase agreement and the tolling agreement.

Generation sold Sithe on January 31, 2005, which resulted in the elimination of the intangible assets related to Sithe's energy purchase agreement and tolling agreement from Exelon's Consolidated Balance Sheets. See Note 2—Acquisitions and Dispositions for further information regarding this sale.

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

9. Fair Value of Financial Assets and Liabilities (Exelon, Generation, ComEd and PECO)

Derivative Financial Assets and Liabilities

Interest-Rate Swaps (Exelon, Generation, ComEd and PECO)

The fair values of the Registrants' interest-rate swaps are determined using quoted exchange prices, external dealer prices and available market pricing curves. At December 31, 2005, Exelon had $240 million of notional amounts of interest-rate swaps outstanding, which were held by ComEd and were settled on January 17, 2006 for a cash payment of approximately $1 million. At December 31, 2006, the Registrants did not have any cash-flow hedges outstanding.

Fair-Value Hedges. The Registrants may utilize fixed-to-floating interest-rate swaps from time to time as a means to achieve their targeted level of variable-rate debt as a percent of total debt. At December 31, 2006 and 2005, Exelon had $50 million and $240 million, respectively, of notional amounts of fair-value hedges outstanding. At December 31, 2005, ComEd had $240 million of notional amounts of fair-value hedges outstanding. Fixed-to-floating interest-rate swaps are designated as fair-value hedges, as defined in SFAS No. 133, and, as such, changes in the fair value of the swaps are recorded in earnings; however, as long as the hedge remains effective and the underlying liability remains outstanding, changes in the fair value of the swaps are offset by changes in the fair value of the hedged liabilities. Any change in the fair value of the hedge as a result of ineffectiveness is recorded immediately in earnings. During 2006 and 2005, no amounts relating to fair-value hedges were recorded in earnings as a result of ineffectiveness.

At December 31, 2006, the fair value associated with interest-rate swaps were as follows:

	Notional Amount	Exelon Pays	Counterparty Pays	Fair Value 12/31/06	Fair Value 12/31/05
Fair-Value Hedges					
Exelon	$50	3 Month LIBOR-.1419%	4.90%	$(0.4)	$—

Cash-Flow Hedges. The Registrants may utilize interest-rate derivatives to lock in interest-rate levels in anticipation of future financings. Forward-starting interest-rate swaps are designated as cash-flow hedges, as defined in SFAS No. 133 and, as such, changes in the fair value of the swaps are recorded in accumulated other comprehensive income (OCI). Any change in the fair value of the hedge as a result of ineffectiveness is recorded immediately in earnings. At December 31, 2006 and 2005, the Registrants did not have any notional amounts of cash-flow hedges outstanding. During 2005, Exelon settled interest-rate swaps in the aggregate notional amount of $1.8 billion, of which $325 million was the result of a ComEd forecasted transaction no longer being probable, and recorded pre-tax losses of $54 million, of which $15 million was included in other, net within Exelon's and ComEd's Consolidated Statements of Operations. Exelon is recording the remaining $39 million as additional interest expense over the remaining life of the related debt.

Energy-Related Derivatives (Exelon, Generation and ComEd)

Generation utilizes derivatives to manage the utilization of its available generating capacity and the provision of wholesale energy to its affiliates. Exelon and Generation also utilize energy option contracts and energy financial swap arrangements to limit the market price risk associated with forward energy commodity contracts. Additionally, Generation enters into certain energy-related derivatives for trading or speculative purposes.

Generation's energy contracts are accounted for under SFAS No. 133. Non-trading contracts may qualify for the normal purchases and normal sales exemption to SFAS No. 133. Those that do not meet the normal purchase and normal sales exemption are recorded as assets or liabilities on the balance sheet at fair value. Changes in the derivatives recorded at fair value are recognized in earnings unless specific hedge accounting criteria are met and they are designated as cash-flow hedges, in which case those changes are recorded in OCI, and gains and losses are recognized in earnings when the underlying transaction occurs or are designated as fair-value hedges, in which case those changes are recognized in current earnings offset by changes in the fair value of the hedged item in current earnings. Changes in the fair value of derivative contracts that do not meet the hedge criteria under SFAS No. 133 (or are not designated as such) and proprietary trading contracts are recognized in current earnings. Generation also has contracted for access to additional generation and sales to load-serving entities that are accounted for under the accrual method of accounting discussed in Note 18—Commitments and Contingencies.

ComEd has derivatives related to one wholesale contract and certain other contracts to manage the market price exposures to several wholesale contracts that extend into 2007, which is beyond the expiration of ComEd's PPA with Generation. ComEd's wholesale contract, which previously qualified for the normal sale exception pursuant to SFAS No. 133, has been recorded at fair value beginning in the first quarter of 2006 since the exception is no longer applicable. Additionally, the supplier forward contracts that ComEd has entered into as part of the initial ComEd procurement auction (See Note 4—Regulatory Issues) are deemed to be derivatives that qualify for the normal purchase exception to SFAS No. 133. ComEd does not enter into derivatives for speculative or trading purposes.

PECO's PPA with Generation and its gas supply agreements are deemed to be derivatives that qualify for the normal purchase exception to SFAS No. 133. PECO does not enter into derivatives for speculative or trading purposes.

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

At December 31, 2006, Exelon, Generation and ComEd had net assets (liabilities) of $496 million, $499 million and $(11) million, respectively, on their Consolidated Balance Sheets for the fair value of energy derivatives. The following table provides a summary of the fair value balances recorded by Exelon, Generation and ComEd as of December 31, 2006:

December 31, 2006	Generation				ComEd				Exelon
Derivatives	Cash-Flow Hedges	Other Derivatives	Proprietary Trading	Subtotal	Cash-Flow Hedge	Other Derivatives	Subtotal	Other [a]	Energy-Related Derivatives [b]
Current assets	$ 460	$ 751	$ 197	$ 1,408	$—	$—	$—	$ 10	$ 1,418
Noncurrent assets	104	52	15	171	—	—	—	—	171
Total mark-to-market energy contract assets	$ 564	$ 803	$ 212	$ 1,579	$—	$—	$—	$ 10	$ 1,589
Current liabilities	$(119)	$(697)	$(187)	$(1,003)	$ (6)	$ (5)	$(11)	$ (1)	$(1,015)
Noncurrent liabilities	(30)	(33)	(14)	(77)	—	—	—	(1)	(78)
Total mark-to-market energy contract liabilities	$(149)	$(730)	$(201)	$(1,080)	$ (6)	$ (5)	$(11)	$ (2)	$(1,093)
Total mark-to-market energy contract net assets (liabilities)	$ 415	$ 73	$ 11	$ 499	$ (6)	$ (5)	$(11)	$ 8	$ 496

(a) Other includes corporate operations, shared service entities, including BSC, Enterprises and investments in synthetic fuel-producing facilities.
(b) Excludes Exelon's interest-rate swaps.

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

At December 31, 2005, Exelon and Generation had net liabilities of $517 million and $540 million, respectively on their Consolidated Balance Sheets for the fair value of energy derivatives, which included the energy derivatives discussed below. The following tables provide a summary of the fair value balances recorded by Exelon and Generation as of December 31, 2005:

December 31, 2005	Generation					Exelon
Derivatives	Cash-Flow Hedges	Other Derivatives	Proprietary Trading	Subtotal	Other [a]	Energy-Related Derivatives [b]
Current assets	$ 563	$ 327	$ 26	$ 916	$—	$ 916
Noncurrent assets	153	9	124	286	85	371
Total mark-to-market energy contract assets	$ 716	$ 336	$ 150	$ 1,202	$ 85	$ 1,287
Current liabilities	$ (948)	$(316)	$ (18)	$(1,282)	$—	$(1,282)
Noncurrent liabilities	(289)	(48)	(123)	(460)	(62)	(522)
Total mark-to-market energy contract liabilities	$(1,237)	$(364)	$(141)	$(1,742)	$(62)	$(1,804)
Total mark-to-market energy contract net assets (liabilities)	$ (521)	$ (28)	$ 9	$ (540)	$ 23	$ (517)

(a) Other includes corporate operations, shared service entities, including BSC, Enterprises and investments in synthetic fuel-producing facilities.
(b) Excludes Exelon's interest-rate swaps.

Normal Operations and Hedging Activities (Generation). Electricity available from Generation's owned or contracted generation supply in excess of Generation's obligations to customers, including ComEd's and PECO's retail load, is sold into the wholesale markets. To reduce price risk caused by market fluctuations, Generation enters into physical contracts as well as derivative contracts, including forwards, futures, swaps and options, with approved counterparties to hedge anticipated exposures.

Cash-Flow Hedges (Generation and ComEd). The tables below provide details of effective cash-flow hedges under SFAS No. 133 included on Exelon's, Generation's and ComEd's Consolidated Balance Sheets as of December 31, 2006. The data in the tables is indicative of the magnitude of SFAS No. 133 hedges Generation and ComEd have in place; however, since under SFAS No. 133 not all derivatives are recorded in OCI, the tables do not provide an all-encompassing picture of Generation's and ComEd's derivatives. The tables also include a rollforward of accumulated OCI related to cash-flow hedges for the years ended December 31, 2006 and 2005, providing information about the changes in the fair value of hedges and the reclassification from OCI into earnings.

	Total Cash-Flow Hedge OCI Activity, Net of Income Tax		
December 31, 2006	Generation	ComEd	Exelon
Accumulated OCI derivative loss at January 1, 2006	$(314)	$—	$(314)
Changes in fair value	476	(4)	472
Reclassifications from OCI to net income	88	—	88
Accumulated OCI derivative gain (loss) at December 31, 2006	$ 250	$ (4)	$ 246

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

December 31, 2005	Total Cash-Flow Hedge OCI Activity, Net of Income Tax
	Exelon and Generation
Accumulated OCI derivative loss at January 1, 2005	$(137)
Changes in fair value	(533)
Reclassifications from OCI to net income	356
Accumulated OCI derivative loss at December 31, 2005	$(314)

At December 31, 2006, Generation and ComEd had net unrealized pre-tax gains (losses) of $415 million and $(6) million, respectively, of cash-flow hedges recorded in accumulated OCI. Based on market prices at December 31, 2006, approximately $341 million and $(6) million of these deferred net pre-tax unrealized gains (losses) on derivative instruments in accumulated OCI are expected to be reclassified to earnings during the next twelve months by Generation and ComEd, respectively. However, the actual amount reclassified to earnings could vary due to future changes in market prices. Amounts recorded in accumulated OCI related to changes in energy commodity cash-flow hedges are reclassified into earnings when the forecasted purchase or sale of the energy commodity occurs. The majority of Generation's cash-flow hedges are expected to settle within the next two years. ComEd's cash flow hedge expires on May 31, 2007.

Generation's cash-flow hedge activity impact to pre-tax earnings based on the reclassification adjustment from accumulated OCI to earnings was a $146 million pre-tax loss, a $583 million pre-tax loss and a $475 million pre-tax loss for the years ended December 31, 2006, 2005 and 2004, respectively.

Other Derivatives (Exelon, Generation and ComEd)

Exelon, Generation and ComEd enter into certain contracts that are derivatives, but do not qualify for hedge accounting under SFAS No. 133 or are not designated as cash-flow hedges. These contracts are entered into to economically hedge and limit the market price risk associated with energy commodity prices. Changes in the fair value of these derivative contracts are recognized in current earnings. For 2006, 2005 and 2004, Exelon, Generation and ComEd recognized the following net unrealized mark-to-market gains (losses), realized mark-to-market gains (losses) and total mark-to-market gains (losses) (before income taxes) relating to mark-to-market activity of certain non-trading purchase power and sale contracts pursuant to SFAS No. 133. Generation's, ComEd's and Exelon's other mark-to-market activity on non-trading purchase power and sale contracts are reported in fuel and purchased power, revenue and operating and maintenance expense, respectively.

For the Year Ended December 31, 2006	Generation	ComEd [(a)]	Other [(b)]	Exelon
Unrealized mark-to-market gains (losses)	$ 29	$(8)	$(15)	$ 6
Realized mark-to-market gains	74	3	—	77
Total net mark-to-market gains (losses)	$103	$(5)	$(15)	$83

(a) See "Energy-Related Derivatives" above.

(b) Other includes corporate operations, shared services entities, including BSC, Enterprises and investments in synthetic fuel-producing facilities.

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

For the Year Ended December 31, 2005	Generation	Other[(a)]	Exelon
Unrealized mark-to-market gains	$ 86	$ 24	$110
Realized mark-to-market losses	(98)	—	(98)
Total net mark-to-market gains (losses)	$(12)	$ 24	$ 12

(a) Other includes corporate operations, shared services entities, including BSC, Enterprises and investments in synthetic fuel-producing facilities.

For the Year Ended December 31, 2004	Exelon and Generation
Unrealized mark-to-market gains	$ 181
Realized mark-to-market losses	(183)
Total net mark-to-market losses	$ (2)

Proprietary Trading Activities (Generation). Proprietary trading includes all contracts entered into purely to profit from market price changes as opposed to hedging an exposure and is subject to limits established by Exelon's Risk Management Committee. These contracts are recognized on the Consolidated Balance Sheets at fair value and changes in the fair value of these derivative financial instruments are recognized in earnings. The proprietary trading activities, which included trading volumes of 31,692 GWhs, 26,924 GWhs and 24,001 GWhs for 2006, 2005 and 2004, respectively, are a complement to Generation's energy marketing portfolio but represent a very small portion of Generation's overall energy marketing activities. For 2006, 2005 and 2004, Exelon and Generation recognized the following net unrealized mark-to-market gains, realized mark-to-market (losses) and total mark-to-market gains (before income taxes) relating to mark-to-market activity on derivative instruments entered into for trading purposes. Gains and losses associated with financial trading are reported as revenue in Exelon's and Generation's Consolidated Statements of Operations.

	For the Year Ended December 31,		
	2006	2005	2004
Unrealized mark-to-market gains	$ 14	$18	$ 3
Realized mark-to-market losses	(10)	(3)	(3)
Total net mark-to-market gains	$ 4	$15	$—

Credit Risk Associated with Derivative Instruments. The Registrants would be exposed to credit-related losses in the event of non-performance by counterparties that enter into derivative instruments. The credit exposure of derivatives contracts is represented by the fair value of contracts at the reporting date. For energy-related derivative instruments, Generation attempts to enter into enabling agreements that allow for payment netting with its counterparties, which reduces Generation's exposure to counterparty risk by providing for the offset of amounts payable to the counterparty against amounts receivable from the counterparty. Typically, each enabling agreement is for a specific commodity and so, with respect to each individual counterparty, netting is limited to transactions involving that specific commodity product, except where master netting agreements exist with a counterparty that allows for cross product netting. In addition to payment netting language in the enabling agreement, the credit department establishes credit limits and letter of credit requirements for each counterparty, which are defined in the derivatives contracts. Counterparty credit limits are based on an internal credit review that considers a variety of factors, including the results of a scoring model, leverage, liquidity, profitability, credit ratings and risk management capabilities. To the extent that a counterparty's credit limit and letter of credit thresholds are exceeded, the counterparty is required to post collateral with Generation as specified in each enabling agreement. Generation's credit department monitors current and forward credit exposure to counterparties and their affiliates, both on an individual and an aggregate basis.

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

Under the Illinois auction rules and the supplier forward contracts that Generation entered into with ComEd and Ameren, beginning in 2007, collateral postings will be one-sided from Generation only. That is, if market prices fall below ComEd's or Ameren's contracted price levels, ComEd or Ameren are not required to post collateral; however, if market prices rise above contracted price levels with ComEd or Ameren, Generation may be required to post collateral.

The notional amount of derivatives does not represent amounts that are exchanged by the parties and, thus, is not a measure of the Registrants' exposure. The amounts exchanged are calculated on the basis of the notional or contract amounts, as well as on the other terms of the derivatives, which relate to interest rates and the volatility of these rates. Exelon's and Generation's credit exposure, net of collateral, as of December 31, 2006 and 2005 were $791 million and $547 million, respectively.

Non-Derivative Financial Assets and Liabilities

Fair Value. As of December 31, 2006 and 2005, the Registrants' carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities are representative of fair value because of the short-term nature of these instruments. Fair values for long-term debt and preferred securities of subsidiaries are determined by an external valuation model which is based on conventional discounted cash flow methodology and utilizes assumptions of current market pricing curves.

Exelon

The carrying amounts and fair values of Exelon's financial liabilities as of December 31, 2006 and 2005 were as follows:

	2006		2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	$9,144	$9,122	$8,166	$8,231
Long-term debt to ComEd Transitional Funding Trust and PETT (including amounts due within one year)	3,051	3,149	3,963	4,132
Long-term debt to other financing trusts	545	517	545	539
Preferred securities of subsidiaries	87	73	87	70

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

Generation

The carrying amounts and fair values of Generation's financial liabilities as of December 31, 2006 and 2005 were as follows:

	2006		2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt (including amounts due within one year)	$1,790	$1,821	$1,800	$1,856

ComEd

The carrying amounts and fair values of ComEd's financial liabilities as of December 31, 2006 and 2005 were as follows:

	2006		2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt (including amounts due within one year)	$3,579	$3,592	$2,828	$2,887
Long-term debt to ComEd				
Transitional Funding Trust (including amounts due within one year)	648	652	987	1,003
Long-term debt to other financing trusts	361	338	361	353

PECO

The carrying amounts and fair values of PECO's financial liabilities as of December 31, 2006 and 2005 were as follows:

	2006		2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	$1,469	$1,464	$1,183	$1,180
Long-term debt to PETT (including amounts due within one year)	2,404	2,496	2,975	3,129
Long-term debt to other financing trusts	184	179	184	186

Credit Risk. Financial instruments that potentially subject the Registrants to concentrations of credit risk consist principally of cash equivalents and customer accounts receivable. The Registrants place their cash equivalents with high-credit quality financial institutions. Generally, such investments are in excess of the Federal Deposit Insurance Corporation limits. Concentrations of credit risk with respect to customer accounts receivable are limited due to the Registrants' large number of customers and, in the case of ComEd's and PECO's energy delivery businesses, their dispersion across many industries.

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

Nuclear Decommissioning Trust Fund Investments (Exelon and Generation)

Investments as of December 31, 2006 and 2005. Exelon and Generation classify investments in trust accounts for decommissioning nuclear plants as available-for-sale and estimate their fair value based on quoted market prices for the securities held in decommissioning trust funds. These investments are held to fund Generation's decommissioning obligation for its nuclear plants. Decommissioning expenditures are expected to occur primarily after the plants are retired. See Note 13—Asset Retirement Obligations for further information regarding the decommissioning of Generation's nuclear plants.

The following tables show the fair values, gross unrealized gains and losses and amortized cost bases of the securities held in these trust accounts as of December 31, 2006 and 2005:

	December 31, 2006			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Cash and cash equivalents	$ 36	$ —	$—	$ 36
U.S. Treasury obligations and direct obligations of U.S. government agencies	990	36	—	1,026
Federal agency mortgage-backed securities	767	6	—	773
Commercial mortgage-backed securities	82	1	—	83
Corporate bonds	306	7	—	313
Other debt securities	137	—	—	137
Marketable equity securities	2,810	1,237	—	4,047
Total available-for-sale securities	$5,128	$1,287	$—	$6,415

	December 31, 2005			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Cash and cash equivalents	$ 80	$—	$—	$ 80
U.S. Treasury obligations and direct obligations of U.S. government agencies	958	37	(3)	992
Federal agency mortgage-backed securities	684	3	(6)	681
Commercial mortgage-backed securities	53	1	(1)	53
Corporate bonds	303	10	(4)	309
Other debt securities	58	—	(1)	57
Marketable equity securities	2,762	683	(32)	3,413
Total available-for-sale securities	$4,898	$734	$(47)	$5,585

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

The available-for-sale debt securities have contractual maturities as follows:

	December 31, 2006 Estimated Fair Value
Debt securities:	
Maturities within 1 year	$ 10
Maturities after 1 year through 5 years	398
Maturities after 5 years through 10 years	401
Maturities after 10 years	1,523
Total debt securities	$2,332

Impairment Evaluation in 2006 and 2005. Beginning in 2006, and in connection with the issuance of FSP 115-1, Generation considers all nuclear decommissioning trust fund investments in an unrealized loss position to be other-than-temporarily impaired. As a result of certain NRC restrictions, Generation is unable to demonstrate its ability and intent to hold the nuclear decommissioning trust fund investments through a recovery period and accordingly recognizes any unrealized holding losses immediately.

During the year ended December 31, 2006, Generation recorded impairment charges totaling $29 million, $1 million and $2 million associated with the decommissioning trust funds of the former ComEd units, the former PECO units and the AmerGen units, respectively. During the year ended December 31, 2005, Generation recorded impairment charges totaling $20 million and $2 million associated with the decommissioning trust funds of the former ComEd and the AmerGen units, respectively. Recognition of the impairment charges associated with the former ComEd and former PECO plants had no significant impact on net income for Exelon's or Generation's results of operations or financial position. See Note 13 for further discussion on the impacts to the Statements of Operations and the Balance Sheets for the former ComEd and former PECO units.

Prior to 2006, Exelon and Generation evaluated, among other factors, general market conditions, the duration and extent to which the fair value is less than cost, as well as their intent and ability to hold the investment to determine whether an investment was considered other-then-temporarily impaired. Exelon and Generation also considered specific adverse conditions related to the financial health of and business outlook for the investee. Once a decline in fair value was determined to be other-than-temporary, an impairment charge was recorded and a new cost basis was established.

Unrealized Gains and Losses. At December 31, 2006, Exelon and Generation had gross unrealized gains of $1,287 million related to the nuclear decommissioning trust fund investments. At December 31, 2005, Exelon and Generation had gross unrealized gains of $734 million and gross unrealized losses of $47 million related to the nuclear decommissioning trust fund investments. Unrealized gains of $1,287 million and net unrealized gains of $687 million were included in regulatory liabilities or accumulated other comprehensive income in Exelon's Consolidated Balance Sheets and in noncurrent payables to affiliates or accumulated other comprehensive income in Generation's Consolidated Balance Sheets at December 31, 2006 and 2005, respectively.

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

As of December 31, 2006, there were no available-for-sale securities held in nuclear decommissioning trust funds in an unrealized loss position.

The following table provides information regarding available-for-sale securities held in nuclear decommissioning trust funds in an unrealized loss position that were not considered other-than-temporarily impaired. The following tables show the investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2005.

	December 31, 2005					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury obligations and direct obligations of U.S. government agencies	$ 170	$ (3)	$ 24	$ (1)	$ 194	$ (4)
Federal agency mortgage-backed securities	387	(4)	28	(1)	415	(5)
Commercial mortgage-backed securities	15	—	7	(1)	22	(1)
Corporate bonds	119	(3)	20	(1)	139	(4)
Other debt securities	17	—	22	(1)	39	(1)
Marketable equity securities	345	(23)	69	(9)	414	(32)
Total	$1,053	$(33)	$170	$(14)	$1,223	$(47)

Sale of Nuclear Decommissioning Trust Fund Investments. Proceeds from the sale of decommissioning trust fund investments and gross realized gains and losses on those sales for the years ended December 31, 2006, 2005 and 2004 were as follows:

	For the Years Ended December 31,		
	Proceeds from Sales	Gross Realized Gains	Gross Realized Losses
For the year ended December 31, 2006	$4,793	$ 58	$(60)
For the year ended December 31, 2005	5,274	130	(81)
For the year ended December 31, 2004	2,320	115	(43)

Amounts reclassified from Exelon's regulatory liabilities or accumulated other comprehensive income to earnings was determined base on either the high-cost or average cost basis, and totaled a net loss of $2 million, a net gain of $49 million and a net gain of $72 million for the years ended December 31, 2006, 2005 and 2004, respectively. Amounts reclassified from Generation's noncurrent payables to affiliates or accumulated other comprehensive income to earnings was determined base on either the high-cost or average cost basis, and totaled a net loss of $2 million, a net gain of $49 million and a net gain of $72 million for the years ended December 31, 2006, 2005 and 2004, respectively.

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

The amounts of net unrealized holding gains that were included in Exelon's regulatory liabilities or accumulated other comprehensive income during the period totaled $567 million, $132 million, and $293 million for the years ended December 31, 2006, 2005 and 2004, respectively. The amounts of net unrealized holding gains that were included in Generation's noncurrent payables to affiliates or accumulated other comprehensive income during the period totaled $567 million, $132 million, and $293 million for the years ended December 31, 2006, 2005 and 2004, respectively.

10. Severance Accounting (Exelon, Generation, ComEd and PECO)

The Registrants provide severance and health and welfare benefits to terminated employees pursuant to pre-existing severance plans primarily based upon each individual employee's years of service and compensation level. The Registrants account for their ongoing severance plans in accordance with SFAS No. 112 and SFAS No. 88 and accrue amounts associated with severance benefits that are considered probable and that can be reasonably estimated.

Following the termination of the proposed Merger, Exelon evaluated its organizational structure and resource needs on a standalone basis (see Note 2—Acquisitions and Dispositions for further information on the Merger termination). As a result of that evaluation, management concluded that certain positions will be eliminated. Therefore, Exelon recorded $29 million of severance charges in 2006.

During 2006, ComEd recorded a regulatory asset associated with previously incurred severance costs that ComEd was granted recovery of in the December 20, 2006 ICC order. See Note 4—Regulatory Issues and Note 18—Commitments and Contingencies.

The following tables present total salary continuance severance costs (benefits), recorded as an operating and maintenance expense, during 2006, 2005 and 2004:

Salary Continuance Severance	Exelon	Generation	ComEd	PECO	Other [(a)]
Expense recorded—2006	$ 21	$ 6[(b)]	$—	$2	$13[(c)]
Expense (income) recorded—2005	(14)[(d)(e)]	(4)[(d)(e)]	(9)[(d)]	1	(2)[(d)]
Expense recorded—2004	32	2	10	3	17

(a) Other includes corporate operations, shared service entities, including BSC, Enterprises and investments in synthetic fuel-producing facilities.
(b) Does not include $2 million of severance related to stock-based compensation.
(c) Does not include $4 million of severance related to stock-based compensation and $3 million of severance related to SFAS 88.
(d) Represents a reduction in previously recorded severance reserves.
(e) Excludes severance charges of $5 million related to Salem, of which Generation owns 42.59% and which is operated by PSEG Nuclear, LLC (PSEG Nuclear).

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

The following table provides a roll forward of the salary continuance severance obligations from January 1, 2005 through December 31, 2006:

Salary Continuance Obligations	Exelon	Generation	ComEd	PECO	Other [a]
Balance at January 1, 2005	$ 69	$16	$ 28	$ 7	$ 18
Severance charges recorded/(reduction in obligation estimate)	(14)[b]	(4)[b]	(9)	1	(2)
Cash payments	(33)	(5)	(11)	(7)	(10)
Balance at January 1, 2006	$ 22	$ 7	$ 8	$ 1	$ 6
Severance charges recorded	21	6	—	2	13
Cash payments	(9)	(3)	(2)	(1)	(3)
Balance at December 31, 2006	$ 34	$10	$ 6	$ 2	$ 16

(a) Other includes corporate operations, shared service entities, including BSC, Enterprises and investments in synthetic fuel-producing facilities.

(b) Excludes severance charges of $5 million related to Salem, of which Generation owns 42.59% and which is operated by PSEG Nuclear.

11. Debt and Credit Agreements (Exelon, Generation, ComEd and PECO)

Short-Term Debt

The following tables present the short-term debt activity for Exelon, Generation, ComEd and PECO during 2006, 2005 and 2004:

Exelon

	2006	2005	2004
Average borrowings	$ 856	$ 935	$ 149
Maximum borrowings outstanding	1,459	2,416	622
Average interest rates, computed on a daily basis	5.02%	3.49%	1.37%
Average interest rates, at December 31	5.42%	4.59%	2.43%

Generation

	2006	2005	2004
Average borrowings	$ 214	$ 26	$ 72
Maximum borrowings outstanding	667	317	326
Average interest rates, computed on a daily basis	4.99%	4.12%	1.14%
Average interest rates, at December 31	—	4.67%	—

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

ComEd

	2006	2005	2004
Average borrowings	$ 213	$ 36	$ 7
Maximum borrowings outstanding	669	497	180
Average interest rates, computed on a daily basis	5.06%	4.13%	2.11%
Average interest rates, at December 31	5.43%	4.50%	—

PECO

	2006	2005	2004
Average borrowings	$ 133	$ 30	$ 23
Maximum borrowings outstanding	442	257	207
Average interest rates, computed on a daily basis	4.97%	3.44%	1.08%
Average interest rates, computed at December 31	5.41%	4.58%	—

On March 7, 2005, Exelon entered into a $2 billion term loan agreement. The loan proceeds were used to fund discretionary contributions of $2 billion to Exelon's pension plans. On April 1, 2005, Exelon entered into a $500 million term loan agreement to reduce this $2 billion term loan. During the second quarter of 2005, $200 million of this $500 million term loan, as well as the remaining $1.5 billion balance on the $2 billion term loan described above, were repaid with the net proceeds received from the issuance of the $1.7 billion long-term senior notes presented in the table below. The $300 million outstanding balance under the $500 million term loan agreement bears interest at a variable rate determined, at Exelon's option, by either the Base Rate or the Eurodollar Rate (as defined in the term loan agreement). On November 30, 2005, the term loan agreement was amended and restated to extend the agreement from December 1, 2005 to September 16, 2006. On July 31, 2006, Exelon amended its $300 million term loan agreement to extend the maturity date to the earlier of December 31, 2006 or two business days after the effective date of Exelon's new credit facilities. On October 30, 2006, Exelon terminated its $300 million term loan agreement.

Credit Agreements

On July 16, 2004, Exelon, Generation, ComEd and PECO entered into a $1 billion unsecured revolving credit facility maturing on July 16, 2009 and a $500 million unsecured revolving credit facility which matured on October 31, 2006.

On February 10 through 16, 2006, Generation entered into separate additional credit facilities with aggregate bank commitments of $950 million. On September 19, 2006, Generation entered into three separate 364-day revolving credit facilities with aggregate commitments of $1 billion.

On February 22, 2006, ComEd entered into a $1 billion senior secured three-year revolving credit agreement. The credit agreement is secured by First Mortgage Bonds of ComEd in the principal amount of approximately $1 billion. First Mortgage Bonds are a first mortgage lien on ComEd's utility assets other than expressly excepted property. Additionally, on February 22, 2006, ComEd was removed as a party to the July 16, 2004 credit facilities. During 2006, ComEd borrowed and fully repaid $240 million under its credit agreement.

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

On October 26, 2006, Exelon, Generation and PECO entered into new unsecured credit facilities of $1 billion, $5 billion and $600 million, respectively. The facilities are for a term of five years and are comprised of three separate facilities with separate borrowers designated by Registrant. The new credit facilities replaced the $1 billion and $500 million Exelon syndicated facilities, the $1.95 billion in Generation bilateral credit facilities and Exelon's $300 million term loan.

The Registrants may use the credit facilities for general corporate purposes, including meeting short-term funding requirements and the issuance of letters of credit. The obligation of each lender to make any credit extension to a Registrant under its credit facilities is subject to various conditions including, among other things, that no event of default has occurred for the Registrant or would result from such credit extension. A bankruptcy filing by ComEd would constitute an event of default under ComEd's credit facilities; however, bankruptcy or another event of default by ComEd would not constitute an event of default for Exelon, Generation or PECO.

At December 31, 2006, the Registrants had the following aggregate bank commitments and available capacity under the credit agreements and the indicated amounts of outstanding commercial paper:

Borrower	Aggregate Bank Commitment (a)	Available Capacity (b)	Outstanding Commercial Paper
Exelon Corporate	$1,000	$ 993	$150
Generation	5,000	4,920	—
ComEd	1,000	956	60
PECO	600	598	95

(a) Represents the total bank commitments to the borrower under credit agreements to which the borrower is a party.
(b) Available capacity represents the unused bank commitments under the borrower's credit agreements net of outstanding letters of credit. The amount of commercial paper outstanding does not reduce the available capacity under the credit agreements.

Interest rates on advances under the credit facilities are based on either prime or the London Interbank Offered Rate (LIBOR) plus an adder based on the credit rating of the borrower as well as the total outstanding amounts under the agreement at the time of borrowing. In the cases of Exelon, PECO and Generation, the maximum LIBOR adder is 65 basis points; and in the case of ComEd, it is 200 basis points.

Each credit agreement requires the affected borrower to maintain a minimum cash from operations to interest expense ratio for the twelve-month period ended on the last day of any quarter. The ratios exclude revenues and interest expenses attributable to securitization debt, certain changes in working capital, distributions on preferred securities of subsidiaries and, in the case of Exelon and Generation, revenues from Sithe and interest on the debt of its project subsidiaries. The following table summarizes the minimum thresholds reflected in the credit agreements for the year ended December 31, 2006:

	Exelon	Generation	ComEd	PECO
Credit agreement threshold	2.50 to 1	3.00 to 1	2.25 to 1	2.00 to 1

At December 31, 2006, the Registrants were in compliance with the foregoing thresholds.

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

The ComEd credit agreement is secured by first mortgage bonds and imposes a restriction on future mortgage bond issuances by ComEd. It requires ComEd to maintain at least $1.75 billion of issuance availability (ignoring any interest coverage test) in the form of "property additions" or "bondable bond retirements" (previously issued, but now retired, bonds), most of which are required to be maintained in the form of "bondable bond retirements." In general, a dollar of bonds can be issued under ComEd's Mortgage on the basis of $1.50 of property additions, subject to an interest coverage test, or $1 of bondable bond retirements, which may or may not be subject to an interest coverage test. As of December 31, 2006, ComEd was in compliance with this requirement.

Long-Term Debt

The following tables present the outstanding long-term debt at Exelon, Generation, ComEd and PECO as of December 31, 2006 and 2005:

Exelon

	Rates	Maturity Date	December 31, 2006	December 31, 2005
Long-term debt				
First Mortgage Bonds [a] [b]:				
Fixed rates	3.50%-8.375%	2008-2036	$4,261	$3,201
Floating rates	3.50%-3.85%	2012-2020	497	497
Notes payable and other [c]	4.45%-8.00%	2007-2035	3,867	3,928
Pollution control notes:				
Floating rates	3.52%-3.97%	2016-2034	520	520
Notes payable—accounts receivable agreement	5.28%	2010	17	30
Sinking fund debentures	3.875%-4.75%	2008-2011	8	10
Total long-term debt			9,170	8,186
Unamortized debt discount and premium, net			(25)	(25)
Unamortized settled fair-value hedge, net			(1)	6
Fair-value hedge carrying value adjustment, net			—	(1)
Long-term debt due within one year			(248)	(407)
Long-term debt			$8,896	$7,759
Long-term debt to financing trusts [d]				
Payable to ComEd Transitional Funding Trust	5.63%-5.74%	2007-2008	$ 648	$ 988
Payable to PETT	6.13%-7.65%	2007-2010	2,403	2,975
Subordinated debentures to ComEd Financing II	8.50%	2027	155	155
Subordinated debentures to ComEd Financing III	6.35%	2033	206	206
Subordinated debentures to PECO Trust III	7.38%	2028	81	81
Subordinated debentures to PECO Trust IV	5.75%	2033	103	103
Total long-term debt to financing trusts			3,596	4,508
Long-term debt due to financing trusts due within one year			(581)	(507)
Long-term debt to financing trusts			$3,015	$4,001

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

(a) ComEd's utility assets other than expressly excepted property and substantially all of PECO's assets are subject to the liens of their respective mortgage indentures.
(b) Includes first mortgage bonds issued under the ComEd and PECO mortgage indentures securing pollution control bonds and notes.
(c) Includes capital lease obligations of $44 and $46 million at December 31, 2006 and 2005, respectively. Lease payments of $2 million, $2 million, $2 million, $2 million, $2 million and $34 million will be made in 2007, 2008, 2009, 2010, 2011 and thereafter, respectively.
(d) Effective July 1, 2003, PECO Trust IV, a financing subsidiary created in May 2003, was deconsolidated from the financial statements in conjunction with the adoption of FIN 46. Effective December 31, 2003, ComEd Financing II, ComEd Financing III, ComEd Transitional Funding Trust, PECO Trust III, and PETT were deconsolidated from the financial statements in conjunction with the adoption of FIN 46-R. Amounts owed to these financing trusts are recorded as debt to financing trusts within Exelon's Consolidated Balance Sheets.

Generation

	Rates	Maturity Date	December 31, 2006	December 31, 2005
Long-term debt				
Senior unsecured notes	5.35%-6.95%	2011-2014	$1,200	$1,200
Pollution control notes, floating rates	3.52%-3.97%	2016-2034	520	520
Notes payable and other [(a)]	6.33%-7.83%	2007-2020	73	85
Total long-term debt			1,793	1,805
Unamortized debt discount and premium, net			(3)	(5)
Long-term debt due within one year			(12)	(12)
Long-term debt			$1,778	$1,788

(a) Includes Generation's capital lease obligations of $44 million and $46 million at December 31, 2006 and 2005, respectively. Generation will make lease payments of $2 million, $2 million, $2 million, $2 million, $2 million and $34 million in 2007, 2008, 2009, 2010, 2011 and thereafter, respectively.

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

ComEd

	Rates	Maturity Date	December 31, 2006	December 31, 2005
Long-term debt				
First Mortgage Bonds [(a)] [(b)]:				
Fixed rates	3.70%-8.375%	2008-2036	$2,961	$2,201
Floating rates	3.60%-3.85%	2013-2020	343	343
Notes payable				
Fixed rates	6.95%-7.625%	2007-2018	285	285
Sinking fund debentures	3.875%-4.75%	2008-2011	8	10
Total long-term debt			3,597	2,839
Unamortized debt discount and premium, net			(17)	(16)
Unamortized settled fair-value hedge, net			(1)	6
Fair-value hedge carrying value adjustment, net			—	(1)
Long-term debt due within one year			(147)	(328)
Long-term debt			$3,432	$2,500
Long-term debt to financing trusts [(c)]				
Subordinated debentures to ComEd Financing II	8.50%	2027	155	155
Subordinated debentures to ComEd Financing III	6.35%	2033	206	206
Payable to ComEd Transitional Funding Trust	5.63%-5.74%	2007-2008	648	987
Total long-term debt to financing trusts			1,009	1,348
Long-term debt to financing trusts due within one year			(308)	(307)
Long-term debt to financing trusts			$ 701	$1,041

(a) ComEd's utility assets other than expressly excepted property are subject to the lien of its mortgage indenture.
(b) Includes first mortgage bonds issued under the ComEd mortgage indentures securing pollution control bonds and notes.
(c) Effective December 31, 2003, ComEd Financing II, ComEd Financing III, and ComEd Transitional Funding Trust were deconsolidated from the financial statements in conjunction with the adoption of FIN 46-R. Amounts owed to these financing trusts are recorded as debt to financing trusts within ComEd's Consolidated Balance Sheets.

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

PECO

	Rates	Maturity Date	December 31, 2006	December 31, 2005
Long-term debt				
First Mortgage Bonds (a) (b):				
Fixed rates	3.50%-5.95%	2008-2036	$1,300	$1,000
Floating rates	3.50%-3.70%	2012	154	154
Notes payable—accounts receivable agreement	5.28%	2010	17	30
Total long-term debt			1,471	1,184
Unamortized debt discount and premium, net			(2)	(1)
Long-term debt			$1,469	$1,183
Long-term debt to financing trusts (c)				
PETT Series 1999-A	6.13%	2007-2008	$ 848	$1,419
PETT Series 2000-A	7.63%-7.65%	2008-2009	750	750
PETT Series 2001	6.52%	2010	806	806
Subordinated debentures to PECO Trust III	7.38%	2028	81	81
Subordinated debentures to PECO Trust IV	5.75%	2033	103	103
Total long-term debt to financing trusts			2,588	3,159
Long-term debt to financing trusts due within one year			(273)	(199)
Long-term debt to financing trusts			$2,315	$2,960

(a) Substantially all of PECO's assets are subject to the lien of its mortgage indenture.
(b) Includes first mortgage bonds issued under the PECO mortgage indenture securing pollution control bonds and notes.
(c) Effective July 1, 2003, PECO Trust IV, a financing subsidiary created in May 2003, was deconsolidated from the financial statements in conjunction with the adoption of FIN 46. Effective December 31, 2003, PECO Trust III and PETT were deconsolidated from the financial statements in conjunction with the adoption of FIN 46-R. Amounts owed to these financing trusts are recorded as debt to financing trusts within the Consolidated Balance Sheets.

Long-term debt maturities at Exelon, Generation, ComEd and PECO in the periods 2007 through 2011 and thereafter are as follows:

Year	Exelon	Generation	ComEd	PECO
2007	$ 248	$ 12	$ 147	$ —
2008	898	12	417	450
2009	28	11	17	—
2010	632	2	213	17
2011	1,799	702	347	250
Thereafter	5,565	1,054	2,456	754
Total	$9,170	$1,793	$3,597	$1,471

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

Long-term debt to financing trusts maturities at Exelon, ComEd and PECO in the periods 2007 through 2011 and thereafter are as follows:

Year	Exelon	ComEd	PECO
2007	$ 581	$ 308	$ 273
2008	964	340	625
2009	700	—	700
2010	806	—	806
2011	—	—	—
Thereafter	545	361	184
Total	$3,596	$1,009	$2,588

Issuances of Long-Term Debt. The following long-term debt was issued at Exelon, ComEd and PECO during 2006:

Company	Type	Interest Rate	Maturity	Amount(a)
ComEd	First Mortgage Bonds	5.90%	March 15, 2036	$325
ComEd	First Mortgage Bonds	5.95%	August 15, 2016	300
ComEd	First Mortgage Bonds	5.95%	August 15, 2016	115
ComEd	First Mortgage Bonds	5.40%	December 15, 2011	345
PECO	First Mortgage Bonds	5.95%	October 1, 2036	300

(a) Excludes unamortized bond discounts and premiums.

Debt Retirements and Redemptions. The following debt was retired, through tender, open market purchases, optional redemption or payment at maturity, during 2006:

Company	Type	Interest Rate	Maturity	Amount
Exelon	Notes payable for investments in synthetic fuel-producing facilities	6.00% to 8.00%	January 2008	$ 50
Generation	Note payable	6.33%	August 8, 2009	10
ComEd	Pollution Control Revenue Bonds	4.40%	December 1, 2006	199
ComEd	First Mortgage Bonds	8.25%	October 1, 2006	95
ComEd	First Mortgage Bonds	8.375%	October 15, 2006	31
ComEd	Sinking fund	3.875%-4.75%	2008-2011	2
ComEd	ComEd Transitional Funding Trust	5.63%	June 25, 2007	339
PECO	PETT	6.05%	March 1, 2007	522
PECO	PETT	6.13%	September 1, 2008	49
PECO	Notes payable, accounts receivable agreement	5.28%	November 12, 2010	13
Other				2

See Note 5—Accounts Receivable for information regarding PECO's accounts receivable agreement.

See Note 9—Fair Value of Financial Assets and Liabilities for additional information regarding interest-rate swaps.

See Note 15—Preferred Securities for additional information regarding preferred stock.

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

12. Income Taxes (Exelon, Generation, ComEd and PECO)

Income tax expense (benefit) from continuing operations is comprised of the following components:

For the Year Ended December 31, 2006	Exelon	Generation	ComEd	PECO
Included in operations:				
Federal				
Current	$ 935	$571	$282	$ 356
Deferred	112	157	83	(156)
Investment tax credit amortization	(13)	(8)	(3)	(2)
State				
Current	200	122	60	44
Deferred	(28)	24	23	(62)
Total income tax expense	$1,206	$866	$445	$ 180

For the Year Ended December 31, 2005	Exelon	Generation	ComEd	PECO
Included in operations:				
Federal				
Current	$376	$315	$112	$312
Deferred	411	270	187	(53)
Investment tax credit amortization	(13)	(8)	(3)	(2)
State				
Current	86	69	25	17
Deferred	84	63	42	(27)
Total income tax expense	$944	$709	$363	$247
Included in cumulative effect of changes in accounting principles:				
Deferred				
Federal	$ (22)	$ (16)	$ (5)	$ (2)
State	(5)	(3)	(1)	—
Total income tax benefit	$ (27)	$ (19)	$ (6)	$ (2)

For the Year Ended December 31, 2004	Exelon	Generation	ComEd	PECO
Included in operations:				
Federal				
Current	$406	$230	$231	$311
Deferred	260	114	147	(59)
Investment tax credit amortization	(13)	(8)	(3)	(2)
State				
Current	86	19	73	36
Deferred	(26)	46	9	(37)
Total income tax expense	$713	$401	$457	$249
Included in cumulative effect of changes in accounting principles:				
Deferred				
Federal	$ 12	$ 17	$—	$—
State	5	5	—	—
Total income tax expense benefit	$ 17	$ 22	$—	$—

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

The effective income tax rate from continuing operations varies from the U.S. Federal statutory rate principally due to the following:

For the Year Ended December 31, 2006	Exelon [b][c]	Generation	ComEd [c]	PECO
U.S. Federal statutory rate	35.0%	35.0%	35.0%	35.0%
Increase (decrease) due to:				
State income taxes, net of Federal income tax benefit	4.0	4.2	16.2	(1.9)
Nondeductible goodwill impairment charge	9.7	—	81.6	—
Synthetic fuel-producing facilities credit	(3.6)	—	—	—
Qualified nuclear decommissioning trust fund income	0.5	0.6	—	—
Manufacturer's deduction	(0.7)	(0.9)	—	—
Tax exempt income	(0.4)	(0.5)	—	—
Nontaxable postretirement benefits	(0.4)	(0.2)	(0.8)	(0.2)
Amortization of investment tax credit	(0.4)	(0.2)	(0.9)	(0.4)
Investment tax credit charge (refund) [a]	(0.1)	0.4	—	(2.1)
Research and development credit charge (refund) [a]	(0.1)	0.4	—	(2.1)
Amortization of regulatory asset	0.2	—	1.9	—
Plant basis differences	0.3	—	—	0.6
Other	(0.9)	(0.6)	0.6	0.1
Effective income tax rate	43.1%	38.2%	133.6%	29.0%

For the Year Ended December 31, 2005	Exelon [b][c]	Generation	ComEd [c]	PECO
U.S. Federal statutory rate	35.0%	35.0%	35.0%	35.0%
Increase (decrease) due to:				
State income taxes, net of Federal income tax benefit	5.8	4.7	(13.6)	(0.9)
Nondeductible goodwill impairment charge	22.3	—	(135.0)	—
Synthetic fuel-producing facilities credit	(12.6)	—	—	—
Qualified nuclear decommissioning trust fund income	0.8	0.9	—	—
Manufacturer's deduction	(0.8)	(0.8)	—	—
Tax exempt income	(0.6)	(0.6)	—	—
Nontaxable postretirement benefits	(0.6)	(0.3)	1.0	(0.3)
Amortization of investment tax credit	(0.5)	(0.2)	1.0	(0.3)
Amortization of regulatory asset	0.3	—	(2.1)	—
Plant basis differences	—	—	(0.4)	(1.1)
Other	0.7	0.3	(1.9)	(0.2)
Effective income tax rate	49.8%	39.0%	(116.0)%	32.2%

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

For the Year Ended December 31, 2004	Exelon (b)(c)	Generation	ComEd (a)	PECO
U.S. Federal statutory rate	35.0%	35.0%	35.0%	35.0%
Increase (decrease) due to:				
State income taxes, net of Federal income tax benefit	1.6	4.0	4.8	(0.1)
Synthetic fuel-producing facilities credit	(8.4)	—	—	—
Qualified nuclear decommissioning trust fund income	(0.3)	(0.7)	—	—
Tax exempt income	(0.4)	(0.9)	—	—
Nontaxable postretirement benefits	(0.3)	(0.3)	(0.2)	—
Amortization of investment tax credit	(0.4)	(0.5)	(0.3)	(0.4)
Low income housing credit	(0.4)	—	—	—
Amortization of regulatory asset	0.3	—	0.6	—
Plant basis differences	0.4	—	—	0.6
Other	0.6	1.5	0.4	0.3
Effective income tax rate	27.7%	38.1%	40.3%	35.4%

(a) See Note 18—Commitments and Contingencies for additional information.
(b) Change between 2005 and 2004 reflects ownership of all synthetic fuel-producing facilities for the full year in 2005 compared to five months in 2004. Change between 2005 and 2006 reflects a four month plant shutdown and a 38% credit phase-out.
(c) *Change in effective income tax rate between 2006 and 2005 and between 2005 and 2004 is primarily due to the goodwill* impairment charge of $776 million and $1.2 billion in 2006 and 2005, respectively.

The tax effects of temporary differences, which give rise to significant portions the deferred tax assets and liabilities, as of December 31, 2006 and 2005 are presented below:

For the Year Ended December 31, 2006	Exelon	Generation	ComEd	PECO
Plant basis differences	$(4,368)	$ (856)	$(1,937)	$(1,407)
Stranded cost recovery	(1,236)	—	—	(1,237)
Unrealized gains on derivative financial instruments	(196)	(199)	(5)	(4)
Deferred pension and postretirement obligations	408	(203)	(265)	24
Emission allowances	(23)	(23)	—	—
Decommissioning and decontamination obligations	(38)	(36)	—	(3)
Deferred debt refinancing costs	(78)	—	(65)	(13)
Excess of tax value over book value of impaired assets (a)	65	—	—	—
Goodwill	6	—	—	—
Other, net	230	(4)	31	79
Deferred income tax liabilities (net)	$(5,230)	$(1,321)	$(2,241)	$(2,561)
Unamortized investment tax credits	(259)	(204)	(40)	(15)
Total deferred income tax liabilities (net) and unamortized investment tax credits	$(5,489)	$(1,525)	$(2,281)	$(2,576)

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

For the Year Ended December 31, 2005	Exelon	Generation	ComEd	PECO
Plant basis differences	$(4,291)	$(861)	$(1,891)	$(1,361)
Stranded cost recovery	(1,465)	—	—	(1,465)
Unrealized losses (gains) on derivative financial instruments	195	194	—	(6)
Deferred pension and postretirement obligations	396	(177)	(281)	21
Emission allowances	—	(40)	—	—
Deferred debt refinancing costs	(49)	—	(34)	(15)
Excess of tax value over book value of impaired assets [(a)]	41	—	—	—
Decommissioning and decontamination obligations	105	105	—	(5)
Goodwill	6	—	—	—
Other, net	326	151	72	57
Deferred income tax liabilities (net)	$(4,736)	$(628)	$(2,134)	$(2,774)
Unamortized investment tax credits	(262)	(202)	(43)	(17)
Total deferred income tax liabilities (net) and unamortized investment tax credits	$(4,998)	$(830)	$(2,177)	$(2,791)

(a) In 2006, includes write-downs of certain Enterprises investments and the impairment of the intangible asset related to the synthetic fuel-producing facilities and, in 2005, includes the write-downs of certain Enterprises investments.

In accordance with regulatory treatment of certain temporary differences, Exelon, ComEd and PECO have recorded net regulatory assets associated with deferred income taxes, pursuant to SFAS No. 71 and SFAS No. 109, "Accounting for Income Taxes" (SFAS No. 109) as presented below:

	For the Year Ended December 31,	
	2006 [(a)]	2005 [(a)]
ComEd	$ 11	$ 8
PECO	790	781
Exelon	$801	$789

(a) See Note 19—Supplemental Financial Information for further discussion of Exelon, ComEd and PECO's regulatory assets associated with deferred income taxes.

ComEd and PECO have certain tax returns that are under review at the audit or appeals level of the Internal Revenue Service (IRS), and certain state authorities. These reviews by governmental taxing authorities are not expected to have an adverse impact on the financial condition or results of operations of Exelon, ComEd or PECO.

At December 31, 2006 and 2005, Exelon had recorded valuation allowances of $37 million and $37 million, respectively, and Generation had recorded valuation allowances of approximately $33 million and $34 million, respectively, with respect to deferred taxes associated with separate company state taxes.

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

As of December 31, 2006, Exelon and Generation had net capital loss carryforwards for income tax purposes of approximately $96 million, which will expire after 2011. As of December 31, 2006, the Mexican net operating loss carryforwards of Generation's subsidiaries are $59 million, which will expire beginning in 2011.

Generation, ComEd, and PECO received allocated tax benefits from Exelon under the Tax Sharing Agreement. The allocations as of December 31, 2006 and 2005 are presented below:

	For the Year Ended December 31, 2006	2005
Generation	$47	$16
ComEd	21	27
PECO	30	15

Investments in Synthetic Fuel-Producing Facilities (Exelon)

Exelon, through three separate wholly owned subsidiaries, owns interests in two limited liability companies and one limited partnership that own synthetic fuel-producing facilities. Section 45K (formerly Section 29) of the Internal Revenue Code provides tax credits for the sale of synthetic fuel produced from coal. However, Section 45K contains a provision under which the tax credits are phased out (i.e., eliminated) in the event crude oil prices for a year exceed certain thresholds. On April 11, 2006, the IRS published the 2005 oil Reference Price and it did not exceed the beginning of the phase-out range. Consequently, there was no phase-out of tax credits for calendar year 2005.

The following table (in dollars) provides the estimated phase-out range for 2006 and the annual average New York Mercantile Exchange, Inc. index (NYMEX) prices per barrel based on actual prices for the year ended December 31, 2006.

	Estimated 2006
Beginning of Phase-Out Range [(a)]	$60
End of Phase-Out Range [(a)]	76
Annual Average NYMEX	66

(a) The estimated 2006 phase-out range is based upon the actual 2005 phase-out range. The actual 2005 phase-out range was determined using the inflation adjustment factor published by the IRS in April 2006. The actual 2005 phase-out range was increased by 2% (Exelon's estimate of inflation) to arrive at the estimated 2006 phase-out range.

Exelon and the operators of the synthetic fuel-producing facilities in which Exelon has interests idled the facilities in May 2006. The decision to suspend synthetic fuel production was primarily driven by the level and volatility of oil prices. In addition, the proposed Federal legislation that would have provided certainty that tax credits would exist for 2006 production was not included in the Tax Increase Prevention and Reconciliation Act of 2005. As a result of the suspension of production at the synthetic fuel-producing facilities and the level of oil prices, during the second quarter of 2006, Exelon recorded an impairment charge of $115 million ($69 million after tax) in operating and maintenance expense in Exelon's Consolidated Statement of Operations to write off the net carrying value of the intangible asset related to Exelon's investments in synthetic fuel-producing facilities. The net carrying value of the intangible assets associated with the synthetic fuel-producing facilities was $143 million at December 31, 2005. See Note 8—Intangible Assets for additional information. Due to the reduction in oil prices during the third quarter of 2006, the operators resumed production at the synthetic fuel-producing facilities in September 2006 and produced at full capacity through the remainder of 2006.

Exelon is required to pay for tax credits based on the production of the facilities regardless of whether or not a phase-out of the tax credits is anticipated. However, Exelon has the legal right to recover a portion of the payments made to its counterparties related to phased-out tax credits. At December 31, 2006, Exelon had receivables on its Consolidated Balance Sheet from the counterparties totaling $73 million associated with the portion of the payments previously made to the counterparties related to tax credits that are anticipated to be phased out for 2006. As of December 31, 2006, Exelon has estimated the 2006 phase-out to be 38%, which has reduced Exelon's earned after-tax credits of $164 million to $101 million for the year ended December 31, 2006. The estimated 2006 phase-out range is based upon the actual 2005 phase-out range. The actual 2005 phase-out range was determined using the inflation adjustment factor published by the IRS in April 2006. The actual 2005 phase-out range was increased by 2% (Exelon's estimate of inflation) to arrive at the estimated 2006 phase-out range.

In 2005, Exelon and Generation entered into certain derivatives in the normal course of trading operations to economically hedge a portion of the exposure to a phase-out of the tax credits. One of the counterparties has security interests in these derivatives. Including the related mark-to-market gains and losses on these derivatives, interests in synthetic fuel-producing facilities reduced Exelon's net income by $24 million and increased Exelon's net income by $81 million and $70 million during the years ended December 31, 2006, 2005 and 2004, respectively. Exelon anticipates that it will continue to record income or losses related to the mark-to-market gains or losses on its derivative instruments and changes to the tax credits earned by Exelon during the period of production due to the volatility of oil prices.

Net income or net losses from interests in synthetic fuel-producing facilities are reflected in the Consolidated Statements of Operations within income taxes, operating and maintenance expense, depreciation and amortization expense, interest expense, equity in losses of unconsolidated affiliates and other, net.

There are provisions in the agreements between the parties, such as low production volume, unanimous consents between the parties and defaults by the parties, which would allow or cause an early termination of the partnerships. If none of the parties to the agreements takes action to terminate the partnerships early, the partnerships will terminate in 2008.

The non-recourse notes payable principal balance was $108 million and $158 million at December 31, 2006 and 2005, respectively. The non-recourse notes payable can be relieved either through eventual payments or possibly through extinguishment which may occur subsequent to termination of the partnership pursuant to the agreements between the parties.

1999 Sale of Fossil Generating Assets (Exelon and ComEd)

Exelon, through its ComEd subsidiary, has taken certain tax positions, which have been disclosed to the IRS, to defer the tax gain on the 1999 sale of its fossil generating assets. As of December 31, 2006 and 2005, deferred tax liabilities related to the fossil plant sale are reflected in Exelon's Consolidated Balance Sheets with the majority allocated to ComEd and the remainder to Generation. Exelon's ability to continue to defer all or a portion of this liability depends on whether its treatment of the sales proceeds as having been received in connection with an involuntary conversion is proper pursuant to applicable law. Exelon's ability to continue to defer the remainder of this liability may depend in part on whether its tax characterization of a sale leaseback transaction into which ComEd entered in connection with the fossil plant sale is proper pursuant to applicable law. The Federal tax returns and related tax return disclosures covering the period of the 1999 sale are currently under IRS audit. The IRS has indicated its position that the ComEd sale leaseback transaction is substantially similar to a leasing transaction, a sale-in, lease-out (SILO), the IRS is treating as a "listed transaction" pursuant to guidance it issued in 2005. A listed transaction is one which the IRS considers to be a potentially abusive tax shelter. As a result of the IRS characterization of the lease transaction as a listed transaction, it is likely to vigorously challenge the transaction and has sought to obtain information not normally requested in audits. Exelon disagrees with the IRS' characterization of its sale leaseback as a SILO and believes its position is correct and will aggressively defend that position upon audit and any subsequent appeals or litigation.

In November 2006, ComEd received from the IRS a notice of proposed adjustment disallowing the deferral of gain associated with its position that proceeds from the fossil plant sales resulted from an "involuntary conversion." ComEd plans to protest this adjustment following receipt of the final IRS audit report, which is expected in late 2007.

A successful IRS challenge to ComEd's positions would accelerate future income tax payments and increase interest expense related to the deferred tax gain that becomes currently payable. As of December 31, 2006, Exelon's potential cash outflow, including tax and interest (after tax), could be as much as $960 million. If the deferral were successfully challenged by the IRS, it could negatively impact Exelon's results of operations by as much as $166 million (after tax) related to interest expense. Exelon's management believes a reserve for interest has been appropriately recorded in accordance with FASB Statement No. 5, "Accounting for Contingencies" (SFAS No. 5); however, the ultimate outcome of such matters could result in unfavorable or favorable adjustments to the results of operations, and such adjustments could be material. Final resolution of this matter is not anticipated for several years.

Pennsylvania Tax Law (Exelon and Generation)

On July 12, 2006, the Governor of Pennsylvania approved a law which increases the threshold for the usage of net operating losses for Pennsylvania corporate net income taxes. Under the new law, previously limited Pennsylvania net operating losses will be available to offset future taxable income, primarily at Generation. As a result, Exelon recorded an approximate $10 million tax benefit to income taxes in 2006.

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

13. Asset Retirement Obligations (Exelon, Generation, ComEd and PECO)

Nuclear Decommissioning and Spent Fuel Storage (Exelon and Generation)

Exelon, Generation and AmerGen have a legal obligation to decommission nuclear power plants following the expiration of their operating licenses. Generation currently recovers costs for decommissioning nuclear generating stations, previously owned by PECO, through regulated rates collected by PECO from PECO customers. Through 2006, Generation recovered costs for decommissioning nuclear generating stations, previously owned by ComEd, through regulated rates collected from ComEd customers. Under a December 2000 ICC order issued to ComEd, amended February 2001 (ICC order), amounts for decommissioning are no longer permitted to be collected from ComEd customers subsequent to 2006. AmerGen trust funds were originally funded through collections from customers prior to the acquisition of the sites. Neither Exelon nor Generation are permitted to collect any amounts from customers for the decommissioning of the AmerGen sites. The amounts recovered from customers are deposited into decommissioning trust funds that have been established as required by law. These trust funds have been funded through prior and current collections from customers. The trust funds established for a particular plant may not be used to fund the decommissioning obligation of any other nuclear plant. Exelon and Generation believe that these funds, along with future collections from customers for decommissioning, will ultimately be sufficient to satisfy all required decommissioning-related activities.

The following table summarizes the most significant assets and liabilities associated with nuclear decommissioning included in Exelon's and Generation's Consolidated Balance Sheets as of December 31, 2006 and 2005:

December 31, 2006	Exelon	Generation
Property, plant and equipment (asset retirement cost)	$ 275	$ 275
Nuclear decommissioning trust funds	6,415	6,415
Regulatory liability	(1,911)	N/A
Asset retirement obligations	(3,533)	(3,533)
Long-term payables to affiliates	N/A	(1,911)
Other comprehensive income, net	(167)	(167)
December 31, 2005	**Exelon**	**Generation**
Property, plant and equipment (asset retirement cost)	$ 685	$ 685
Nuclear decommissioning trust funds	5,585	5,585
Regulatory liability	(1,503)	N/A
Asset retirement obligations	(3,921)	(3,921)
Long-term payables to affiliates	N/A	(1,503)
Other comprehensive income, net	(76)	(76)

Nuclear Decommissioning Asset Retirement Obligations (ARO) (Exelon, Generation, ComEd and PECO)

Generation assumed the responsibility for decommissioning the former ComEd and former PECO nuclear units as a result of a corporate restructuring effective January 1, 2001 in which Exelon separated its generation and other competitive businesses from its regulated energy delivery business at ComEd and PECO.

AmerGen assumed responsibility for decommissioning the Clinton, Oyster Creek and Three Mile Island (TMI) units upon the original purchase of each unit in 1999, 1999 and 2000, respectively.

Generation will begin decommissioning activities for each plant once that plant ceases operations. Generation currently makes decommissioning payments for its retired units; however, those amounts are not considered significant when compared to the total obligation.

As of December 31, 2006 and 2005, Exelon and Generation recorded nuclear decommissioning obligations totaling \$3.5 billion and \$3.9 billion, respectively, which were determined in accordance with SFAS No. 143. See Note 1—Significant Accounting Policies for information regarding the application of SFAS No. 143.

Nuclear Decommissioning Trust Funds and Customer Collections

The trust funds that have been established to satisfy Exelon's and Generation's nuclear decommissioning obligations were originally funded with amounts collected by customers. In certain circumstances, these trust funds will continue to be funded by future collections from customers.

The trusts associated with the former ComEd units and the former PECO units have been funded with amounts collected from the ComEd and PECO customers, respectively. Any funds remaining in these trusts after decommissioning has been completed are required to be refunded to ComEd's or PECO's customers as appropriate. However, if there are insufficient funds in the trusts associated with the former ComEd units to pay for decommissioning costs, Generation is required to fund that shortfall. Any potential shortfall is determined on a plant-by-plant basis, since the trust funds established for any particular plant may not be used to fund the decommissioning obligations of any other plant.

If there are insufficient funds in the trusts associated with the former PECO units, PECO is allowed to collect additional amounts from the PECO customers, subject to certain limitations, as prescribed by an order from the PAPUC. Generally, PECO will not be allowed to collect amounts associated with the first \$50 million of any shortfall of trust funds compared to decommissioning obligations, as well as 5% of any additional shortfalls. This initial \$50 million and up to 5% of any additional shortfalls will be borne by Generation as required by the corporate restructuring in 2001. Exelon and Generation expect total decommissioning costs to exceed this threshold and expects to be held responsible for the entire \$50 million, which is being recognized over the remaining life of the assets.

AmerGen is financially responsible for the decommissioning of the AmerGen plants and retains any funds remaining in the trusts after decommissioning of those plants has been completed. Any shortfall of funds necessary for decommissioning is required to be funded by AmerGen. AmerGen does not currently collect any amounts from customers, nor is there any mechanism by which Generation can seek to collect additional amounts from customers in order to pay the decommissioning costs of the AmerGen units.

Through 2006, ComEd was permitted to recover up to $73 million annually from customers through regulated rates to pay for decommissioning costs. The amounts recovered from customers were remitted to Generation and deposited into the trust accounts to fund the future decommissioning costs. ComEd collected and remitted to Generation a total of $66 million and $68 million, respectively, for the years ended December 31, 2006 and 2005. ComEd is not permitted to collect any amounts after 2006 to pay for decommissioning costs based on the ICC order. Based on the provisions of the ICC order and NRC regulations, Generation is financially responsible for the decommissioning obligations related to the plants formerly owned by ComEd.

PECO currently recovers in revenues funds for decommissioning the former PECO nuclear plants through regulated rates. The amounts recovered from customers are remitted to Generation and deposited into the trust accounts to fund the future decommissioning costs. In both 2006 and 2005, PECO collected and remitted to Generation $33 million. Every five years, the PAPUC reviews the annual amount that PECO is allowed to collect from customers. As part of that review, the PAPUC will decide whether the amount PECO collects from its customers continues to be sufficient to allow for the decommissioning of the former PECO nuclear units. Based on this review, the PAPUC may adjust PECO's collection upward or downward. Any shortfall of funding resulting from this process would be funded by Generation, as described above.

As of December 31, 2006 and 2005, nuclear decommissioning trust funds totaled $6.4 billion and $5.6 billion, respectively. See Note 9—Fair Value of Financial Assets and Liabilities for more information regarding the nuclear decommissioning trust funds as of December 31, 2006 and 2005.

Accounting Implications of the Agreements with ComEd and PECO

Impact on the Statements of Operations

As discussed above, the ComEd and PECO customers are entitled to a refund of any excess, as determined on a plant-by-plant basis, of trust funds that remain after the completion of decommissioning activities. Because the funds held in trust currently exceed the total estimated decommissioning obligation, Generation does not recognize in the statement of operations the net impacts of decommissioning the former ComEd and former PECO units. However, should the decommissioning obligations associated with the former ComEd units exceed the related decommissioning assets, Generation will no longer maintain a noncurrent affiliate payable related to ComEd's corresponding regulatory liability, but rather reflect the net impacts of decommissioning activities related to these plants in the statements of operations.

Decommissioning impacts, including the accretion of the decommissioning obligation (which is included in operating and maintenance expense in Generation's statements of operations) and the income of the trust funds (net of applicable taxes) associated with the former ComEd and former PECO units, are offset within Generation's statements of operations with an equal adjustment to the noncurrent payables to affiliates at Generation and an adjustment to the regulatory liabilities at Exelon. Likewise, ComEd and PECO have recorded equal noncurrent affiliate receivables from Generation and corresponding regulatory liabilities. The decommissioning of the AmerGen units are reflected in the statements of operations, as there are no regulatory agreements associated with these units.

Impact on the Statements of Other Comprehensive Income

Generation does not reflect any net activity within the statement of other comprehensive income related to the unrealized gains for the trust funds established to fund the decommissioning liabilities of the former PECO units as these unrealized gains are not anticipated to ultimately be included in the statement of operations as a result of the current accounting discussed above. Unrealized gains (after applicable taxes) related to the former ComEd units are also offset within Generation's statement of other comprehensive income. The gross unrealized gains in the trust funds of the former ComEd and PECO units are tax-effected at the applicable tax rates, so that the associated deferred tax liabilities can be appropriately calculated and recorded.

The net unrealized gains associated with AmerGen are included in the statement of other comprehensive income, since the accounting treatment described above does not apply to AmerGen.

Impact on the Balance Sheet

The decommissioning liabilities associated with the former ComEd, former PECO and AmerGen units are reflected as an ARO in the long-term liability section of Generation's balance sheet. AROs represent legal obligations associated with the retirement of tangible long-lived assets. Changes in the ARO resulting from revisions to the timing or amount of future undiscounted cash flows are generally recognized through a corresponding increase or decrease to the carrying value of that plant. This adjustment is reflected in property, plant and equipment as an asset retirement cost (ARC), and is amortized on a straight-line basis over the life of that plant. The noncurrent affiliate payables from Generation to ComEd and PECO represent the difference between the decommissioning-related assets and decommissioning-related liabilities, which are required to be refunded to ComEd's or PECO's customers as appropriate. ComEd and PECO have recorded corresponding noncurrent affiliate receivables from Generation and corresponding regulatory liabilities to the applicable customers.

At December 31, 2006 and 2005, ComEd recorded a regulatory liability for the amount of decommissioning-related assets in excess of the ARO totaling $1.8 billion and $1.4 billion, respectively. At December 31, 2006 and 2005, PECO recorded a regulatory liability for the amount of decommissioning-related assets in excess of the ARO totaling $151 million and $68 million, respectively.

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

The following table provides a roll forward of the nuclear decommissioning ARO reflected on Exelon's and Generation's Consolidated Balance Sheets, from January 1, 2005 to December 31, 2006:

	Exelon	Generation
Asset retirement obligation at January 1, 2005 [(a)]	$3,981	$3,980
Net decrease resulting from updates to estimated future cash flows	(281)	(281)
Accretion expense	243	243
Liability reclassified and disposed [(b)]	(8)	(7)
Payments to decommission retired plants	(14)	(14)
Asset retirement obligation at December 31, 2005 [(a)]	3,921	3,921
Net decrease resulting from updates to estimated future cash flows	(604)	(604)
Accretion expense	230	230
Payments to decommission retired plants	(14)	(14)
Asset retirement obligation at December 31, 2006	$3,533	$3,533

(a) Includes amounts not related to nuclear decommissioning.
(b) Represents the reclassification of $(5) million and $(4) million for Exelon and Generation, respectively, primarily related to fossil and hydroelectric generating facilities and $(3) million related to liabilities disposed as a result of the sale of Sithe on January 31, 2005.

2006 and 2005 ARO Updates

During the second quarter of 2006, Generation recorded a net decrease in the ARO of approximately $604 million and pre-tax income of $149 million resulting from revisions to estimated future nuclear decommissioning cash flows, primarily due to the following:

- Revised management assumptions concerning an increased likelihood of successful nuclear license renewal efforts due to an increasingly favorable environment for nuclear power and, therefore, an increased likelihood of operating the nuclear plants through a full license extension period; and
- A change in management's expectation of when the U.S. Department of Energy (DOE) will establish a repository for and begin accepting spent nuclear fuel.

The impact of the above items was to effectively push the estimated future nuclear decommissioning cash flows further into the future and, therefore, reduce the present value of the ARO. This decrease in the ARO resulted in the following corresponding impacts:

- A decrease in Generation's ARC, which is included in property, plant and equipment in Exelon's and Generation's Consolidated Balance Sheets, of approximately $393 million;
- An increase in Generation's noncurrent payable to ComEd and PECO, which is included in noncurrent payable to affiliates in Generation's Consolidated Balance Sheets, of approximately $62 million;
- An increase in ComEd's and PECO's intercompany receivables from Generation, which are included in noncurrent receivables from affiliates in ComEd's and PECO's Consolidated

Balance Sheets, of approximately $36 million and $26 million, respectively, offset by equivalent increases in ComEd's and PECO's regulatory liabilities (these changes are also reflected in regulatory liabilities in Exelon's Consolidated Balance Sheet); and

- The recognition of other operating income totaling $149 million (pre-tax), which is included in operating and maintenance expense in Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income, representing the reduction in the ARO in excess of the existing ARC balance for the AmerGen units.

The net decrease in the ARO for the former ComEd units, the former PECO units and the AmerGen units was approximately $219 million, $183 million and $202 million, respectively. As of December 31, 2006, the ARO balances for the former ComEd, the former PECO and the AmerGen units totaled approximately $2,172 million, $912 million and $449 million, respectively.

During the second quarter of 2005, Generation recorded a $281 million net decrease to the ARO resulting from revisions to estimated future nuclear decommissioning cash flows. This update also resulted in a corresponding decrease to the ARC of approximately $251 million, included in property, plant and equipment. The balance of the decrease to the ARO related primarily to the retired units, which have no remaining useful life and, likewise, no existing ARC to offset. The decrease related to these retired units totaled approximately $30 million and was recorded as a credit to income. However, since there was no impact to net income for the decommissioning of the former ComEd and PECO units, the $30 million credit to income was equally offset with a charge to operating income and an adjustment to the intercompany payable to ComEd and PECO of approximately $21 million and $9 million, respectively, at Generation, and an adjustment to the regulatory liabilities at Exelon, ComEd and PECO of $30 million, $21 million and $9 million, respectively. Both the credit to income and the offsetting charge to operating income are included in operating and maintenance expense in Exelon's and Generation's Consolidated Statements of Operations and Comprehensive Income.

The net decrease to the ARO resulted primarily from a year-over-year decline in the cost escalation factors used to estimate future undiscounted costs, which was partially offset by an increase resulting from updated decommissioning cost studies received for two nuclear stations. Both the updated escalation factors and the updated cost estimates were provided by independent third-party appraisers. Cost studies are generally updated every three to five years in accordance with NRC regulations and industry practice. The net decrease in the ARO for the former ComEd units, the former PECO units and the AmerGen units resulting from revisions to estimated cash flows during 2005 was $207 million, $40 million and $34 million, respectively. As of December 31, 2005, the ARO balances for the former ComEd, the former PECO and the AmerGen units totaled approximately $2,267 million, $1,041 million and $613 million, respectively.

Spent Nuclear Fuel

Under the Nuclear Waste Policy Act of 1982 (NWPA), the U.S. Department of Energy (DOE) is responsible for the development of a repository for the disposal of spent nuclear fuel (SNF) and high-level radioactive waste. As required by the NWPA, Generation is a party to contracts with the DOE (Standard Contracts) to provide for disposal of SNF from its nuclear generating stations. In accordance with the NWPA and the Standard Contracts, Generation pays the DOE one mill ($.001) per kilowatt-hour of net nuclear generation for the cost of nuclear fuel long-term disposal. This fee may be adjusted prospectively in order to ensure full cost recovery. The NWPA and the Standard Contracts required the DOE to begin taking possession of SNF generated by nuclear generating units by no later than January 31, 1998. The DOE, however, failed to meet that deadline and its performance will be delayed significantly. The DOE's current estimate for opening a SNF facility is 2017. This extended delay in SNF acceptance by the DOE has led to Generation's adoption of dry cask storage at its Dresden, Quad Cities, Oyster Creek and Peach Bottom stations and its consideration of dry cask storage at other stations.

The Standard Contracts with the DOE also required the payment to the DOE of a one-time fee applicable to nuclear generation through April 6, 1983. The fee related to the former PECO units has been paid. Pursuant to the Standard Contracts, ComEd previously elected to defer payment of the one-time fee of $277 million for its units (which are now part of Generation), with interest to the date of payment, until just prior to the first delivery of SNF to the DOE. As of December 31, 2006, the unfunded liability for the one-time fee with interest was $950 million. Interest accrues at the 13-week Treasury Rate. The 13-week Treasury Rate in effect, for calculation of the interest accrual at December 31, 2006, was 5.108%. The liabilities for spent nuclear fuel disposal costs, including the one-time fee, were transferred to Generation as part of the 2001 corporate restructuring. The outstanding one-time fee obligation for the Oyster Creek and TMI units remains with the former owners. Clinton has no outstanding obligation.

In July 1998, ComEd filed a complaint against the United States Government (Government) in the United States Court of Federal Claims (Court) seeking to recover damages caused by the DOE's failure to honor its contractual obligation to begin disposing of SNF in January 1998.

In August 2004, Generation and the U.S. Department of Justice, in close consultation with the DOE, reached a settlement under which the government will reimburse Generation for costs associated with storage of spent fuel at Generation's nuclear stations pending DOE's fulfillment of its obligations. Under the agreement, in the third quarter of 2004, Generation received $80 million ($53 million after considering amounts due to co-owners of certain stations) in gross reimbursements for storage costs through September 30, 2003. During the fourth quarter of 2005, Generation received a cash reimbursement of $58.5 million, ($35 million after considering amounts due to co-owners of certain nuclear stations) for costs incurred between October 1, 2003 to June 30, 2005. The $58.5 million reimbursement included a reimbursement of $14.4 million for costs incurred before August 2000 by First Energy Corporation, the prior owner of Oyster Creek Station. During the fourth quarter of 2006, Generation received a cash reimbursement of $24.4 million, ($19.5 million after considering amounts due to co-owners of certain nuclear stations) for costs incurred between July 1, 2005 and June 30, 2006. As of December 31, 2006, the amount of spent fuel storage costs for which reimbursement will be requested from the DOE under the settlement agreement is $21 million, which is recorded within accounts receivable, other. This amount is comprised of $10 million, which has been recorded as a reduction to operating and maintenance expense, and $9 million, which has been recorded as a reduction to capital expenditures. The remaining $2 million represents amounts owed to the co-owners of the Peach Bottom and Quad Cities generating facilities. In all cases, annual reimbursements will be made only after costs are incurred and only for costs resulting from DOE delays in accepting the fuel.

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

Non-Nuclear AROs (Exelon, Generation, ComEd, and PECO)

As of December 31, 2005, the Registrants adopted FIN 47, which clarified that a legal obligation associated with the retirement of a long-lived asset whose timing and/or method of settlement are conditional on a future event is within the scope of SFAS No. 143. Under FIN 47, Exelon is required to record liabilities associated with its conditional AROs at their estimated fair values if those fair values can be reasonably estimated.

The following table presents the activity of the non-nuclear AROs reflected on the Registrants' Consolidated Balance Sheets from January 1, 2006 to December 31, 2006:

	Exelon	Generation	ComEd	PECO
Non-nuclear AROs at January 1, 2006	$236	$ 65	$151	$ 20
Accretion (a)	13	4	7	1
Settlements	(2)	—	(2)	—
Non-nuclear AROs at December 31, 2006	$247	$ 69	$156	$ 21

(a) For ComEd and PECO, the majority of the accretion is recorded as an increase to a regulatory asset due to the associated regulations.

Determination of Conditional AROs

The adoption of FIN 47 required the Registrants to update their existing inventories, originally created for the adoption of SFAS No. 143, and to determine which, if any, of the conditional AROs could be reasonably estimated. The significant conditional AROs identified by ComEd and PECO included abatement and disposal of equipment and buildings contaminated with asbestos and Polychlorinated Biphenyls (PCBs). The significant conditional AROs identified by Generation included plant closure costs associated with its fossil and hydroelectric generating stations, including asbestos abatement, removal of certain storage tanks and other decommissioning-related activities.

The ability to reasonably estimate a conditional ARO was a matter of management judgment, based upon management's ability to estimate a settlement date or range of settlement dates, a method or potential method of settlement and probabilities associated with the potential dates and methods of settlement of its conditional AROs. In determining whether their conditional AROs could be reasonably estimated, management considered the Registrant's past practices, industry practices, management's intent and the estimated economic lives of the assets. The management of the Registrants concluded that all significant conditional AROs could be reasonably estimated.

The Registrants were required to measure the conditional AROs at fair value using the methodology prescribed by FIN 47. The transition provisions of FIN 47 required the Registrants to apply this measurement back to the historical periods in which the conditional AROs were incurred, resulting in a remeasurement of these obligations at the latter of the date that the related assets were placed into service or acquired or the date that the applicable law or environmental regulation became effective. The fair values of the conditional AROs were then estimated using a probability-weighted, discounted cash flow model with multiple scenarios, if applicable. The present value of future estimated cash flows was calculated using credit-adjusted, risk-free rates in order to determine the fair value of the conditional AROs at the time of adoption of FIN 47.

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

Conditional AROs of $231 million, $61 million, $150 million, and $20 million were recorded as of December 31, 2005 for Exelon, Generation, ComEd, and PECO, respectively. Changes in management's assumptions regarding settlement dates, settlement methods or assigned probabilities could have had a material effect on the liabilities recorded as well as the associated cumulative effect of a change in accounting principle and associated regulatory assets recorded.

Effect of Adopting FIN 47

FIN 47 required that the Registrants recognize the following amounts within its financial statements upon the adoption of FIN 47: (i) a liability for any existing conditional AROs adjusted for cumulative accretion to December 31, 2005; (ii) an ARC capitalized as an increase to the carrying amount of the associated long-lived assets; and (iii) cumulative depreciation on the ARC. The transition guidance in FIN 47 required that its adoption be effected through a cumulative change in accounting principle measured as the difference between the amounts recognized in the financial statements prior to the adoption of FIN 47 for conditional AROs and the amounts recognized as of December 31, 2005 pursuant to FIN 47. Exelon and ComEd had previously recognized $39 million as removal costs within regulatory liabilities associated with conditional AROs that were reclassified to a conditional ARO liability upon the adoption of FIN 47.

After considering the transitional guidance included in FIN 47, Exelon, Generation, ComEd, and PECO recorded charges of $42 million (net of income taxes of $27 million), $30 million (net of income taxes of $19 million), $9 million (net of income taxes of $6 million), and $3 million (net of income taxes of $2 million), respectively, as cumulative effects of a change in accounting principle in connection with its adoption. In addition, due to the application of SFAS No. 71, which is further described in Note 1—Significant Accounting Policies, Exelon, ComEd and PECO recorded regulatory assets of $104 million, $91 million and $13 million, respectively, associated with the adoption of FIN 47.

The following table presents the line items within the Registrants' Consolidated Statements of Operations for the year ended December 31, 2005 and the Consolidated Balance Sheets at December 31, 2005 that were affected by the adoption of FIN 47:

	Exelon	Generation	ComEd	PECO
Consolidated statements of operations line item:				
Cumulative effect of a change in accounting principle (net of income taxes of $(27), $(19), $(6), $(2)) [a]	$ (42)	$(30)	$ (9)	$ (3)
Consolidated balance sheets line items—increase (decrease):				
Property, plant and equipment, net [b]	$ 19	$ 12	$ 5	$ 2
Regulatory assets [c]	104	—	91	13
Deferred income taxes (noncurrent liability)	(27)	(19)	(6)	(2)
Asset retirement obligations [d]	231	61	150	20
Regulatory liabilities [e]	(39)	—	(39)	—

(a) Represents the difference between the conditional ARO, net ARC and regulatory assets and liabilities recorded upon adoption, net of income taxes.
(b) For Exelon, Generation, ComEd and PECO, represents capitalized ARC of $52 million, $22 million, $25 million and $5 million, respectively, as an increase to the carrying amount of the associated long-lived assets, net of accumulated depreciation of $33 million, $10 million, $20 million and $3 million, respectively, on the ARC.
(c) *Represents an increase to regulatory assets pursuant to SFAS No. 71 for amounts expected to be recovered from customers.*
(d) Represents a liability for existing conditional AROs adjusted for cumulative accretion to December 31, 2005.
(e) Represents removal costs within regulatory liabilities at ComEd that were reclassified to the asset retirement obligations liability.

See Note 1—Significant Accounting Policies for net income and earnings per common share for 2005 and 2004, adjusted as if FIN 47 had been applied effective during the entirety of those years.

Accounting Methodology Under FIN 47

The liabilities associated with conditional AROs will be adjusted on an ongoing basis due to the passage of time, new laws and regulations and revisions to either the timing or amount of the original estimates of undiscounted cash flows. These adjustments could have a significant impact on Exelon's, Generation's, ComEd's and PECO's Consolidated Statements of Operations and Consolidated Balance Sheets, assuming the provisions of SFAS No. 71 continue to apply.

The liabilities recorded related to the conditional AROs of Exelon are being accreted to their full estimated settlement amounts through the estimated ultimate settlement dates. For Generation, this accretion charge is recorded as an operating and maintenance expense within the Consolidated Statements of Operations. For ComEd and PECO, most of this accretion charge is recorded as an increase to their regulatory assets due to the application of SFAS No. 71.

The net ARC of Exelon is being depreciated over the remaining lives of the related long-lived assets. For Generation, this charge is recorded as depreciation and amortization expense within the Consolidated Statements of Operations. For ComEd and PECO, most of this depreciation charge is recorded as an increase to their regulatory assets due to the application of SFAS No. 71.

14. Retirement Benefits (Exelon, Generation, ComEd and PECO)

Defined Benefit Pension and Other Postretirement Benefits—Consolidated Plans

Exelon

Exelon sponsors defined benefit pension plans and postretirement benefit plans for essentially all Generation, ComEd, PECO and BSC employees, except for those employees of Generation's wholly owned subsidiary, AmerGen, who participate in the separate AmerGen-sponsored defined benefit pension plan and postretirement benefit plan. Substantially all Exelon non-union employees and electing union employees hired on or after January 1, 2001 participate in Exelon-sponsored cash balance pension plans. Substantially all Exelon non-union employees hired prior to January 1, 2001 were offered a choice to remain in Exelon's traditional pension plan or transfer to a cash balance pension plan for management employees. In 2005, AmerGen offered its employees a choice to remain in their traditional benefit formula or convert to a cash balance formula.

Exelon's traditional and cash balance pension plans and AmerGen's cash balance pension plan are intended to be tax-qualified defined benefit plans, and Exelon submitted applications to the IRS for rulings on the tax-qualification of the form of its plans for non-union and electing union employees. On June 1, 2004, the IRS issued a favorable ruling on the union cash balance plan. Exelon has not yet received a ruling with respect to its non-union plan, and AmerGen has not yet submitted an application with respect to its cash balance formula, due to the IRS temporary moratorium on issuing any rulings to plans that were involved in a "conversion" from a traditional to a cash balance formula. In December 2006, the IRS issued a notice announcing that the moratorium on consideration of determination letters for cash balance plans would be lifted in 2007.

The costs of providing benefits under these plans are dependent on historical information such as employee age, length of service and level of compensation and the actual rate of return on plan assets. Also, Exelon and AmerGen utilize assumptions about the future, including the expected rate of return on plan assets, the discount rate applied to benefit obligations, the incidence of mortality, the remaining service period, rate of compensation increases and the anticipated rate of increase in health care costs, in order to measure the plan obligations and costs to be recognized related to these plans. The impact of changes in these factors on pension and other postretirement benefit obligations is generally recognized over the expected remaining service life of the employees rather than immediately recognized in the income statement. Exelon and AmerGen use a December 31 measurement date for their plans.

Funding is based upon actuarially determined contributions that take into account the amount deductible for income tax purposes and the minimum contribution required under ERISA, as amended. The funded status of the pension and other postretirement benefit obligations refers to the difference between plan assets and estimated obligations of the plan. The funded status may change over time due to several factors, including contribution levels, assumed discount rates and actual long-term rates of return on plan assets. Changes in these factors could impact the funded status of these obligations. Exelon made discretionary aggregate contributions of approximately $2 billion to its traditional and cash balance pension plans in 2005. The 2005 contributions were initially funded through borrowings under a short-term loan agreement, which were subsequently refinanced with long-term senior notes, as further described in Note 11—Debt and Credit Agreements.

In accordance with SFAS No. 158, which became effective in the fourth quarter of 2006, Exelon and Generation are required to recognize the overfunded or underfunded status of their defined benefit pension and other postretirement plans as an asset or liability on their balance sheets as of December 31, 2006. The impacts of adopting SFAS No. 158 to Exelon's and Generation's Consolidated Balance Sheets is described in more detail below.

In 2006, President Bush signed into law the Pension Protection Act of 2006 (the Act), which will affect the manner in which many companies, including Exelon and Generation, administer their pension plans. This legislation will require companies to, among other things, increase the amount by which they fund their pension plans, pay higher premiums to the Pension Benefit Guaranty Corporation if they sponsor defined benefit plans, amend plan documents and provide additional plan disclosures in regulatory filings and to plan participants. This legislation will be effective as of January 1, 2008. Exelon and Generation do not anticipate that the Act will have a material effect on their liquidity and capital resources. Absent changes in plan design as a result of the Act, the Act is not expected to materially impact Exelon's and Generation's results of operations. Exelon and Generation are currently assessing the impact the Act may have on their plan design, if any.

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

The following tables provide a rollforward of the changes in the benefit obligations and plan assets for the most recent two years for all plans combined:

	Pension Benefits		Other Postretirement Benefits	
	2006	2005	2006	2005
Change in benefit obligation:				
Net benefit obligation at beginning of year	$10,247	$ 9,775	$3,297	$2,988
Service cost	157	144	99	89
Interest cost	562	546	183	175
Plan participants' contributions	—	—	22	22
Plan amendments	—	5	—	(17)
Actuarial loss (gain)	7	351	(95)	239
Curtailments/settlements	3	—	—	—
Special accounting costs	3	—	—	—
Gross benefits paid	(583)	(574)	(184)	(199)
Federal subsidy on benefits paid	—	—	8	—
Net benefit obligation at end of year	$10,396	$10,247	$3,330	$3,297
Change in plan assets:				
Fair value of plan assets at beginning of year	$ 9,060	$ 7,014	$1,341	$1,246
Actual return on plan assets	1,145	612	168	58
Employer contributions	23	2,008	165	214
Plan participants' contributions	—	—	22	22
Gross benefits paid	(583)	(574)	(184)	(199)
Fair value of plan assets at end of year	$ 9,645	$ 9,060	$1,512	$1,341

The following table provides a reconciliation of benefit obligations, plan assets and funded status of the plans as of December 31, 2005 for all plans combined. (In accordance with SFAS No. 158, Exelon and Generation recognized the underfunded status of its defined benefit postretirement plans as a liability on their balance sheets as of December 31, 2006.)

	Pension Benefits	Other Postretirement Benefits
Fair value of plan assets at December 31, 2005	$ 9,060	$ 1,341
Net benefit obligations at December 31, 2005	10,247	3,297
Funded status (plan assets less plan obligations)	(1,187)	(1,956)
Amounts not recognized		
Net actuarial loss	3,339	1,245
Prior service cost (credit)	159	(370)
Net transition obligation	—	67
Net amount recognized	$ 2,311	$(1,014)

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

The following table provides a reconciliation of the amounts recognized in Exelon's Consolidated Balance Sheets as of December 31, 2005 for all plans combined:

	Pension Benefits	Other Postretirement Benefits
Prepaid benefit cost	$ 2,358	$ —
Accrued benefit cost	(47)	(1,014)
Additional minimum liability	(2,202)	—
Intangible asset	34	—
Accumulated other comprehensive loss	2,168	—
Net amount recognized	$ 2,311	$(1,014)

The following table presents the incremental effects of applying SFAS No. 158, in connection with SFAS No. 71, as well as the change to the additional minimum liability (AML) as a result of an annual actuarial valuation associated with the benefit plans on Exelon's Consolidated Balance Sheet as of December 31, 2006 for all plans combined:

	Before Application of SFAS No. 158 Without AML Adjustment	AML Adjustment (a)	SFAS No. 158 Adjustments	After Application of SFAS No. 158
Regulatory assets	$ 4,428	$ —	$ 1,380(b)	$ 5,808
Pension asset	352	1,596	(1,948)	—
Other deferred debits and other assets	688	92	(126)(c)	654
Total deferred debits and other assets	15,558	1,688	(694)	16,552
Other current liabilities	1,076	—	8	1,084
Total current liabilities	5,787	—	8	5,795
Pension obligations	297	(124)	574	747
Non-pension postretirement benefit obligations	1,039	—	778	1,817
Deferred income taxes and unamortized investment tax credits	5,523	674	(773)	5,424
Other deferred credits and other liabilities	762	—	20(d)	782
Total deferred credits and other liabilities	15,404	550	599	16,553
Accumulated other comprehensive loss	(973)	1,138	(1,302)(b)	(1,137)
Total shareholders' equity	10,137	1,138	(1,302)	9,973

(a) The AML was significantly less at December 31, 2006 as compared to December 31, 2005 as Exelon's most significant pension plan was funded on an accumulated benefit obligation (ABO) basis at December 31, 2006 and thus an AML was not required.

(b) After the adoption of SFAS No. 158 and before applying the provisions of SFAS No. 71, Exelon had an accumulated OCI balance of $2.4 billion attributable to its pension and other postretirement benefit obligations. Exelon subsequently recorded a regulatory asset of $1.4 billion and an offsetting reduction on an after-tax basis of AOCI of $866 million representing a reasonable approximation of the actuarial losses, prior service costs and transition obligations of Exelon's pension and other postretirement benefit plans that are probable of recovery through rates by Exelon's regulated utilities in future periods.

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

(c) Represents the write-off of the pension intangible asset as required by SFAS No. 158.

(d) Represents the unfunded obligation related to Exelon's deferred compensation unit plan.

The following table provides the components of Exelon's accumulated other comprehensive loss and regulatory assets that have not been recognized as components of periodic benefit cost as of December 31, 2006 for all plans combined:

	Pension Benefits	Other Postretirement Benefits
Transition asset	$ —	$ 30
Prior service cost (credit)	139	(149)
Actuarial loss	1,887	502
Total	$2,026	$ 383

As of December 31, 2006, $15 million and $92 million of the prior service cost and actuarial loss, respectively, related to pension benefits currently in accumulated other comprehensive income will be amortized as components of periodic benefit cost in 2007. As of December 31, 2006, $5 million, $(30) million and $34 million of the transition obligation, prior service gain and actuarial loss, respectively, related to other postretirement benefits currently in accumulated other comprehensive income will be amortized as components of periodic benefit cost in 2007. As of December 31, 2006, $1 million and $56 million of the prior service cost and actuarial loss, respectively, related to pension benefits currently in regulatory assets will be amortized as components of periodic benefit cost in 2007. As of December 31, 2006, $4 million, $(27) million and $33 million of the transition obligation, prior service gain and actuarial loss, respectively, related to other postretirement benefits currently in regulatory assets will be amortized as components of periodic benefit cost in 2007.

The ABO for all defined benefit pension plans was $9,502 million and $9,234 million at December 31, 2006 and 2005, respectively. On an ABO basis, the plans were funded at 102% at December 31, 2006 compared to 98% at December 31, 2005. On a projected benefit obligation (PBO) basis, the plans were funded at 93% at December 31, 2006 compared to 88% at December 31, 2005.

The following table provides the PBO, ABO, and fair value of plan assets for all pension plans with an ABO in excess of plan assets.

	December 31, 2006	December 31, 2005
Projected benefit obligation	$1,241	$9,457
Accumulated benefit obligation	1,193	8,463
Fair value of plan assets	1,020	8,196

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

The following table provides the PBO, ABO and fair value of all pension plans with a PBO in excess of plan assets.

	December 31, 2006	December 31, 2005
Projected benefit obligation	$10,396	$9,457
Accumulated benefit obligation	9,502	8,463
Fair value of plan assets	9,645	8,196

The following table provides the components of the net periodic benefit costs for the years ended December 31, 2006, 2005 and 2004 for all plans combined. The table reflects an annualized reduction in 2006, 2005 and 2004 net periodic postretirement benefit cost of approximately $40 million, $40 million and $33 million, respectively, related to a Federal subsidy provided under the Prescription Drug Act. This subsidy has been accounted for under FSP FAS 106-2, as described in Note 1—Significant Accounting Policies. A portion of the net periodic benefit cost is capitalized within Exelon's Consolidated Balance Sheets.

	Pension Benefits			Other Postretirement Benefits		
	2006	2005	2004	2006	2005	2004
Service cost	$ 157	$ 144	$ 128	$ 99	$ 89	$ 78
Interest cost	562	546	545	183	175	163
Expected return on assets [a]	(817)	(767)	(611)	(105)	(98)	(90)
Amortization of:						
Transition obligation (asset)	—	(4)	(4)	9	9	10
Prior service cost (credit)	16	16	15	(91)	(91)	(81)
Actuarial loss	149	121	73	87	81	44
Curtailment/settlement charges	6	—	22	—	—	2
Special accounting costs	3	—	—	—	—	16[b]
Net periodic benefit cost	$ 76	$ 56	$ 168	$ 182	$165	$142
Other additional information:						
Increase (decrease) in other comprehensive loss (net of tax)	$1,138	$ 10	$(392)	$ —	$—	$—

(a) The increase in expected return on pension assets during 2006 and 2005 compared to 2004 was primarily attributable to discretionary pension contributions of $2 billion made during the first quarter of 2005.

(b) Represents special health and welfare severance benefits offered to terminated employees. These costs were recorded pursuant to SFAS No. 112. Prior service cost is amortized on a straight-line basis over the average remaining service period of employees expected to receive benefits under the plans.

In 2004, the additional minimum pension liability was increased by $606 million and Exelon's shareholders' equity decreased by $392 million (net of income taxes) as a result of an annual actuarial valuation associated with Exelon's and AmerGen's pension plans. In 2005, the additional minimum pension liability was reduced by $150 million and shareholders' equity increased by $10 million (net of income taxes) primarily as a result of an annual actuarial valuation associated with Exelon's and

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

AmerGen's pension plans. In 2006, the additional minimum pension liability was reduced by $1.7 billion and shareholders' equity increased by $1.1 billion primarily as a result of an annual actuarial valuation associated with Exelon's and AmerGen's pension plans prior to the recording of SFAS No. 158.

The following weighted average assumptions were used to determine the benefit obligations for all the plans at December 31, 2006, 2005 and 2004:

	Pension Benefits			Other Postretirement Benefits		
	2006 (a)	2005	2004	2006 (a)	2005	2004
Discount rate	5.90%	5.60%	5.75%	5.85%	5.60%	5.75%
Rate of compensation increase	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Health care cost trend on covered charges	N/A	N/A	N/A	9.00% decreasing to ultimate trend of 5.0% in 2012	8.00% decreasing to ultimate trend of 5.0% in 2010	9.00% decreasing to ultimate trend of 5.0% in 2010

(a) Assumptions used to determine year-end 2006 benefit obligations will be the assumptions used to estimate the expected costs of benefits in 2007.

The following weighted average assumptions were used to determine the net periodic benefit costs for all the plans for the years ended December 31 2006, 2005 and 2004:

	Pension Benefits			Other Postretirement Benefits		
	2006	2005	2004	2006	2005	2004
Discount rate	5.60%	5.75%	6.25%	5.60%	5.75%	6.25%
Expected return on plan assets	9.00%	9.00%	9.00%	8.15%(a)	8.30%(a)	8.33-8.35%(a)
Rate of compensation increase	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Health care cost trend on covered charges	N/A	N/A	N/A	8.00% decreasing to ultimate trend of 5.0% in 2010	9.00% decreasing to ultimate trend of 5.0% in 2010	10.00% decreasing to ultimate trend of 4.5% in 2011

(a) Not applicable for the AmerGen-sponsored other postretirement benefits plan.

In managing its pension and postretirement plan assets, Exelon and AmerGen utilize a diversified, strategic asset allocation to efficiently and prudently generate investment returns that will meet the objectives of the investment trusts that hold the plan assets. Asset / Liability studies that incorporate specific plan objectives as well as assumptions regarding long-term capital market returns and volatilities generate the specific asset allocations for the trusts. In general, Exelon's and AmerGen's investment strategy reflects the belief that over the long term, equities are expected to outperform fixed-income investments. The long-term nature of the trusts make them well suited to bear the risk of added volatility associated with equity securities, and, accordingly, the asset allocations of the trusts usually reflect a higher allocation to equities as compared to fixed-income securities. Non-U.S. equity securities are used to diversify some of the volatility of the U.S. equity market while providing comparable long-term returns. Alternative asset classes, such as private equity and real estate, may be utilized for additional diversification and return potential when appropriate. In the pension trusts, Exelon generally maintains approximately 10% of its plan assets in alternative asset classes. Exelon's and AmerGen's investment guidelines limit exposure to investments in more volatile sectors.

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

Exelon generally maintains approximately 60% of its plan assets in equity securities and 40% of its plan assets in fixed-income securities. On a quarterly basis, Exelon reviews the actual asset allocations and follows a rebalancing procedure in order to remain within an allowable range of these targeted percentages.

In selecting the expected rate of return on plan assets, Exelon considers historical returns for the types of investments that its plans hold. Historical returns and volatilities are modeled to determine asset allocations that best meet the objectives of the asset / liability studies. These asset allocations, when viewed over a long-term historical view of the capital markets, yield an expected return on assets in excess of 8%.

Exelon's and AmerGen's pension plan weighted average asset allocations at December 31, 2006 and 2005 and target allocation for 2006 were as follows:

Asset Category	Target Allocation at December 31, 2006	Percentage of Plan Assets at December 31, 2006	2005
Equity securities	60-65%	62%	61%
Debt securities	35-40	34	35
Real estate	0-5	4	4
Total		100%	100%

Exelon's other postretirement benefit plan weighted average asset allocations at December 31, 2006 and 2005 and target allocation for 2006 were as follows:

Asset Category	Target Allocation at December 31, 2006	Percentage of Plan Assets at December 31, 2006	2005
Equity securities	60-65%	63%	63%
Debt securities	35-40	35	35
Real estate	—	2	2
Total		100%	100%

Exelon's and AmerGen's defined benefit pension plans and postretirement benefit plans do not directly hold shares of Exelon common stock.

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

Assumed health care cost trend rates have a significant effect on the costs reported for the health care plans. A one percentage point change in assumed health care cost trend rates would have the following effects:

Effect of a one percentage point increase in assumed health care cost trend	
on total service and interest cost components	$ 45
on postretirement benefit obligation	418
Effect of a one percentage point decrease in assumed health care cost trend	
on total service and interest cost components	(37)
on postretirement benefit obligation	(345)

Estimated future benefit payments to participants in all of the pension plans and postretirement benefit plans as of December 31, 2006 were:

	Pension Benefits	Other Postretirement Benefits [(a)]
2007	$ 567	$ 167
2008	569	175
2009	569	182
2010	577	189
2011	590	196
2012 through 2016	3,202	1,071
Total estimated future benefits payments through 2016	$6,074	$1,980

(a) Estimated future benefit payments do not reflect an anticipated Federal subsidy provided through the Prescription Drug Act. The Federal subsidies to be received by Exelon in the years 2007, 2008, 2009, 2010, 2011 and from 2012 through 2016 are estimated to be $8 million, $9 million, $9 million, $10 million, $11 million and $71 million, respectively.

Exelon, Generation, ComEd and PECO

The prepaid pension asset, pension obligation and non-pension postretirement benefits obligation on Generation's, ComEd's and PECO's Consolidated Balance Sheets reflect their obligations from and to their plan sponsor. Employee-related assets and liabilities, including both pension and SFAS No. 106 postretirement liabilities, were allocated by Exelon to its subsidiaries based on the number of active employees as of January 1, 2001 as part of Exelon's corporate restructuring. Exelon allocates the components of pension cost to the participating employers based upon several factors, including the measures of active employee participation in each participating unit.

The following approximate amounts were included in capital and operating and maintenance expense, excluding curtailment/settlement costs and special termination benefits costs, during 2006, 2005 and 2004, respectively, for Generation's, ComEd's, PECO's and Exelon Corporate's allocated portion of the Exelon-sponsored and AmerGen-sponsored pension and postretirement benefit plans:

	Generation [(a)]	ComEd [(a)]	PECO [(a)]	Exelon Corporate [(a)(b)]
2006	$114	$72	$30	$33
2005	97	63	30	32
2004	126	86	32	26

(a) The 2006, 2005 and 2004 amounts reflect an annualized reduction in net periodic postretirement benefit cost of $17 million, $15 million and $12 million, respectively, for Generation, $13 million, $13 million and $11 million, respectively, for ComEd, $6 million, $7 million and $7 million, respectively, for PECO, and $4 million, $5 million and $3 million, respectively, for Exelon related to a Federal subsidy provided under the Prescription Drug Act. This subsidy has been accounted for under FSP FAS 106-2, as described in Note 1—Significant Accounting Policies.

(b) Represents amounts billed to Exelon's subsidiaries through intercompany allocations.

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

The following table provides net contributions made by Generation, ComEd and PECO to the Exelon-sponsored and AmerGen-sponsored pension and other postretirement benefit plans:

	2006	2005	2004
Generation	$78	$962	$220
ComEd	47	865	244
PECO	32	189	14

Exelon expects to contribute $208 million to the benefit plans in 2007, of which Generation, ComEd and PECO expect to contribute $98 million, $50 million and $38 million, respectively.

Of Generation's total 2005 contributions, $844 million was made in the first quarter and was primarily funded by a capital contribution from Exelon. Of ComEd's and PECO's total 2005 contributions, $803 million and $109 million, respectively, were made in the first quarter and were fully funded by a capital contribution from Exelon.

Pension and Other Postretirement Benefits—AmerGen Plans (Generation)

Investment policies and strategies and key assumptions used to determine benefit obligations and net periodic benefit costs for the AmerGen-sponsored defined benefit pension plans and postretirement benefit plans are the same as those for the Exelon-sponsored plans, as presented above.

The following tables provide a rollforward of the changes in the benefit obligations and plan assets for the most recent two years for the AmerGen-sponsored plans:

	Pension Benefits		Other Postretirement Benefits	
	2006	2005	2006	2005
Change in benefit obligation:				
Net benefit obligation at beginning of year	$107	$ 90	$ 82	$ 94
Service cost	12	10	9	8
Interest cost	7	5	5	4
Plan amendments	—	5	—	(17)
Actuarial (gain)	(1)	(1)	(4)	(6)
Gross benefits paid	(4)	(2)	—	(1)
Net benefit obligation at end of year	$121	$107	$ 92	$ 82
Change in plan assets:				
Fair value of plan assets at beginning of year	$ 70	$ 53	$—	$—
Actual return on plan assets	7	3	—	—
Employer contributions	11	16	—	1
Gross benefits paid	(4)	(2)	—	(1)
Fair value of plan assets at end of year	$ 84	$ 70	$—	$—

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

At December 31, 2005, Generation's balance sheet included a liability of $14 million and $99 million related to the pension obligation and other postretirement benefit obligation, respectively. The following table provides a reconciliation of benefit obligations, plan assets and funded status of the plans as of December 31, 2005 for the AmerGen-sponsored plans (In accordance with SFAS No. 158, Generation recognized the underfunded status of AmerGen's defined benefit postretirement plans as a liability on its balance sheet as of December 31, 2006.):

	Pension Benefits	Other Postretirement Benefits
Fair value of plan assets at December 31, 2005	$ 70	$—
Net benefit obligations at December 31, 2005	107	82
Funded status (plan assets less plan obligations)	(37)	(82)
Amounts not recognized		
Net actuarial loss (gain)	17	(2)
Prior service cost (credit)	6	(15)
Net amount recognized	$ (14)	$(99)

The following table presents the incremental effects of applying SFAS No. 158 as well as the change to the AML as a result of an annual actuarial valuation associated with the AmerGen defined benefit pension plans and postretirement benefit plans on Generation's Consolidated Balance Sheet as of December 31, 2006:

	Before Application of SFAS No. 158 Without AML Adjustment	AML Adjustment	SFAS No. 158 Adjustments	After Application of SFAS No. 158
Other deferred debits and other assets [a]	$ 265	$ 6	$ (6)	$ 265
Total deferred debits and other assets	7,962	6	(6)	7,962
Other current liabilities	361	—	1	362
Total current liabilities	2,913	—	1	2,914
Pension obligations	16	6	15	37
Non-pension postretirement benefit obligations	558	—	(20)	538
Deferred income taxes and unamortized investment tax credits	1,384	—	(1)	1,383
Total deferred credits and other liabilities	8,736	6	(6)	8,736
Accumulated other comprehensive loss	414	—	(1)	413
Total shareholders' equity	5,481	—	(1)	5,480

(a) Represents the write-off of the pension intangible asset as required by SFAS No. 158.

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

The following table provides the components of accumulated other comprehensive loss that have not been recognized as components of periodic benefit cost as of December 31, 2006 for the AmerGen-sponsored plans:

	Pension Benefits	Other Postretirement Benefits
Prior service cost (credit)	$ 6	$(13)
Actuarial loss (gain)	15	(6)
Total	$21	$(19)

As of December 31, 2006, $1 million of the prior service cost related to pension benefits will be amortized as components of periodic benefit cost in 2007. As of December 31, 2006, $2 million of the prior service credit related to other postretirement benefits will be amortized as components of periodic benefit cost in 2007.

The ABO for the AmerGen-sponsored defined benefit pension plans was $105 million and $95 million at December 31, 2006 and 2005, respectively. On an ABO basis, the plan was funded at 80% at December 31, 2006 compared to 74% at December 31, 2005. On a PBO basis, the plans were funded at 69% at December 31, 2006 compared to 65% at December 31, 2005.

The following table provides the components of the net periodic benefit costs for the years ended December 31, 2006, 2005 and 2004 for the AmerGen-sponsored plans. A portion of the net periodic benefit cost is capitalized within the Consolidated Balance Sheets.

	Pension Benefits			Other Postretirement Benefits		
	2006	2005	2004	2006	2005	2004
Service cost	$11	$10	$ 10	$ 9	$ 8	$ 6
Interest cost	6	5	5	5	4	5
Expected return on assets	(6)	(7)	(4)	—	—	—
Amortization of prior service cost	1	1	—	(2)	(2)	—
Net periodic benefit cost	$12	$ 9	$ 11	$ 12	$ 10	$ 11

AmerGen's pension plan weighted average asset allocations at December 31, 2006 and 2005 and target allocation at December 31, 2006 were as follows:

Asset Category	Target Allocation at December 31, 2006	Percentage of Plan Assets at December 31, 2006	2005
Equity securities	65%	69%	67%
Debt securities	35	31	33
Real estate	—	—	—
Total	100%	100%	100%

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

Assumed health care cost trend rates have a significant effect on the costs reported for the health care plan. A one percentage point change in assumed health care cost trend rates would have the following effects:

Effect of a one percentage point increase in assumed health care cost trend	
on total service and interest cost components	$ 3
on postretirement benefit obligation	17
Effect of a one percentage point decrease in assumed health care cost trend	
on total service and interest cost components	(2)
on postretirement benefit obligation	(14)

Estimated future benefit payments to participants in the AmerGen-sponsored pension plan and postretirement benefit plan as of December 31, 2006 were:

	Pension Benefits	Other Postretirement Benefits [a]
2007	$ 4	$ 1
2008	5	1
2009	5	2
2010	6	2
2011	6	3
2012 through 2016	48	29
Total estimated future benefits payments through 2016	$74	$38

(a) Estimated future benefit payments do not reflect an anticipated Federal subsidy provided through the Prescription Drug Act. The Federal subsidies to be received by the sponsor are not material, with total subsidies to be received through 2016 being under $1 million.

Generation expects to contribute $24 million to the AmerGen benefit plans in 2007.

401(k) Savings Plan (Exelon, Generation, ComEd and PECO)

Exelon, Generation, ComEd and PECO participate in a 401(k) savings plan sponsored by Exelon. The plan allows employees to contribute a portion of their pre-tax income in accordance with specified guidelines. Exelon, Generation, ComEd and PECO match a percentage of the employee contribution up to certain limits. The cost of matching contributions to the savings plan totaled the following:

For the Years Ended	Exelon	Generation	ComEd	PECO
2006	$60	$30	$17	$6
2005	58	28	17	6
2004	57	27	16	6

15. Preferred Securities (Exelon, ComEd and PECO)

At December 31, 2006 and 2005, Exelon was authorized to issue up to 100,000,000 shares of preferred stock, none of which was outstanding.

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

Preferred and Preference Stock of Subsidiaries

At December 31, 2006 and 2005, ComEd prior preferred stock and ComEd cumulative preference stock consisted of 850,000 shares and 6,810,451 shares authorized, respectively, none of which was outstanding.

At December 31, 2006 and 2005, cumulative preferred stock of PECO, no par value, consisted of 15,000,000 shares authorized and the outstanding amounts set forth below. Shares of preferred stock have full voting rights, including the right to cumulate votes in the election of directors.

	Redemption Price [a]	December 31, 2006	December 31, 2005	December 31, 2006	December 31, 2005
		Shares Outstanding		Dollar Amount	
Series (without mandatory redemption)					
$4.68 (Series D)	$104.00	150,000	150,000	$15	$15
$4.40 (Series C)	112.50	274,720	274,720	27	27
$4.30 (Series B)	102.00	150,000	150,000	15	15
$3.80 (Series A)	106.00	300,000	300,000	30	30
Total preferred stock		874,720	874,720	$87	$87

(a) Redeemable, at the option of PECO, at the indicated dollar amounts per share, plus accrued dividends.

16. Common Stock (Exelon, ComEd and PECO)

At December 31, 2006 and 2005, Exelon's common stock without par value consisted of 2,000,000,000 shares authorized and 669,863,391 and 666,369,787 shares outstanding, respectively. At December 31, 2006 and 2005, ComEd's common stock with a $12.50 par value consisted of 250,000,000 shares authorized and 127,016,519 shares outstanding. At December 31, 2006 and 2005, PECO's common stock without par value consisted of 500,000,000 shares authorized and 170,478,507 shares outstanding.

At December 31, 2006 and 2005, ComEd had 75,486 and 75,720 warrants, respectively, outstanding to purchase ComEd common stock. The warrants entitle the holders to convert such warrants into common stock of ComEd at a conversion rate of one share of common stock for three warrants. At December 31, 2006 and 2005, 25,162 and 25,240, respectively, shares of common stock were reserved for the conversion of warrants.

Stock Split

On January 27, 2004, the Board of Directors of Exelon approved a 2-for-1 stock split of Exelon's common stock. The distribution date was May 5, 2004. The share and per-share amounts have been adjusted for all periods presented to reflect the stock split.

Share Repurchases

Repurchased shares are held as treasury shares and recorded at cost.

Share Repurchase Program. In April 2004, Exelon's Board of Directors approved a discretionary share repurchase program that allows Exelon to repurchase shares of its common stock on a periodic basis in the open market. The share repurchase program is intended to mitigate, in part, the dilutive effect of shares issued under Exelon's employee stock option plan and Exelon's Employee Stock Purchase Plan (ESPP). The aggregate value of the shares of common stock repurchased pursuant to the program cannot exceed the economic benefit received after January 1, 2004 due to stock option exercises and share purchases pursuant to Exelon's ESPP. The economic benefit consists of the direct cash proceeds from purchases of stock and the tax benefits associated with exercises of stock options. The share repurchase program has no specified limit on the number of shares that may be repurchased and no specified termination date. Any shares repurchased are held as treasury shares unless cancelled or reissued at the discretion of Exelon's management. As of December 31, 2006, *12 million* shares of common stock have been purchased under the share repurchase program for $615 million. During 2006 and 2005, 3.2 million shares and 6.8 million shares, respectively, of common stock were purchased under the share repurchase program for $186 million and $354 million, respectively.

Other Share Repurchases. During both 2005 and 2004, Exelon repurchased 0.2 million shares of common stock from a retired executive for $8 million and $7 million, respectively.

Undistributed Losses of Equity Method Investments

Exelon, Generation, ComEd and PECO had undistributed losses of equity method investments of $391 million, $16 million, $52 million and $51 million, respectively, at December 31, 2006 and $276 million, $7 million, $38 million and $41 million, respectively, at December 31, 2005. See Note 19—Supplemental Financial Information for further detail on the Registrants' equity method investments.

Stock-Based Compensation Plans

Exelon maintains LTIPs for certain full-time salaried employees. See Note 1—Significant Accounting Policies—SFAS No. 123-R for further information.

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

17. Earnings Per Share (Exelon)

Diluted earnings per share are calculated by dividing net income by the weighted average number of shares of common stock outstanding, including shares to be issued upon exercise of stock options outstanding under Exelon's stock option plans considered to be common stock equivalents. The following table sets forth the computation of basic and diluted earnings per share and shows the effect of these stock options on the weighted average number of shares outstanding used in calculating diluted earnings per share:

	2006	2005	2004
Income from continuing operations	$1,590	$951	$1,870
Income (loss) from discontinued operations	2	14	(29)
Income before cumulative effect of changes in accounting principles	1,592	965	1,841
Cumulative effect of changes in accounting principles	—	(42)	23
Net income	$1,592	$923	$1,864
Average common shares outstanding—basic	670	669	661
Assumed exercise of stock-based awards	6	7	8
Average common shares outstanding—diluted	676	676	669

The number of stock-based awards not included in the calculation of diluted common shares outstanding due to their antidilutive effect was 3 million for 2006. There were no stock options excluded for 2005 and 2004.

18. Commitments and Contingencies (Exelon, Generation, ComEd and PECO)

Nuclear Insurance

The Price-Anderson Act limits the liability of nuclear reactor owners for claims that could arise from a single incident. As of December 31, 2006, the current limit was $10.76 billion and is subject to change to account for the effects of inflation and changes in the number of licensed reactors. As required by the Price-Anderson Act, Generation carries the maximum available amount of nuclear liability insurance (currently $300 million for each operating site) and the remaining $10.46 billion is provided through mandatory participation in a financial protection pool. Under the Price-Anderson Act, all nuclear reactor licensees can be assessed a maximum charge per reactor per incident. The maximum assessment for each nuclear operator per reactor per incident (including a 5% surcharge) is $100.6 million, payable at no more than $15 million per reactor per incident per year. This assessment is subject to inflation and state premium taxes. In addition, the United States Congress could impose revenue-raising measures on the nuclear industry to pay claims.

In addition, the U.S. Congress could impose revenue-raising measures on the nuclear industry to pay claims. The Price-Anderson Act was extended to December 31, 2025 under the Energy Policy Act.

Generation is a member of an industry mutual insurance company, Nuclear Electric Insurance Limited (NEIL), which provides property damage, decontamination and premature decommissioning insurance for each station for losses resulting from damage to its nuclear plants. In the event of an accident, insurance proceeds must first be used for reactor stabilization and site decontamination. If the decision is made to decommission the facility, a portion of the insurance proceeds will be allocated to a fund, which Generation is required by the NRC to maintain, to provide for decommissioning the facility. Generation is unable to predict the timing of the availability of insurance proceeds to Generation and the amount of such proceeds that would be available. Under the terms of the various insurance agreements, Generation could be assessed up to $173 million for losses incurred at any plant insured by the insurance companies. In the event that one or more acts of terrorism cause accidental property damage within a twelve-month period from the first accidental property damage under one or more policies for all insured plants, the maximum recovery for all losses by all insureds will be an aggregate of $3.2 billion plus such additional amounts as the insurer may recover for all such losses from reinsurance, indemnity and any other source, applicable to such losses. The $3.2 billion maximum recovery limit is not applicable, however, in the event of a "certified act of terrorism" as defined in the Terrorism Risk Insurance Act of 2002, as extended, as a result of government indemnity. Generally, a "certified act of terrorism" is defined in the Terrorism Risk Insurance Act to be any act, certified by the U.S. government, to be an act of terrorism committed on behalf of a foreign person or interest.

Additionally, NEIL provides replacement power cost insurance in the event of a major accidental outage at a nuclear station. The premium for this coverage is subject to assessment for adverse loss experience. Generation's maximum share of any assessment is $46 million per year. Recovery under this insurance for terrorist acts is subject to the $3.2 billion aggregate limit and secondary to the property insurance described above. This limit would also not apply in cases of certified acts of terrorism under the Terrorism Risk Insurance Act, as extended, as described above.

In addition, Generation participates in the Master Worker Program, which provides coverage for worker tort claims filed for bodily injury caused by a nuclear energy accident. This program was modified, effective January 1, 1998, to provide coverage to all workers whose "nuclear-related employment" began on or after the commencement date of reactor operations. Generation will not be liable for a retrospective assessment under this new policy; however, in the event losses incurred under the small number of policies in the old program exceed accumulated reserves, a maximum retroactive assessment of up to $50 million could apply.

For its insured losses, Exelon is self-insured to the extent that losses are within the policy deductible or exceed the amount of insurance maintained. Such losses could have a material adverse effect on Exelon's financial condition, results of operations and liquidity.

Energy Commitments

Generation's wholesale operations include the physical delivery and marketing of power obtained through its generation capacity, and long-, intermediate- and short-term contracts. Generation maintains a net positive supply of energy and capacity, through ownership of generation assets and power purchase and lease agreements, to protect it from the potential operational failure of one of its owned or contracted power generating units. Generation has also contracted for access to additional generation through bilateral long-term PPAs. These agreements are firm commitments related to power generation of specific generation plants and/or are dispatchable in nature. Generation enters into power purchase agreements with the objective of obtaining low-cost energy supply sources to meet its physical delivery obligations to its customers. Generation has also purchased firm transmission rights to ensure that it has reliable transmission capacity to physically move its power supplies to meet customer delivery needs. The primary intent and business objective for the use of its capital assets and contracts is to provide Generation with physical power supply to enable it to deliver energy to meet customer needs. Generation primarily uses financial contracts in its wholesale marketing activities for hedging purposes. Generation also uses financial contracts to manage the risk surrounding trading for profit activities.

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

Generation has entered into bilateral long-term contractual obligations for sales of energy to load-serving entities, including electric utilities, municipalities, electric cooperatives and retail load aggregators. Generation also enters into contractual obligations to deliver energy to wholesale market participants who primarily focus on the resale of energy products for delivery. Generation provides delivery of its energy to these customers through rights for firm transmission.

At December 31, 2006, Generation had long-term commitments, relating to the purchase from and sale to unaffiliated utilities and others of energy, capacity and transmission rights as indicated in the following tables:

	Net Capacity Purchases (a)	Power Only Sales	Power Only Purchases	Transmission Rights Purchases (b)
2007	$ 468	$5,401	$1,499	$ 6
2008	425	1,900	475	—
2009	398	647	194	—
2010	417	100	194	—
2011	417	—	106	—
Thereafter	2,960	—	249	—
Total	$5,085	$8,048	$2,717	$ 6

(a) Net capacity purchases include tolling agreements that are accounted for as operating leases. Amounts presented in the commitments represent Generation's expected payments under these arrangements at December 31, 2006. Expected payments include certain capacity charges which are contingent on plant availability.

(b) Transmission rights purchases include estimated commitments in 2007 for additional transmission rights that will be required to fulfill firm sales contracts.

Starting in 2007, as a result of the first reverse-auction competitive bidding process, ComEd will procure substantially all of its supply under supplier forward contracts with various suppliers. See Note 4—Regulatory Issues for further information.

PECO has a long-term PPA with Generation under which PECO obtains substantially all of its electric supply from Generation through 2010. The price for this electricity is essentially equal to the energy revenues earned from customers as specified by PECO's 1998 settlement of its restructuring case mandated by the Competition Act. Subsequent to 2010, PECO expects to procure all of its supply from market sources, which could include Generation.