EXELON CORP
Form 10-Q
May 03, 2017
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended March 31, 2017

or

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

Commission File Number	Name of Registrant; State or Other Jurisdiction of Incorporation; Address of Principal Executive Offices; and Telephone Number	IRS Employer Identification Number
1-16169	EXELON CORPORATION (a Pennsylvania corporation) 10 South Dearborn Street P.O. Box 805379 Chicago, Illinois 60680-5379 (800) 483-3220	23-2990190
333-85496	EXELON GENERATION COMPANY, LLC (a Pennsylvania limited liability company) 300 Exelon Way Kennett Square, Pennsylvania 19348-2473 (610) 765-5959	23-3064219
1-1839	COMMONWEALTH EDISON COMPANY (an Illinois corporation) 440 South LaSalle Street Chicago, Illinois 60605-1028	36-0938600

	(312) 394-4321	
000-16844	PECO ENERGY COMPANY (a Pennsylvania corporation) P.O. Box 8699 2301 Market Street Philadelphia, Pennsylvania 19101-8699 (215) 841-4000	23-0970240
1-1910	BALTIMORE GAS AND ELECTRIC COMPANY (a Maryland corporation) 2 Center Plaza 110 West Fayette Street Baltimore, Maryland 21201-3708 (410) 234-5000	52-0280210
001-31403	PEPCO HOLDINGS LLC (a Delaware limited liability company) 701 Ninth Street, N.W. Washington, District of Columbia 20068 (202) 872-2000	52-2297449
001-01072	POTOMAC ELECTRIC POWER COMPANY (a District of Columbia and Virginia corporation) 701 Ninth Street, N.W. Washington, District of Columbia 20068 (202) 872-2000	53-0127880
001-01405	DELMARVA POWER & LIGHT COMPANY (a Delaware and Virginia corporation) 500 North Wakefield Drive Newark, Delaware 19702 (202) 872-2000	51-0084283
001-03559	ATLANTIC CITY ELECTRIC COMPANY (a New Jersey corporation) 500 North Wakefield Drive Newark, Delaware 19702 (202) 872-2000	21-0398280

Table of Contents

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

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

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

	Large Accelerated Filer	Accelerated Filer	Non-accelerated Filer	Smaller Reporting Company	Emerging Growth Company
Exelon Corporation					
Exelon Generation Company, LLC					
Commonwealth Edison Company					
PECO Energy Company					
Baltimore Gas and Electric Company					
Pepco Holdings LLC					
Potomac Electric Power Company					
Delmarva Power & Light Company					
Atlantic City Electric Company					

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The number of shares outstanding of each registrant s common stock as of March 31, 2017 was:

Exelon Corporation Common Stock, without par value	926,096,660
Exelon Generation Company, LLC	not applicable
Commonwealth Edison Company Common Stock, $12.50 par value	127,017,158
PECO Energy Company Common Stock, without par value	170,478,507
Baltimore Gas and Electric Company Common Stock, without par value	1,000
Pepco Holdings LLC	not applicable
Potomac Electric Power Company Common Stock, $.01 par value	100
Delmarva Power & Light Company Common Stock, $2.25 par value	1,000
Atlantic City Electric Company Common Stock, $3.00 par value	8,546,017

Table of Contents

TABLE OF CONTENTS

Table of Contents

Table of Contents

GLOSSARY OF TERMS AND ABBREVIATIONS

Exelon Corporation and Related Entities	
Exelon	Exelon Corporation
Generation	Exelon Generation Company, LLC
ComEd	Commonwealth Edison Company
PECO	PECO Energy Company
BGE	Baltimore Gas and Electric Company
Pepco Holdings or PHI	Pepco Holdings LLC (formerly Pepco Holdings, Inc.)
Pepco	Potomac Electric Power Company
Pepco Energy Services or PES	Pepco Energy Services, Inc. and its subsidiaries
PCI	Potomac Capital Investment Corporation and its subsidiaries
DPL	Delmarva Power & Light Company
ACE	Atlantic City Electric Company
ACE Funding or ATF	Atlantic City Electric Transition Funding LLC
BSC	Exelon Business Services Company, LLC
PHISCO	PHI Service Company
Exelon Corporate	Exelon in its corporate capacity as a holding company
PHI Corporate	PHI in its corporate capacity as a holding company
Registrants	Exelon, Generation, ComEd, PECO, BGE, PHI, Pepco, DPL and ACE, collectively
Utility Registrants	ComEd, PECO, BGE, Pepco, DPL and ACE, collectively
AmerGen	AmerGen Energy Company, LLC
Antelope Valley	Antelope Valley Solar Ranch One
BondCo	RSB BondCo LLC
CENG	Constellation Energy Nuclear Group, LLC
ConEdison Solutions	The competitive retail electricity and natural gas business of Consolidated Edison Solutions, Inc., a subsidiary of Consolidated Edison, Inc.
Constellation	Constellation Energy Group, Inc.
EGTP	ExGen Texas Power, LLC
EGR	ExGen Renewables I, LLC
Entergy	Entergy Nuclear FitzPatrick LLC
Exelon Transmission Company	Exelon Transmission Company, LLC
Exelon Wind	Exelon Wind, LLC and Exelon Generation Acquisition Company, LLC
FitzPatrick	James A. FitzPatrick nuclear generating station
Legacy PHI	PHI, Pepco, DPL and ACE, collectively
PEC L.P.	PECO Energy Capital, L.P.
PECO Trust III	PECO Capital Trust III
PECO Trust IV	PECO Energy Capital Trust IV
PETT	PECO Energy Transition Trust
RPG	Renewable Power Generation
SolGen	SolGen, LLC
UII	Unicom Investments, Inc.
Ventures	Exelon Ventures Company, LLC

Other Terms and Abbreviations	
Note of the Exelon 2016 Form 10-K	Reference to specific Combined Note to Consolidated Financial Statements within Exelon s 2016 Annual Report on Form 10-K
Act 11	Pennsylvania Act 11 of 2012
Act 129	Pennsylvania Act 129 of 2008
AEC	Alternative Energy Credit that is issued for each megawatt hour of generation from a qualified alternative energy source

Table of Contents

GLOSSARY OF TERMS AND ABBREVIATIONS

Other Terms and Abbreviations	
AEPS	Pennsylvania Alternative Energy Portfolio Standards
AEPS Act	Pennsylvania Alternative Energy Portfolio Standards Act of 2004, as amended
AESO	Alberta Electric Systems Operator
AFUDC	Allowance for Funds Used During Construction
AMI	Advanced Metering Infrastructure
AOCI	Accumulated Other Comprehensive Income
ARC	Asset Retirement Cost
ARO	Asset Retirement Obligation
ASC	Accounting Standards Codification
BGS	Basic Generation Service
Block Contracts	Forward Purchase Energy Block Contracts
CAIR	Clean Air Interstate Rule
CAISO	California ISO
CAMR	Federal Clean Air Mercury Rule
CERCLA	Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended
CES	Clean Energy Standard
CFL	Compact Fluorescent Light
Clean Air Act	Clean Air Act of 1963, as amended
Clean Water Act	Federal Water Pollution Control Amendments of 1972, as amended
Competition Act	Pennsylvania Electricity Generation Customer Choice and Competition Act of 1996
Conectiv	Conectiv, LLC, a wholly owned subsidiary of PHI and the parent of DPL and ACE
Conectiv Energy	Conectiv Energy Holdings, Inc. and substantially all of its subsidiaries, which were sold to Calpine in July 2010
CPUC	California Public Utilities Commission
CSAPR	Cross-State Air Pollution Rule
D.C. Circuit Court	United States Court of Appeals for the District of Columbia Circuit
DCPSC	District of Columbia Public Service Commission
DC PLUG	District of Columbia Power Line Undergrounding
Default Electricity Supply	The supply of electricity by PHI s electric utility subsidiaries at regulated rates to retail customers who do not elect to purchase electricity from a competitive supplier, and which, depending on the jurisdiction, is also known as Standard Offer Service or BGS
DOE	United States Department of Energy
DOJ	United States Department of Justice
DPSC	Delaware Public Service Commission
DRP	Direct Stock Purchase and Dividend Reinvestment Plan
DSP	Default Service Provider
DSP Program	Default Service Provider Program
EDCs	Electric distribution companies
EDF	Electricite de France SA and its subsidiaries
EE&C	Energy Efficiency and Conservation/Demand Response
EGS	Electric Generation Supplier
EIMA	Energy Infrastructure Modernization Act (Illinois Senate Bill 1652 and Illinois House Bill 3036)

Table of Contents

GLOSSARY OF TERMS AND ABBREVIATIONS

Other Terms and Abbreviations	
EmPower Maryland	A Maryland demand-side management program for Pepco and DPL
EPA	United States Environmental Protection Agency
EPSA	Electric Power Supply Association
ERCOT	Electric Reliability Council of Texas
ERISA	Employee Retirement Income Security Act of 1974, as amended
EROA	Expected Rate of Return on Assets
FASB	Financial Accounting Standards Board
FEJA	Illinois Public Act 99-0906 or Future Energy Jobs Act
FERC	Federal Energy Regulatory Commission
FRCC	Florida Reliability Coordinating Council
GAAP	Generally Accepted Accounting Principles in the United States
GCR	Gas Cost Rate
GHG	Greenhouse Gas
GSA	Generation Supply Adjustment
GWh	Gigawatt hour
Health Care Reform Acts	Patient Protection and Affordable Care Act and Health Care and Education Reconciliation Act of 2010
HSR Act	The Hart-Scott-Rodino Antitrust Improvements Act of 1976
IBEW	International Brotherhood of Electrical Workers
ICC	Illinois Commerce Commission
ICE	Intercontinental Exchange
Illinois Act	Illinois Electric Service Customer Choice and Rate Relief Law of 1997
Illinois EPA	Illinois Environmental Protection Agency
Illinois Settlement Legislation	Legislation enacted in 2007 affecting electric utilities in Illinois
Integrys	Integrys Energy Services, Inc.
IPA	Illinois Power Agency
IRC	Internal Revenue Code
IRS	Internal Revenue Service
ISO	Independent System Operator
ISO-NE	ISO New England Inc.
ISO-NY	ISO New York
kV	Kilovolt
kW	Kilowatt
kWh	Kilowatt-hour
LIBOR	London Interbank Offered Rate
LLRW	Low-Level Radioactive Waste
LT Plan	Long-term renewable resources procurement plan
LTIP	Long-Term Incentive Plan
MAPP	Mid-Atlantic Power Pathway
MATS	U.S. EPA Mercury and Air Toxics Rule
MBR	Market Based Rates Incentive
MDE	Maryland Department of the Environment
MDPSC	Maryland Public Service Commission
MGP	Manufactured Gas Plant
MISO	Midcontinent Independent System Operator, Inc.
mmcf	Million Cubic Feet
Moody s	Moody s Investor Service
MOPR	Minimum Offer Price Rule
MRV	Market-Related Value

Table of Contents

GLOSSARY OF TERMS AND ABBREVIATIONS

Other Terms and Abbreviations	
MW	Megawatt
MWh	Megawatt hour
NAAQS	National Ambient Air Quality Standards
n.m.	not meaningful
NAV	Net Asset Value
NDT	Nuclear Decommissioning Trust
NEIL	Nuclear Electric Insurance Limited
NERC	North American Electric Reliability Corporation
NGS	Natural Gas Supplier
NJBPU	New Jersey Board of Public Utilities
NJDEP	New Jersey Department of Environmental Protection
Non-Regulatory Agreements Units	Nuclear generating units or portions thereof whose decommissioning-related activities are not subject to contractual elimination under regulatory accounting
NOSA	Nuclear Operating Services Agreement
NPDES	National Pollutant Discharge Elimination System
NRC	Nuclear Regulatory Commission
NSPS	New Source Performance Standards
NUGs	Non-utility generators
NWPA	Nuclear Waste Policy Act of 1982
NYMEX	New York Mercantile Exchange
OCI	Other Comprehensive Income
OIESO	Ontario Independent Electricity System Operator
OPC	Office of People s Counsel
OPEB	Other Postretirement Employee Benefits
PA DEP	Pennsylvania Department of Environmental Protection
PAPUC	Pennsylvania Public Utility Commission
PGC	Purchased Gas Cost Clause
PJM	PJM Interconnection, LLC
POLR	Provider of Last Resort
POR	Purchase of Receivables
PPA	Power Purchase Agreement
Price-Anderson Act	Price-Anderson Nuclear Industries Indemnity Act of 1957
Preferred Stock	Originally issued shares of non-voting, non-convertible and non-transferable Series A preferred stock, par value $0.01 per share
PRP	Potentially Responsible Parties
PSEG	Public Service Enterprise Group Incorporated
PURTA	Pennsylvania Public Realty Tax Act
PV	Photovoltaic
RCRA	Resource Conservation and Recovery Act of 1976, as amended
REC	Renewable Energy Credit which is issued for each megawatt hour of generation from a qualified renewable energy source
Regulatory Agreement Units	Nuclear generating units or portions thereof whose decommissioning-related activities are subject to contractual elimination under regulatory accounting
RES	Retail Electric Suppliers
RFP	Request for Proposal
Rider	Reconcilable Surcharge Recovery Mechanism
RGGI	Regional Greenhouse Gas Initiative

Table of Contents

GLOSSARY OF TERMS AND ABBREVIATIONS

Other Terms and Abbreviations	
RMC	Risk Management Committee
ROE	Return on equity
RPM	PJM Reliability Pricing Model
RPS	Renewable Energy Portfolio Standards
RSSA	Reliability Support Services Agreement
RTEP	Regional Transmission Expansion Plan
RTO	Regional Transmission Organization
S&P	Standard & Poor s Ratings Services
SEC	United States Securities and Exchange Commission
Senate Bill 1	Maryland Senate Bill 1
SERC	SERC Reliability Corporation (formerly Southeast Electric Reliability Council)
SGIG	Smart Grid Investment Grant from DOE
SILO	Sale-In, Lease-Out
SMPIP	Smart Meter Procurement and Installation Plan
SNF	Spent Nuclear Fuel
SOS	Standard Offer Service
SPFPA	Security, Police and Fire Professionals of America
SPP	Southwest Power Pool
Transition Bond Charge	Revenue ACE receives, and pays to ACE Funding, to fund the principal and interest payments on Transition Bonds and related taxes, expenses and fees
Transition Bonds	Transition Bonds issued by ACE Funding
UGSOA	United Government Security Officers of America
Upstream	Natural gas exploration and production activities
VIE	Variable Interest Entity
WECC	Western Electric Coordinating Council
ZEC	Zero Emission Credit
ZES	Zero Emission Standard

Table of Contents

FILING FORMAT

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

FORWARD-LOOKING STATEMENTS

This Report contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, that are subject to risks and uncertainties. The factors that could cause actual results to differ materially from the forward-looking statements made by Exelon Corporation, Exelon Generation Company, LLC, Commonwealth Edison Company, PECO Energy Company, Baltimore Gas and Electric Company, Pepco Holdings LLC (PHI), Potomac Electric Power Company, Delmarva Power & Light Company, and Atlantic City Electric Company (Registrants) include those factors discussed herein, as well as the items discussed in (1) the Registrants combined 2016 Annual Report on Form 10-K in (a) ITEM 1A. Risk Factors, (b) ITEM 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and (c) ITEM 8. Financial Statements and Supplementary Data: Note 24, Commitments and Contingencies; and (2) other factors discussed in filings with the SEC by the Registrants. Readers are cautioned not to place undue reliance on these forward-looking statements, which apply only as of the date of this Report. None of the Registrants undertakes any obligation to publicly release any revision to its forward-looking statements to reflect events or circumstances after the date of this Report.

WHERE TO FIND MORE INFORMATION

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

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Table of Contents

EXELON CORPORATION AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended March 31,	
(In millions, except per share data)	**2017**	**2016**
Operating revenues		
Competitive businesses revenues	$ 4,560	$ 4,473
Rate-regulated utility revenues	4,197	3,100
Total operating revenues	8,757	7,573
Operating expenses		
Competitive businesses purchased power and fuel	2,795	2,440
Rate-regulated utility purchased power and fuel	1,104	814
Operating and maintenance	2,460	2,835
Depreciation and amortization	896	685
Taxes other than income	436	325
Total operating expenses	7,691	7,099
Gain on sales of assets	4	9
Bargain purchase gain	226	
Operating income	1,296	483
Other income and (deductions)		
Interest expense, net	(363)	(277)
Interest expense to affiliates	(10)	(10)
Other, net	283	114
Total other income and (deductions)	(90)	(173)
Income before income taxes	1,206	310
Income taxes	215	184
Equity in losses of unconsolidated affiliates	(10)	(3)
Net income	981	123
Net loss attributable to noncontrolling interests and preference stock dividends	(14)	(50)
Net income attributable to common shareholders	$ 995	$ 173
Comprehensive income, net of income taxes		
Net income	$ 981	$ 123
Other comprehensive income (loss), net of income taxes		
Pension and non-pension postretirement benefit plans:		
Prior service benefit reclassified to periodic benefit cost	(13)	(12)
Actuarial loss reclassified to periodic benefit cost	49	46
Pension and non-pension postretirement benefit plan valuation adjustment	(59)	(1)
Unrealized gain (loss) on cash flow hedges	6	(7)

Unrealized gain (loss) on equity investments	3	(3)
Unrealized gain on foreign currency translation	1	6
Unrealized gain (loss) on marketable securities	1	(1)
Other comprehensive (loss) income	(12)	28
Comprehensive income	969	151
Comprehensive loss attributable to noncontrolling interests and preference stock dividends	(16)	(50)
Comprehensive income attributable to common shareholders	$ 985	$ 201
Average shares of common stock outstanding:		
Basic	928	923
Diluted	930	925
Earnings per average common share:		
Basic	$ 1.07	$ 0.19
Diluted	$ 1.07	$ 0.19
Dividends declared per common share	$ 0.33	$ 0.31

See the Combined Notes to Consolidated Financial Statements

Table of Contents

EXELON CORPORATION AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In millions)	Three Months Ended March 31, 2017	2016
Cash flows from operating activities		
Net income	$ 981	$ 123
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation, amortization and accretion, including nuclear fuel and energy contract amortization	1,274	1,063
Impairment of long-lived assets	10	119
Gain on sales of assets	(4)	(9)
Bargain purchase gain	(226)	
Deferred income taxes and amortization of investment tax credits	189	127
Net fair value changes related to derivatives	47	(107)
Net realized and unrealized gains on nuclear decommissioning trust fund investments	(175)	(55)
Other non-cash operating activities	118	804
Changes in assets and liabilities:		
Accounts receivable	313	117
Inventories	109	142
Accounts payable and accrued expenses	(623)	(571)
Option premiums (paid) received, net	(6)	17
Collateral (posted) received, net	(110)	206
Income taxes	50	47
Pension and non-pension postretirement benefit contributions	(307)	(239)
Other assets and liabilities	(439)	(311)
Net cash flows provided by operating activities	1,201	1,473
Cash flows from investing activities		
Capital expenditures	(2,114)	(2,202)
Proceeds from nuclear decommissioning trust fund sales	1,767	2,240
Investment in nuclear decommissioning trust funds	(1,833)	(2,297)
Acquisition of businesses, net	(212)	(6,645)
Proceeds from termination of direct financing lease investment		360
Change in restricted cash	(1)	(2)
Other investing activities	(18)	(2)
Net cash flows used in investing activities	(2,411)	(8,548)
Cash flows from financing activities		
Changes in short-term borrowings	721	1,647
Proceeds from short-term borrowings with maturities greater than 90 days	560	123
Repayments on short-term borrowings with maturities greater than 90 days	(500)	
Issuance of long-term debt	763	151
Retirement of long-term debt	(65)	(116)
Dividends paid on common stock	(303)	(287)
Proceeds from employee stock plans	12	9
Other financing activities	(4)	6
Net cash flows provided by financing activities	1,184	1,533

Decrease in cash and cash equivalents	(26)	(5,542)
Cash and cash equivalents at beginning of period	635	6,502
Cash and cash equivalents at end of period	$ 609	$ 960

See the Combined Notes to Consolidated Financial Statements

Table of Contents

EXELON CORPORATION AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In millions)	**March 31, 2017**	**December 31, 2016**
ASSETS		
Current assets		
Cash and cash equivalents	$ 609	$ 635
Restricted cash and cash equivalents	254	253
Deposit with IRS	1,250	1,250
Accounts receivable, net		
Customer	3,886	4,158
Other	1,133	1,201
Mark-to-market derivative assets	847	917
Unamortized energy contract assets	103	88
Inventories, net		
Fossil fuel and emission allowances	249	364
Materials and supplies	1,312	1,274
Regulatory assets	1,330	1,342
Other	1,221	930
Total current assets	12,194	12,412
Property, plant and equipment, net	72,630	71,555
Deferred debits and other assets		
Regulatory assets	10,051	10,046
Nuclear decommissioning trust funds	12,362	11,061
Investments	648	629
Goodwill	6,677	6,677
Mark-to-market derivative assets	539	492
Unamortized energy contract assets	432	447
Pledged assets for Zion Station decommissioning	95	113
Other	1,440	1,472
Total deferred debits and other assets	32,244	30,937
Total assets[(a)]	$ 117,068	$ 114,904

See the Combined Notes to Consolidated Financial Statements

Table of Contents

EXELON CORPORATION AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In millions)	March 31, 2017	December 31, 2016
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities		
Short-term borrowings	$ 2,048	$ 1,267
Long-term debt due within one year	3,645	2,430
Accounts payable	3,011	3,441
Accrued expenses	3,007	3,460
Payables to affiliates	8	8
Regulatory liabilities	637	602
Mark-to-market derivative liabilities	228	282
Unamortized energy contract liabilities	388	407
Renewable energy credit obligation	400	428
PHI merger related obligation	123	151
Other	942	981
Total current liabilities	14,437	13,457
Long-term debt	31,044	31,575
Long-term debt to financing trusts	641	641
Deferred credits and other liabilities		
Deferred income taxes and unamortized investment tax credits	18,518	18,138
Asset retirement obligations	9,634	9,111
Pension obligations	4,082	4,248
Non-pension postretirement benefit obligations	1,928	1,848
Spent nuclear fuel obligation	1,136	1,024
Regulatory liabilities	4,302	4,187
Mark-to-market derivative liabilities	420	392
Unamortized energy contract liabilities	779	830
Payable for Zion Station decommissioning	3	14
Other	1,853	1,827
Total deferred credits and other liabilities	42,655	41,619
Total liabilities[(a)]	88,777	87,292
Commitments and contingencies		
Shareholders equity		
Common stock (No par value, 2000 shares authorized, 926 shares and 924 shares outstanding at March 31, 2017 and December 31, 2016, respectively)	18,807	18,794
Treasury stock, at cost (35 shares at March 31, 2017 and December 31, 2016, respectively)	(2,327)	(2,327)
Retained earnings	12,720	12,030
Accumulated other comprehensive loss, net	(2,670)	(2,660)
Total shareholders equity	26,530	25,837
Noncontrolling interests	1,761	1,775
Total equity	28,291	27,612

Total liabilities and shareholders equity	$ 117,068	$ 114,904

(a) Exelon s consolidated assets include $9,148 million and $8,893 million at March 31, 2017 and December 31, 2016, respectively, of certain VIEs that can only be used to settle the liabilities of the VIE. Exelon s consolidated liabilities include $3,345 million and $3,356 million at March 31, 2017 and December 31, 2016, respectively, of certain VIEs for which the VIE creditors do not have recourse to Exelon. See Note 3 Variable Interest Entities.

See the Combined Notes to Consolidated Financial Statements

Table of Contents

EXELON CORPORATION AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY

(Unaudited)

(In millions, shares in thousands)	Issued Shares	Common Stock	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss, net	Noncontrolling Interests	Total Shareholders Equity
Balance, December 31, 2016	958,778	$ 18,794	$ (2,327)	$ 12,030	$ (2,660)	$ 1,775	$ 27,612
Net income (loss)				995		(14)	981
Long-term incentive plan activity	1,739	1					1
Employee stock purchase plan issuances	323	12					12
Changes in equity of noncontrolling interests						2	2
Common stock dividends				(305)			(305)
Other comprehensive loss, net of income taxes					(10)	(2)	(12)
Balance at March 31, 2017	960,840	$ 18,807	$ (2,327)	$ 12,720	$ (2,670)	$ 1,761	$ 28,291

See the Combined Notes to Consolidated Financial Statements

15

Table of Contents

EXELON GENERATION COMPANY, LLC AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(Unaudited)

(In millions)	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Operating revenues		
Operating revenues	$ 4,558	$ 4,471
Operating revenues from affiliates	330	268
Total operating revenues	4,888	4,739
Operating expenses		
Purchased power and fuel	2,796	2,440
Purchased power and fuel from affiliates	2	2
Operating and maintenance	1,309	1,296
Operating and maintenance from affiliates	179	171
Depreciation and amortization	302	289
Taxes other than income	143	126
Total operating expenses	4,731	4,324
Gain on sales of assets	4	
Bargain purchase gain	226	
Operating income	387	415
Other income and (deductions)		
Interest expense, net	(90)	(87)
Interest expense to affiliates	(10)	(10)
Other, net	259	93
Total other income and (deductions)	159	(4)
Income before income taxes	546	411
Income taxes	127	151
Equity in losses of unconsolidated affiliates	(10)	(3)
Net income	409	257
Net loss attributable to noncontrolling interests	(14)	(53)
Net income attributable to membership interest	$ 423	$ 310
Comprehensive income, net of income taxes		
Net income	$ 409	$ 257
Other comprehensive income (loss), net of income taxes		
Unrealized gain (loss) on cash flow hedges	6	(5)
Unrealized gain (loss) on equity investments	4	(2)
Unrealized gain on foreign currency translation	1	6

Other comprehensive income (loss)	11	(1)
Comprehensive income	420	256
Comprehensive loss attributable to noncontrolling interests	(16)	(53)
Comprehensive income attributable to membership interest	$ 436	$ 309

See the Combined Notes to Consolidated Financial Statements

Table of Contents

EXELON GENERATION COMPANY, LLC AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In millions)	Three Months Ended March 31, 2017	2016
Cash flows from operating activities		
Net income	$ 409	$ 257
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation, amortization and accretion, including nuclear fuel and energy contract amortization	678	667
Impairment of long-lived assets	10	119
Gain on sales of assets	(4)	
Bargain purchase gain	(226)	
Deferred income taxes and amortization of investment tax credits	112	68
Net fair value changes related to derivatives	51	(106)
Net realized and unrealized gains on nuclear decommissioning trust fund investments	(175)	(55)
Other non-cash operating activities	(10)	51
Changes in assets and liabilities:		
Accounts receivable	195	173
Receivables from and payables to affiliates, net	23	(17)
Inventories	81	93
Accounts payable and accrued expenses	62	(363)
Option premiums (paid) received, net	(6)	17
Collateral (posted) received, net	(102)	198
Income taxes	(81)	(60)
Pension and non-pension postretirement benefit contributions	(110)	(112)
Other assets and liabilities	(167)	(148)
Net cash flows provided by operating activities	740	782
Cash flows from investing activities		
Capital expenditures	(923)	(1,125)
Proceeds from nuclear decommissioning trust fund sales	1,767	2,240
Investment in nuclear decommissioning trust funds	(1,833)	(2,297)
Acquisition of businesses, net	(212)	(1)
Change in restricted cash	18	4
Other investing activities	(29)	(25)
Net cash flows used in investing activities	(1,212)	(1,204)
Cash flows from financing activities		
Changes in short-term borrowings	(42)	1,377
Proceeds from short-term borrowings with maturities greater than 90 days	60	123
Issuance of long-term debt	762	151
Retirement of long-term debt	(30)	(94)
Changes in Exelon intercompany money pool	(1)	(1,183)
Distribution to member	(164)	(55)
Contribution from member		44
Other financing activities	(3)	5
Net cash flows provided by financing activities	582	368

Increase (Decrease) in cash and cash equivalents	110	(54)
Cash and cash equivalents at beginning of period	290	431
Cash and cash equivalents at end of period	$ 400	$ 377

See the Combined Notes to Consolidated Financial Statements

17

Table of Contents

EXELON GENERATION COMPANY, LLC AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In millions)	March 31, 2017	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 400	$ 290
Restricted cash and cash equivalents	140	158
Accounts receivable, net		
Customer	2,278	2,433
Other	545	558
Mark-to-market derivative assets	847	917
Receivables from affiliates	141	156
Unamortized energy contract assets	103	88
Inventories, net		
Fossil fuel and emission allowances	222	292
Materials and supplies	957	935
Other	881	701
Total current assets	6,514	6,528
Property, plant and equipment, net	25,893	25,585
Deferred debits and other assets		
Nuclear decommissioning trust funds	12,362	11,061
Investments	435	418
Goodwill	47	47
Mark-to-market derivative assets	527	476
Prepaid pension asset	1,646	1,595
Pledged assets for Zion Station decommissioning	95	113
Unamortized energy contract assets	432	447
Deferred income taxes	10	16
Other	648	688
Total deferred debits and other assets	16,202	14,861
Total assets[(a)]	$ 48,609	$ 46,974

See the Combined Notes to Consolidated Financial Statements

18

Table of Contents

EXELON GENERATION COMPANY, LLC AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In millions)	March 31, 2017	December 31, 2016
LIABILITIES AND EQUITY		
Current liabilities		
Short-term borrowings	$ 717	$ 699
Long-term debt due within one year	1,156	1,117
Accounts payable	1,482	1,610
Accrued expenses	720	989
Payables to affiliates	145	137
Borrowings from Exelon intercompany money pool	54	55
Mark-to-market derivative liabilities	209	263
Unamortized energy contract liabilities	68	72
Renewable energy credit obligation	400	428
Other	286	313
Total current liabilities	5,237	5,683
Long-term debt	7,904	7,202
Long-term debt to affiliate	919	922
Deferred credits and other liabilities		
Deferred income taxes and unamortized investment tax credits	5,850	5,585
Asset retirement obligations	9,444	8,922
Non-pension postretirement benefit obligations	926	930
Spent nuclear fuel obligation	1,136	1,024
Payables to affiliates	2,776	2,608
Mark-to-market derivative liabilities	157	153
Unamortized energy contract liabilities	78	80
Payable for Zion Station decommissioning	3	14
Other	615	595
Total deferred credits and other liabilities	20,985	19,911
Total liabilities[(a)]	35,045	33,718
Commitments and contingencies		
Equity		
Member s equity		
Membership interest	9,310	9,261
Undistributed earnings	2,534	2,275
Accumulated other comprehensive loss, net	(41)	(54)
Total member s equity	11,803	11,482
Noncontrolling interests	1,761	1,774
Total equity	13,564	13,256
Total liabilities and equity	$ 48,609	$ 46,974

(a) Generation s consolidated assets include $9,059 million and $8,817 million at March 31, 2017 and December 31, 2016, respectively, of certain VIEs that can only be used to settle the liabilities of the VIE. Generation s consolidated liabilities include $3,174 million and $3,170 million at March 31, 2017 and December 31, 2016, respectively, of certain VIEs for which the VIE creditors do not have recourse to Generation. See Note 3 Variable Interest Entities.

See the Combined Notes to Consolidated Financial Statements

Table of Contents

EXELON GENERATION COMPANY, LLC AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Unaudited)

	Member s Equity				
(In millions)	**Membership Interest**	**Undistributed Earnings**	**Accumulated Other Comprehensive Loss, net**	**Noncontrolling Interests**	**Total Equity**
Balance, December 31, 2016	$ 9,261	$ 2,275	$ (54)	$ 1,774	$ 13,256
Net income (loss)		423		(14)	409
Changes in equity of noncontrolling interests				3	3
Distribution of net retirement benefit obligation to member	49				49
Distribution to member		(164)			(164)
Other comprehensive income (loss), net of income taxes			13	(2)	11
Balance, March 31, 2017	$ 9,310	$ 2,534	$ (41)	$ 1,761	$ 13,564

See the Combined Notes to Consolidated Financial Statements

Table of Contents

COMMONWEALTH EDISON COMPANY AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(Unaudited)

(In millions)	Three Months Ended March 31, 2017	2016
Operating revenues		
Electric operating revenues	$ 1,293	$ 1,244
Operating revenues from affiliates	5	5
Total operating revenues	1,298	1,249
Operating expenses		
Purchased power	329	343
Purchased power from affiliate	5	5
Operating and maintenance	307	305
Operating and maintenance from affiliate	63	63
Depreciation and amortization	208	189
Taxes other than income	72	75
Total operating expenses	984	980
Gain on sale of assets		5
Operating income	314	274
Other income and (deductions)		
Interest expense, net	(82)	(83)
Interest expense to affiliates	(3)	(3)
Other, net	4	4
Total other income and (deductions)	(81)	(82)
Income before income taxes	233	192
Income taxes	92	77
Net income	$ 141	$ 115
Comprehensive income	$ 141	$ 115

See the Combined Notes to Consolidated Financial Statements

Table of Contents

COMMONWEALTH EDISON COMPANY AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In millions)	Three Months Ended March 31, 2017	2016
Cash flows from operating activities		
Net income	$ 141	$ 115
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation and amortization	208	189
Deferred income taxes and amortization of investment tax credits	137	70
Other non-cash operating activities	31	32
Changes in assets and liabilities:		
Accounts receivable	92	69
Receivables from and payables to affiliates, net	(16)	
Inventories	4	7
Accounts payable and accrued expenses	(327)	(207)
Collateral (posted) received, net	(7)	7
Income taxes	(34)	20
Pension and non-pension postretirement benefit contributions	(35)	(32)
Other assets and liabilities	(49)	14
Net cash flows provided by operating activities	145	284
Cash flows from investing activities		
Capital expenditures	(535)	(639)
Change in restricted cash	(1)	
Other investing activities	7	13
Net cash flows used in investing activities	(529)	(626)
Cash flows from financing activities		
Changes in short-term borrowings	365	349
Contributions from parent	100	39
Dividends paid on common stock	(105)	(91)
Other financing activities	(1)	(1)
Net cash flows provided by financing activities	359	296
Decrease in cash and cash equivalents	(25)	(46)
Cash and cash equivalents at beginning of period	56	67
Cash and cash equivalents at end of period	$ 31	$ 21

See the Combined Notes to Consolidated Financial Statements

Table of Contents

COMMONWEALTH EDISON COMPANY AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In millions)	March 31, 2017	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 31	$ 56
Restricted cash	3	2
Accounts receivable, net		
Customer	461	528
Other	199	218
Receivables from affiliates	360	356
Inventories, net	154	159
Regulatory assets	183	190
Other	55	45
Total current assets	1,446	1,554
Property, plant and equipment, net	19,692	19,335
Deferred debits and other assets		
Regulatory assets	1,032	977
Investments	6	6
Goodwill	2,625	2,625
Receivables from affiliates	2,294	2,170
Prepaid pension asset	1,330	1,343
Other	331	325
Total deferred debits and other assets	7,618	7,446
Total assets	$ 28,756	$ 28,335

See the Combined Notes to Consolidated Financial Statements

Table of Contents

COMMONWEALTH EDISON COMPANY AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In millions)	**March 31, 2017**	**December 31, 2016**
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities		
Short-term borrowings	$ 365	$
Long-term debt due within one year	1,125	425
Accounts payable	518	645
Accrued expenses	1,061	1,250
Payables to affiliates	52	65
Customer deposits	117	121
Regulatory liabilities	311	329
Mark-to-market derivative liability	19	19
Other	77	84
Total current liabilities	3,645	2,938
Long-term debt	5,910	6,608
Long-term debt to financing trust	205	205
Deferred credits and other liabilities		
Deferred income taxes and unamortized investment tax credits	5,502	5,364
Asset retirement obligations	121	119
Non-pension postretirement benefits obligations	234	239
Regulatory liabilities	3,492	3,369
Mark-to-market derivative liability	263	239
Other	523	529
Total deferred credits and other liabilities	10,135	9,859
Total liabilities	19,895	19,610
Commitments and contingencies		
Shareholders equity		
Common stock	1,588	1,588
Other paid-in capital	6,250	6,150
Retained deficit unappropriated	(1,639)	(1,639)
Retained earnings appropriated	2,662	2,626
Total shareholders equity	8,861	8,725
Total liabilities and shareholders equity	$ 28,756	$ 28,335

See the Combined Notes to Consolidated Financial Statements

Table of Contents

COMMONWEALTH EDISON COMPANY AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY

(Unaudited)

(In millions)	Common Stock	Other Paid-In Capital	Retained Deficit Unappropriated	Retained Earnings Appropriated	Total Shareholders Equity
Balance, December 31, 2016	$ 1,588	$ 6,150	$ (1,639)	$ 2,626	$ 8,725
Net income			141		141
Appropriation of retained earnings for future dividends			(141)	141	
Common stock dividends				(105)	(105)
Contribution from parent		100			100
Balance, March 31, 2017	$ 1,588	$ 6,250	$ (1,639)	$ 2,662	$ 8,861

See the Combined Notes to Consolidated Financial Statements

Table of Contents

PECO ENERGY COMPANY AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended March 31,	
(In millions)	**2017**	**2016**
Operating revenues		
Electric operating revenues	$ 589	$ 643
Natural gas operating revenues	206	197
Operating revenues from affiliates	1	1
Total operating revenues	796	841
Operating expenses		
Purchased power	156	166
Purchased fuel	86	77
Purchased power from affiliate	45	78
Operating and maintenance	174	177
Operating and maintenance from affiliates	34	38
Depreciation and amortization	71	67
Taxes other than income	38	42
Total operating expenses	604	645
Operating income	192	196
Other income and (deductions)		
Interest expense, net	(28)	(28)
Interest expense to affiliates	(3)	(3)
Other, net	2	2
Total other income and (deductions)	(29)	(29)
Income before income taxes	163	167
Income taxes	36	43
Net income	$ 127	$ 124
Comprehensive income	$ 127	$ 124

See the Combined Notes to Consolidated Financial Statements

Table of Contents

PECO ENERGY COMPANY AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In millions)	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Cash flows from operating activities		
Net income	$ 127	$ 124
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation and amortization	71	67
Deferred income taxes and amortization of investment tax credits	24	23
Other non-cash operating activities	23	24
Changes in assets and liabilities:		
Accounts receivable	(25)	(51)
Receivables from and payables to affiliates, net	(10)	4
Inventories	19	24
Accounts payable and accrued expenses	(82)	18
Income taxes	25	29
Pension and non-pension postretirement benefit contributions	(23)	(29)
Other assets and liabilities	(85)	(95)
Net cash flows provided by operating activities	64	138
Cash flows from investing activities		
Capital expenditures	(159)	(195)
Changes in Exelon intercompany money pool	131	(160)
Other investing activities	1	4
Net cash flows used in investing activities	(27)	(351)
Cash flows from financing activities		
Dividends paid on common stock	(72)	(69)
Net cash flows used in financing activities	(72)	(69)
Decrease in cash and cash equivalents	(35)	(282)
Cash and cash equivalents at beginning of period	63	295
Cash and cash equivalents at end of period	$ 28	$ 13

See the Combined Notes to Consolidated Financial Statements

Table of Contents

PECO ENERGY COMPANY AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In millions)	March 31, 2017	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 28	$ 63
Restricted cash and cash equivalents	4	4
Accounts receivable, net		
Customer	314	306
Other	122	131
Receivables from affiliates	6	4
Receivable from Exelon intercompany pool		131
Inventories, net		
Fossil fuel	14	35
Materials and supplies	29	27
Prepaid utility taxes	100	9
Regulatory assets	40	29
Other	21	18
Total current assets	678	757
Property, plant and equipment, net	7,659	7,565
Deferred debits and other assets		
Regulatory assets	1,708	1,681
Investments	25	25
Receivable from affiliates	482	438
Prepaid pension asset	361	345
Other	19	20
Total deferred debits and other assets	2,595	2,509
Total assets	$ 10,932	$ 10,831

See the Combined Notes to Consolidated Financial Statements

PECO ENERGY COMPANY AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In millions)	March 31, 2017	December 31, 2016
LIABILITIES AND SHAREHOLDER S EQUITY		
Current liabilities		
Long-term debt due within one year	$ 500	$
Accounts payable	288	342
Accrued expenses	92	104
Payables to affiliates	55	63
Customer deposits	62	61
Regulatory liabilities	161	127
Other	29	30
Total current liabilities	1,187	727
Long-term debt	2,080	2,580
Long-term debt to financing trusts	184	184
Deferred credits and other liabilities		
Deferred income taxes and unamortized investment tax credits	3,076	3,006
Asset retirement obligations	28	28
Non-pension postretirement benefits obligations	289	289
Regulatory liabilities	530	517
Other	88	85
Total deferred credits and other liabilities	4,011	3,925
Total liabilities	7,462	7,416
Commitments and contingencies		
Shareholder s equity		
Common stock	2,473	2,473
Retained earnings	996	941
Accumulated other comprehensive income, net	1	1
Total shareholder s equity	3,470	3,415
Total liabilities and shareholder s equity	$ 10,932	$ 10,831

See the Combined Notes to Consolidated Financial Statements

Table of Contents

PECO ENERGY COMPANY AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER S EQUITY

(Unaudited)

(In millions)	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income, net	Total Shareholder s Equity
Balance, December 31, 2016	$ 2,473	$ 941	$ 1	$ 3,415
Net income		127		127
Common stock dividends		(72)		(72)
Balance, March 31, 2017	$ 2,473	$ 996	$ 1	$ 3,470

See the Combined Notes to Consolidated Financial Statements

Table of Contents

BALTIMORE GAS AND ELECTRIC COMPANY AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended March 31,	
(In millions)	**2017**	**2016**
Operating revenues		
Electric operating revenues	$ 665	$ 678
Natural gas operating revenues	281	246
Operating revenues from affiliates	5	5
Total operating revenues	951	929
Operating expenses		
Purchased power	133	127
Purchased fuel	83	75
Purchased power from affiliate	134	171
Operating and maintenance	148	168
Operating and maintenance from affiliates	35	34
Depreciation and amortization	128	109
Taxes other than income	62	58
Total operating expenses	723	742
Operating income	228	187
Other income and (deductions)		
Interest expense, net	(23)	(20)
Interest expense to affiliates	(4)	(4)
Other, net	4	4
Total other income and (deductions)	(23)	(20)
Income before income taxes	205	167
Income taxes	80	66
Net income	125	101
Preference stock dividends		3
Net income attributable to common shareholder	$ 125	$ 98
Comprehensive income	$ 125	$ 101
Comprehensive income attributable to preference stock dividends		3
Comprehensive income attributable to common shareholder	$ 125	$ 98

See the Combined Notes to Consolidated Financial Statements

Table of Contents

BALTIMORE GAS AND ELECTRIC COMPANY AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In millions)	**Three Months Ended March 31, 2017**	**2016**
Cash flows from operating activities		
Net income	$ 125	$ 101
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation and amortization	128	109
Deferred income taxes and amortization of investment tax credits	72	26
Other non-cash operating activities	24	44
Changes in assets and liabilities:		
Accounts receivable	(7)	(44)
Receivables from and payables to affiliates, net	(7)	7
Inventories	17	17
Accounts payable and accrued expenses	(121)	3
Income taxes	33	78
Pension and non-pension postretirement benefit contributions	(44)	(38)
Other assets and liabilities	(52)	(30)
Net cash flows provided by operating activities	168	273
Cash flows from investing activities		
Capital expenditures	(166)	(176)
Change in restricted cash	(19)	(20)
Other investing activities	4	5
Net cash flows used in investing activities	(181)	(191)
Cash flows from financing activities		
Changes in short-term borrowings	50	(60)
Dividends paid on preference stock		(3)
Dividends paid on common stock	(49)	(45)
Contributions from parent		21
Other financing activities		1
Net cash flows provided by (used in) financing activities	1	(86)
Decrease in cash and cash equivalents	(12)	(4)
Cash and cash equivalents at beginning of period	23	9
Cash and cash equivalents at end of period	$ 11	$ 5

See the Combined Notes to Consolidated Financial Statements

32

Table of Contents

BALTIMORE GAS AND ELECTRIC COMPANY AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In millions)	March 31, 2017	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 11	$ 23
Restricted cash and cash equivalents	43	24
Accounts receivable, net		
Customer	393	395
Other	79	102
Receivables from affiliates	1	
Inventories, net		
Gas held in storage	10	30
Materials and supplies	41	38
Prepaid utility taxes	32	15
Regulatory assets	191	208
Other	11	7
Total current assets	812	842
Property, plant and equipment, net	7,166	7,040
Deferred debits and other assets		
Regulatory assets	499	504
Investments	12	12
Prepaid pension asset	322	297
Other	10	9
Total deferred debits and other assets	843	822
Total assets[(a)]	$ 8,821	$ 8,704

See the Combined Notes to Consolidated Financial Statements

Table of Contents

BALTIMORE GAS AND ELECTRIC COMPANY AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In millions)	March 31, 2017	December 31, 2016
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities		
Short-term borrowings	$ 95	$ 45
Long-term debt due within one year	41	41
Accounts payable	186	205
Accrued expenses	120	175
Payables to affiliates	49	55
Customer deposits	112	110
Regulatory liabilities	67	50
Other	23	26
Total current liabilities	693	707
Long-term debt	2,282	2,281
Long-term debt to financing trust	252	252
Deferred credits and other liabilities		
Deferred income taxes and unamortized investment tax credits	2,295	2,219
Asset retirement obligations	20	21
Non-pension postretirement benefits obligations	202	205
Regulatory liabilities	94	110
Other	59	61
Total deferred credits and other liabilities	2,670	2,616
Total liabilities[(a)]	5,897	5,856
Commitments and contingencies		
Shareholders equity		
Common stock	1,421	1,421
Retained earnings	1,503	1,427
Total shareholders equity	2,924	2,848
Total liabilities and shareholders equity	$ 8,821	$ 8,704

(a) BGE s consolidated assets include $45 million and $26 million at March 31, 2017 and December 31, 2016, respectively, of BGE s consolidated VIE that can only be used to settle the liabilities of the VIE. BGE s consolidated liabilities include $42 million and $42 million at March 31, 2017 and December 31, 2016, respectively, of BGE s consolidated VIE for which the VIE creditors do not have recourse to BGE. See Note 3 Variable Interest Entities.

See the Combined Notes to Consolidated Financial Statements

Table of Contents

BALTIMORE GAS AND ELECTRIC COMPANY AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY

(Unaudited)

(In millions)	Common Stock	Retained Earnings	Total Shareholders Equity
Balance, December 31, 2016	$ 1,421	$ 1,427	$ 2,848
Net income		125	125
Common stock dividends		(49)	(49)
Balance, March 31, 2017	$ 1,421	$ 1,503	$ 2,924

See the Combined Notes to Consolidated Financial Statements

35

Table of Contents

PEPCO HOLDINGS LLC AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(Unaudited)

	Successor		*Predecessor*
(In millions)	**Three Months Ended March 31, 2017**	**March 24 to March 31, 2016**	**January 1 to March 23, 2016**
Operating revenues			
Electric operating revenues	$ 1,097	$ 90	$ 1,096
Natural gas operating revenues	66	3	57
Operating revenues from affiliates	12	12	
Total operating revenues	1,175	105	1,153
Operating expenses			
Purchased power	288	26	471
Purchased fuel	29	1	26
Purchased power and fuel from affiliates	144	11	
Operating and maintenance	223	447	294
Operating and maintenance from affiliates	33	2	
Depreciation and amortization	167	14	152
Taxes other than income	111	15	105
Total operating expenses	995	516	1,048
Operating income (loss)	180	(411)	105
Other income and (deductions)			
Interest expense, net	(62)	(6)	(65)
Other, net	13	2	(4)
Total other income and (deductions)	(49)	(4)	(69)
Income (loss) before income taxes	131	(415)	36
Income taxes	(9)	(106)	17
Net income (loss)	$ 140	$ (309)	$ 19
Comprehensive income (loss), net of income taxes			
Net income (loss)	$ 140	$ (309)	$ 19
Other comprehensive income, net of income taxes			
Pension and non-pension postretirement benefit plans:			
Actuarial loss reclassified to periodic cost			1
Other comprehensive income			1
Comprehensive income (loss)	$ 140	$ (309)	$ 20

See the Combined Notes to Consolidated Financial Statements

Table of Contents

PEPCO HOLDINGS LLC AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Successor		*Predecessor*
(In millions)	**Three Months Ended March 31, 2017**	**March 24 to March 31, 2016**	**January 1 to March 23, 2016**
Cash flows from operating activities			
Net income (loss)	$ 140	$ (309)	$ 19
Adjustments to reconcile net income (loss) to net cash flows provided by operating activities:			
Depreciation and amortization	167	14	152
Deferred income taxes and amortization of investment tax credits	13	(112)	19
Net fair value changes related to derivatives			18
Other non-cash operating activities	(8)	410	46
Changes in assets and liabilities:			
Accounts receivable	68	16	(28)
Receivables from and payables to affiliates, net	(8)		
Inventories	(11)		(4)
Accounts payable and accrued expenses	(81)	(4)	42
Income taxes	55	7	12
Pension and non-pension postretirement benefit contributions	(66)		(4)
Other assets and liabilities	(75)	(25)	(8)
Net cash flows provided by (used in) operating activities	194	(3)	264
Cash flows from investing activities			
Capital expenditures	(320)	(29)	(273)
Changes in restricted cash	2	(1)	3
Purchases of investments		(2)	(68)
Other investing activities	(3)	2	(5)
Net cash flows used in investing activities	(321)	(30)	(343)
Cash flows from financing activities			
Changes in short-term borrowings	145	(20)	(121)
Proceeds from short-term borrowings with maturities greater than 90 days			500
Repayments of short-term borrowings with maturities greater than 90 days	(500)		
Issuance of long-term debt	1		
Retirement of long-term debt	(24)		(11)
Common stock issued for the Direct Stock Purchase and Dividend Reinvestment Plan and employee-related compensation			2
Distribution to member	(69)	(108)	
Contribution from member	500		
Change in Exelon intercompany money pool	13	(7)	
Other financing activities			2
Net cash flows provided by (used in) financing activities	66	(135)	372
(Decrease) Increase in cash and cash equivalents	(61)	(168)	293
Cash and cash equivalents at beginning of period	170	319	26

Cash and cash equivalents at end of period	$ 109	$ 151	$ 319

See the Combined Notes to Consolidated Financial Statements

Table of Contents

PEPCO HOLDINGS LLC AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In millions)	*Successor* March 31, 2017	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 109	$ 170
Restricted cash and cash equivalents	41	43
Accounts receivable, net		
Customer	440	496
Other	210	283
Inventories, net		
Gas held in storage	2	6
Materials and supplies	131	116
Regulatory assets	653	653
Other	64	71
Total current assets	1,650	1,838
Property, plant and equipment, net	11,801	11,598
Deferred debits and other assets		
Regulatory assets	2,791	2,851
Investments	133	133
Goodwill	4,005	4,005
Long-term note receivable	4	4
Prepaid pension asset	549	509
Deferred income taxes	5	6
Other	80	81
Total deferred debits and other assets	7,567	7,589
Total assets[(a)]	$ 21,018	$ 21,025

See the Combined Notes to Consolidated Financial Statements

38

Table of Contents

PEPCO HOLDINGS LLC AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEETS

(Unaudited)

	Successor	
(In millions)	**March 31, 2017**	**December 31, 2016**
LIABILITIES AND MEMBER S EQUITY		
Current liabilities		
Short-term borrowings	$ 167	$ 522
Long-term debt due within one year	241	253
Accounts payable	386	458
Accrued expenses	269	272
Payables to affiliates	84	94
Unamortized energy contract liabilities	320	335
Borrowings from Exelon intercompany money pool	13	
Customer deposits	121	123
Merger related obligation	74	101
Regulatory liabilities	82	79
Other	43	47
Total current liabilities	1,800	2,284
Long-term debt	5,619	5,645
Deferred credits and other liabilities		
Regulatory liabilities	154	158
Deferred income taxes and unamortized investment tax credits	3,789	3,775
Asset retirement obligations	14	14
Non-pension postretirement benefit obligations	129	134
Unamortized energy contract liabilities	701	750
Other	225	249
Total deferred credits and other liabilities	5,012	5,080
Total liabilities[(a)]	12,431	13,009
Commitments and contingencies		
Member s equity		
Membership interest	8,577	8,077
Undistributed earnings (losses)	10	(61)
Total member s equity	8,587	8,016
Total liabilities and member s equity	$ 21,018	$ 21,025

(a) PHI s consolidated total assets include $44 million and $49 million at March 31, 2017 and December 31, 2016, respectively, of PHI s consolidated VIE that can only be used to settle the liabilities of the VIE. PHI s consolidated total liabilities include $129 million and $143 million at March 31, 2017 and December 31, 2016, respectively, of PHI s consolidated VIE for which the VIE creditors do not have recourse to PHI. See Note 3 Variable Interest Entities.

See the Combined Notes to Consolidated Financial Statements

Table of Contents

PEPCO HOLDINGS LLC AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Unaudited)

(In millions)	Membership Interest	Undistributed Earnings (Losses)	Member s Equity
Successor			
Balance, December 31, 2016	$ 8,077	$ (61)	$ 8,016
Net income		140	140
Distribution to member		(69)	(69)
Contribution from member	500		500
Balance, March 31, 2017	$ 8,577	$ 10	$ 8,587

See the Combined Notes to Consolidated Financial Statements

40

Table of Contents

POTOMAC ELECTRIC POWER COMPANY

STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(Unaudited)

(In millions)	Three Months Ended March 31, 2017	2016
Operating revenues		
Electric operating revenues	$ 529	$ 550
Operating revenues from affiliates	1	1
Total operating revenues	530	551
Operating expenses		
Purchased power	83	191
Purchased power from affiliates	83	6
Operating and maintenance	101	288
Operating and maintenance from affiliates	12	2
Depreciation and amortization	82	75
Taxes other than income	90	94
Total operating expenses	451	656
Operating income (loss)	79	(105)
Other income and (deductions)		
Interest expense, net	(29)	(37)
Other, net	8	9
Total other income and (deductions)	(21)	(28)
Income (loss) before income taxes	58	(133)
Income taxes		(25)
Net income (loss)	$ 58	$ (108)
Comprehensive income (loss)	$ 58	$ (108)

See the Combined Notes to Consolidated Financial Statements

Table of Contents

POTOMAC ELECTRIC POWER COMPANY

STATEMENTS OF CASH FLOWS

(Unaudited)

(In millions)	Three Months Ended March 31, 2017	2016
Cash flows from operating activities		
Net income (loss)	$ 58	$ (108)
Adjustments to reconcile net income (loss) to net cash flows provided by operating activities:		
Depreciation and amortization	82	75
Deferred income taxes and amortization of investment tax credits	5	(31)
Other non-cash operating activities	(15)	153
Changes in assets and liabilities:		
Accounts receivable	45	(24)
Receivables from and payables to affiliates, net	(6)	55
Inventories	(10)	1
Accounts payable and accrued expenses	(49)	(4)
Income taxes	20	151
Pension and non-pension postretirement benefit contributions	(64)	(1)
Other assets and liabilities	(37)	(9)
Net cash flows provided by operating activities	29	258
Cash flows from investing activities		
Capital expenditures	(139)	(109)
Purchases of investments		(31)
Changes in restricted cash		2
Other investing activities	(5)	2
Net cash flows used in investing activities	(144)	(136)
Cash flows from financing activities		
Changes in short-term borrowings	144	(64)
Issuance of long-term debt	1	
Dividends paid on common stock	(30)	(39)
Other financing activities	(1)	
Net cash flows provided by (used in) financing activities	114	(103)
(Decrease) Increase in cash and cash equivalents	(1)	19
Cash and cash equivalents at beginning of period	9	5
Cash and cash equivalents at end of period	$ 8	$ 24

See the Combined Notes to Consolidated Financial Statements

Table of Contents

POTOMAC ELECTRIC POWER COMPANY

BALANCE SHEETS

(Unaudited)

(In millions)	**March 31, 2017**	**December 31, 2016**
ASSETS		
Current assets		
Cash and cash equivalents	$ 8	$ 9
Restricted cash and cash equivalents	33	33
Accounts receivable, net		
Customer	199	235
Other	127	150
Inventories, net	73	63
Regulatory assets	173	162
Other	21	32
Total current assets	634	684
Property, plant and equipment, net	5,659	5,571
Deferred debits and other assets		
Regulatory assets	679	690
Investments	101	102
Prepaid pension asset	337	282
Other	7	6
Total deferred debits and other assets	1,124	1,080
Total assets	$ 7,417	$ 7,335

See the Combined Notes to Consolidated Financial Statements

Table of Contents

POTOMAC ELECTRIC POWER COMPANY

BALANCE SHEETS

(Unaudited)

(In millions)	March 31, 2017	December 31, 2016
LIABILITIES AND SHAREHOLDER S EQUITY		
Current liabilities		
Short-term borrowings	$ 167	$ 23
Long-term debt due within one year	17	16
Accounts payable	141	209
Accrued expenses	125	113
Payables to affiliates	68	74
Customer deposits	53	53
Regulatory liabilities	10	11
Merger related obligation	47	68
Other	23	29
Total current liabilities	651	596
Long-term debt	2,333	2,333
Deferred credits and other liabilities		
Regulatory liabilities	19	20
Deferred income taxes and unamortized investment tax credits	1,913	1,910
Non-pension postretirement benefit obligations	41	43
Other	132	133
Total deferred credits and other liabilities	2,105	2,106
Total liabilities	5,089	5,035
Commitments and contingencies		
Shareholder s equity		
Common stock	1,309	1,309
Retained earnings	1,019	991
Total shareholder s equity	2,328	2,300
Total liabilities and shareholder s equity	$ 7,417	$ 7,335

See the Combined Notes to Consolidated Financial Statements

Table of Contents

POTOMAC ELECTRIC POWER COMPANY

STATEMENT OF CHANGES IN SHAREHOLDER S EQUITY

(Unaudited)

(In millions)	Common Stock	Retained Earnings	Total Shareholder s Equity
Balance, December 31, 2016	$ 1,309	$ 991	$ 2,300
Net income		58	58
Common stock dividends		(30)	(30)
Balance, March 31, 2017	$ 1,309	$ 1,019	$ 2,328

See the Combined Notes to Consolidated Financial Statements

Table of Contents

DELMARVA POWER & LIGHT COMPANY

STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(Unaudited)

(In millions)	**Three Months Ended March 31, 2017**	**2016**
Operating revenues		
Electric operating revenues	$ 294	$ 301
Natural gas operating revenues	66	59
Operating revenues from affiliates	2	2
Total operating revenues	362	362
Operating expenses		
Purchased power	77	147
Purchased fuel	29	25
Purchased power from affiliate	51	4
Operating and maintenance	66	204
Operating and maintenance from affiliates	7	
Depreciation and amortization	39	39
Taxes other than income	15	15
Total operating expenses	284	434
Operating income (loss)	78	(72)
Other income and (deductions)		
Interest expense, net	(13)	(12)
Other, net	3	3
Total other income and (deductions)	(10)	(9)
Income (loss) before income taxes	68	(81)
Income taxes	11	(9)
Net income (loss)	$ 57	$ (72)
Comprehensive income (loss)	$ 57	$ (72)

See the Combined Notes to Consolidated Financial Statements

46

Table of Contents

DELMARVA POWER & LIGHT COMPANY

STATEMENTS OF CASH FLOWS

(Unaudited)

(In millions)	Three Months Ended March 31, 2017	2016
Cash flows from operating activities		
Net income (loss)	$ 57	$ (72)
Adjustments to reconcile net income (loss) to net cash flows provided by operating activities:		
Depreciation and amortization	39	39
Deferred income taxes and amortization of investment tax credits	13	(4)
Other non-cash operating activities	(7)	118
Changes in assets and liabilities:		
Accounts receivable	6	4
Receivables from and payables to affiliates, net	1	20
Inventories	1	1
Accounts payable and accrued expenses	14	(3)
Income taxes	21	52
Other assets and liabilities	(23)	(8)
Net cash flows provided by operating activities	122	147
Cash flows from investing activities		
Capital expenditures	(82)	(81)
Other investing activities	2	
Net cash flows used in investing activities	(80)	(81)
Cash flows from financing activities		
Changes in short-term borrowings		(30)
Retirement of long-term debt	(14)	
Dividends paid on common stock	(30)	(38)
Net cash flows used in financing activities	(44)	(68)
Decrease in cash and cash equivalents	(2)	(2)
Cash and cash equivalents at beginning of period	46	5
Cash and cash equivalents at end of period	$ 44	$ 3

See the Combined Notes to Consolidated Financial Statements

Table of Contents

DELMARVA POWER & LIGHT COMPANY

BALANCE SHEETS

(Unaudited)

(In millions)	March 31, 2017	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 44	$ 46
Accounts receivable, net		
Customer	131	136
Other	39	63
Receivables from affiliates		3
Inventories, net		
Gas held in storage	3	7
Materials and supplies	35	32
Regulatory assets	66	59
Other	21	24
Total current assets	339	370
Property, plant and equipment, net	3,334	3,273
Deferred debits and other assets		
Regulatory assets	301	289
Investments	1	
Goodwill	8	8
Prepaid pension asset	203	206
Other	5	7
Total deferred debits and other assets	518	510
Total assets	$ 4,191	$ 4,153

See the Combined Notes to Consolidated Financial Statements

48

Table of Contents

DELMARVA POWER & LIGHT COMPANY

BALANCE SHEETS

(Unaudited)

(In millions)	March 31, 2017	December 31, 2016
LIABILITIES AND SHAREHOLDER S EQUITY		
Current liabilities		
Long-term debt due within one year	$ 109	$ 119
Accounts payable	106	88
Accrued expenses	44	36
Payables to affiliates	36	38
Customer deposits	36	36
Regulatory liabilities	47	43
Merger related obligation	4	13
Other	6	8
Total current liabilities	388	381
Long-term debt	1,217	1,221
Deferred credits and other liabilities		
Regulatory liabilities	95	97
Deferred income taxes and unamortized investment tax credits	1,072	1,056
Non-pension postretirement benefit obligations	17	19
Other	49	53
Total deferred credits and other liabilities	1,233	1,225
Total liabilities	2,838	2,827
Commitments and contingencies		
Shareholder s equity		
Common stock	764	764
Retained earnings	589	562
Total shareholder s equity	1,353	1,326
Total liabilities and shareholder s equity	$ 4,191	$ 4,153

See the Combined Notes to Consolidated Financial Statements

Table of Contents

DELMARVA POWER & LIGHT COMPANY

STATEMENT OF CHANGES IN SHAREHOLDER S EQUITY

(Unaudited)

(In millions)	Common Stock	Retained Earnings	Total Shareholder s Equity
Balance, December 31, 2016	$ 764	$ 562	$ 1,326
Net income		57	57
Common stock dividends		(30)	(30)
Balance, March 31, 2017	$ 764	$ 589	$ 1,353

See the Combined Notes to Consolidated Financial Statements

50

Table of Contents

ATLANTIC CITY ELECTRIC COMPANY AND SUBSIDIARY COMPANY

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(Unaudited)

(In millions)	Three Months Ended March 31, 2017	2016
Operating revenues		
Electric operating revenues	$ 274	$ 290
Operating revenues from affiliates	1	1
Total operating revenues	275	291
Operating expenses		
Purchased power	128	157
Purchased power from affiliates	9	1
Operating and maintenance	69	211
Operating and maintenance from affiliates	7	1
Depreciation and amortization	35	40
Taxes other than income	2	2
Total operating expenses	250	412
Operating income (loss)	25	(121)
Other income and (deductions)		
Interest expense, net	(15)	(16)
Other, net	2	4
Total other income and (deductions)	(13)	(12)
Income (loss) before income taxes	12	(133)
Income taxes	(16)	(33)
Net income (loss)	$ 28	$ (100)
Comprehensive income (loss)	$ 28	$ (100)

See the Combined Notes to Consolidated Financial Statements

51

Table of Contents

ATLANTIC CITY ELECTRIC COMPANY AND SUBSIDIARY COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In millions)	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Cash flows from operating activities		
Net income (loss)	$ 28	$ (100)
Adjustments to reconcile net income (loss) to net cash flows provided by operating activities:		
Depreciation and amortization	35	40
Deferred income taxes and amortization of investment tax credits	(7)	(33)
Other non-cash operating activities	2	132
Changes in assets and liabilities:		
Accounts receivable	14	5
Receivables from and payables to affiliates, net	(5)	20
Inventories	(1)	(2)
Accounts payable and accrued expenses	(5)	19
Income taxes	3	168
Other assets and liabilities	(6)	(3)
Net cash flows provided by operating activities	58	246
Cash flows from investing activities		
Capital expenditures	(88)	(101)
Changes in restricted cash	2	1
Other investing activities	1	
Net cash flows used in investing activities	(85)	(100)
Cash flows from financing activities		
Changes in short-term borrowings		(5)
Retirement of long-term debt	(10)	(11)
Dividends paid on common stock	(10)	(11)
Net cash flows used in financing activities	(20)	(27)
(Decrease) Increase in cash and cash equivalents	(47)	119
Cash and cash equivalents at beginning of period	101	3
Cash and cash equivalents at end of period	$ 54	$ 122

See the Combined Notes to Consolidated Financial Statements

Table of Contents

ATLANTIC CITY ELECTRIC COMPANY AND SUBSIDIARY COMPANY

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In millions)	March 31, 2017	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 54	$ 101
Restricted cash and cash equivalents	7	9
Accounts receivable, net		
Customer	111	125
Other	41	44
Inventories, net	23	22
Regulatory assets	94	96
Other	3	2
Total current assets	333	399
Property, plant and equipment, net	2,583	2,521
Deferred debits and other assets		
Regulatory assets	407	405
Long-term note receivable	4	4
Prepaid pension asset	82	84
Other	42	44
Total deferred debits and other assets	535	537
Total assets[(a)]	$ 3,451	$ 3,457

See the Combined Notes to Consolidated Financial Statements

53

Table of Contents

ATLANTIC CITY ELECTRIC COMPANY AND SUBSIDIARY COMPANY

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In millions)	March 31, 2017	December 31, 2016
LIABILITIES AND SHAREHOLDER S EQUITY		
Current liabilities		
Long-term debt due within one year	$ 33	$ 35
Accounts payable	125	132
Accrued expenses	50	38
Payables to affiliates	24	29
Customer deposits	32	33
Regulatory liabilities	25	25
Merger related obligation	22	20
Other	9	8
Total current liabilities	320	320
Long-term debt	1,112	1,120
Deferred credits and other liabilities		
Deferred income taxes and unamortized investment tax credits	911	917
Non-pension postretirement benefit obligations	33	34
Other	23	32
Total deferred credits and other liabilities	967	983
Total liabilities[(a)]	2,399	2,423
Commitments and contingencies		
Shareholder s equity		
Common stock	912	912
Retained earnings	140	122
Total shareholder s equity	1,052	1,034
Total liabilities and shareholder s equity	$ 3,451	$ 3,457

(a) ACE s consolidated total assets include $30 million and $32 million at March 31, 2017 and December 31, 2016, respectively, of ACE s consolidated VIE that can only be used to settle the liabilities of the VIE. ACE s consolidated total liabilities include $115 million and $126 million at March 31, 2017 and December 31, 2016, respectively, of ACE s consolidated VIE for which the VIE creditors do not have recourse to ACE. See Note 3 Variable Interest Entities.

See the Combined Notes to Consolidated Financial Statements

Table of Contents

ATLANTIC CITY ELECTRIC COMPANY AND SUBSIDIARY COMPANY

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER S EQUITY

(Unaudited)

(In millions)	Common Stock	Retained Earnings	Total Shareholder s Equity
Balance, December 31, 2016	$ 912	$ 122	$ 1,034
Net income		28	28
Common stock dividends		(10)	(10)
Balance, March 31, 2017	$ 912	$ 140	$ 1,052

See the Combined Notes to Consolidated Financial Statements

Table of Contents

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Index to Combined Notes To Consolidated Financial Statements

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

Applicable Notes

Registrant	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
Exelon Corporation	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.
Exelon Generation Company, LLC	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.		.	.	.	.
Commonwealth Edison Company	.	.	.		.			.	.	.	.		.	.			.	.	.	
PECO Energy Company	.	.	.		.			.	.	.	.		.	.	.		.	.	.	
Baltimore Gas and Electric Company	.	.	.		.			.	.	.	.		.	.			.	.	.	
Pepco Holdings LLC	.	.	.	.	.			.	.	.	.		.	.	.		.	.	.	
Potomac Electric Power Company	.	.	.		.			.	.	.	.		.	.			.	.	.	
Delmarva Power & Light Company	.	.	.		.			.	.	.	.		.	.			.	.	.	
Atlantic City Electric Company	.	.	.		.			.	.	.	.		.	.			.	.	.	

1. Significant Accounting Policies (All Registrants)

Description of Business (All Registrants)

Exelon is a utility services holding company engaged through its principal subsidiaries in the energy generation and energy distribution and transmission businesses. Prior to March 23, 2016, Exelon s principal, wholly owned subsidiaries included Generation, ComEd, PECO and BGE. On March 23, 2016, in conjunction with the Amended and Restated Agreement and Plan of Merger (the PHI Merger Agreement), Purple Acquisition Corp, a wholly owned subsidiary of Exelon, merged with and into PHI, with PHI continuing as the surviving entity as a wholly owned subsidiary of Exelon. PHI is a utility services holding company engaged through its principal wholly owned subsidiaries, Pepco, DPL and ACE, in the energy distribution and transmission businesses. Refer to Note 4 Mergers, Acquisitions and Dispositions for further information regarding the merger transaction.

The energy generation business includes:

Generation: Generation, physical delivery and marketing of power across multiple geographical regions through its customer-facing business, Constellation, which sells electricity and natural gas to both wholesale and retail customers. Generation also sells renewable energy and other energy-related products and services. Generation has six reportable segments consisting of the Mid-Atlantic, Midwest, New England, New York, ERCOT and Other Power Regions.

The energy delivery businesses include:

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

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

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

Table of Contents

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Pepco: Purchase and regulated retail sale of electricity and the provision of electric distribution and transmission services in the District of Columbia and major portions of Prince George s County and Montgomery County in Maryland.

DPL: Purchase and regulated retail sale of electricity and the provision of electric distribution and transmission services in portions of Maryland and Delaware, and the purchase and regulated retail sale of natural gas and the provision of natural gas distribution services in northern Delaware.

ACE: Purchase and regulated retail sale of electricity and the provision of electric distribution and transmission services in southern New Jersey.

Basis of Presentation (All Registrants)

As a result of the acquisition of PHI, Exelon s financial reporting reflects PHI s consolidated financial results subsequent to the March 23, 2016, acquisition date. Exelon has accounted for the merger transaction applying the acquisition method of accounting, which requires the assets acquired and liabilities assumed by Exelon to be reported in Exelon s financial statements at fair value, with any excess of the purchase price over the fair value of net assets acquired reported as goodwill. Exelon has pushed-down the application of the acquisition method of accounting to the consolidated financial statements of PHI such that the assets and liabilities of PHI are similarly recorded at their respective fair values, and goodwill has been established as of the acquisition date. Accordingly, the consolidated financial statements of PHI for periods before and after the March 23, 2016, acquisition date reflect different bases of accounting, and the financial positions and the results of operations of the predecessor and successor periods are not comparable. The acquisition method of accounting has not been pushed down to PHI s wholly-owned subsidiary utility registrants, Pepco, DPL and ACE.

For financial statement purposes, beginning on March 24, 2016, disclosures that had solely related to PHI, Pepco, DPL or ACE activities now also apply to Exelon, unless otherwise noted.

In the second quarter of 2016, an error was identified and corrected related to the PHI successor period Consolidated Statement of Cash Flows for the period March 24, 2016 to March 31, 2016. The $46 million classification error related to the presentation of changes in Receivables from and payables to affiliates, net within Cash flows from operating activities and Change in Exelon intercompany money pool within Cash flows from financing activities. As revised for the first quarter of 2017, the successor period statement of cash flows for the period March 24, 2016 to March 31, 2016 presents Cash flows used in operating activities of $3 million, a decrease of $46 million from the originally reported amount, and Cash flows used in financing activities of $135 million, a decrease of $46 million from the originally reported amount. Management has concluded that the error is not material to the previously issued financial statements.

Each of the Registrant s Consolidated Financial Statements includes the accounts of its subsidiaries. All intercompany transactions have been eliminated.

The accompanying consolidated financial statements as of March 31, 2017 and 2016 and for the three months then ended are unaudited but, in the opinion of the management of each Registrant include all adjustments that are considered necessary for a fair statement of the Registrants respective financial statements in accordance with GAAP. All adjustments are of a normal, recurring nature, except as otherwise disclosed. The December 31, 2016 Consolidated Balance Sheets were derived from audited financial statements. Financial results for interim periods are not necessarily indicative of results that may be expected for any other interim period or for the fiscal year ending December 31, 2017. These Combined Notes to Consolidated Financial Statements have been prepared pursuant to the rules and regulations of the SEC for Quarterly Reports on Form 10-Q. Certain information and note disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations.

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

2. New Accounting Standards (All Registrants)

New Accounting Standards Issued and Not Yet Adopted: The following new authoritative accounting guidance issued by the FASB has not yet been adopted and reflected by the Registrants in their consolidated financial statements. Unless otherwise indicated, the Registrants are currently assessing the impacts such guidance may have (which could be material) on their Consolidated Balance Sheets, Consolidated Statements of Operations and Comprehensive Income, Consolidated Statements of Cash Flows and disclosures, as well as the potential to early adopt where applicable. The Registrants have assessed other FASB issuances of new standards which are not listed below given the current expectation such standards will not significantly impact the Registrants financial reporting.

Revenue from Contracts with Customers (Issued May 2014 and subsequently amended to address implementation questions): Changes the criteria for recognizing revenue from a contract with a customer. The new revenue recognition guidance, including subsequent amendments, is effective for annual reporting periods beginning on or after December 15, 2017, with the option to early adopt the standard for annual periods beginning on or after December 15, 2016. The Registrants do not plan to early adopt the standard.

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

The Registrants continue to assess the impacts this guidance may have on their Consolidated Balance Sheets, Consolidated Statements of Operations and Comprehensive Income, Consolidated Statements of Cash Flows and disclosures. In performing this assessment, the Registrants have utilized a project implementation team comprised of both internal and external resources to conduct the following key activities:

- Actively participate in the AICPA Power and Utilities Industry Task Force (Industry Task Force) process to identify implementation issues and support the development of related implementation guidance;
- Evaluate existing contracts and revenue streams for potential changes in the amounts and timing of recognizing revenues under the new guidance;
- Evaluate and select the transition method; and
- Develop and implement the approach and process for complying with the new revenue recognition disclosure requirements.

While there continues to be some ongoing activities in all of these areas, the Registrants have substantially completed the evaluation of their collective contracts and revenue streams, as well as the evaluation of the

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

transition method. Based on the work completed thus far, the Registrants have reached the following preliminary conclusions:

- The Registrants expect to apply the new guidance using the full retrospective method, however this conclusion could change based on the outcome of open implementation issues discussed below;

- The Registrants currently anticipate that the implementation of the new guidance will not have a material impact on the amount and timing of revenue recognition; and

- The new guidance will result in more detailed disclosures of revenue compared to current guidance.

Notwithstanding the preliminary conclusions noted above, certain implementation issues continue to be debated and worked through the Industry Task Force process that could result in amendments to the standard or implementation guidance that could have a material impact on the Registrants Consolidated Balance Sheets, Consolidated Statements of Operations and Comprehensive Income, Consolidated Statements of Cash Flows and disclosures. The contributions in aid of construction (CIAC) implementation issue previously disclosed has been resolved, subject to the completion of the public comment period, with the conclusion that CIAC is outside of the scope of ASC 606 and, therefore, the accounting by the Utility Registrants for CIAC will not change as a result of ASC 606. The open implementation issues that could be most impactful to the Registrants include: (1) the ability of the Utility Registrants to recognize revenue for certain contracts where collectability is in question and (2) primarily at Generation, bundled sales contracts and contracts with pricing provisions that may require recognition of revenue at prices other than the contract price (e.g., straight line or estimated future market prices). As part of the overall implementation project, the Registrants have developed alternative adoption plans that would be implemented in the event the ultimate resolution of the open implementation issues result in significant changes from current revenue recognition practices.

Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost (Issued March 2017): The new standard will require significant changes to the accounting and presentation of pension and OPEB costs at the plan sponsor (i.e., Exelon) level. This guidance requires plan sponsors to separate net periodic pension cost and net periodic OPEB cost (together, net benefit cost) into the service cost component and other components; service cost will be presented as part of income from operations and the other components will be classified outside of income from operations on the Consolidated Statements of Operations and Comprehensive Income. Additionally, service cost is the only component eligible for capitalization (whereas under current GAAP, all components of net benefit cost are classified as compensation cost and are eligible for capitalization).

Exelon is currently evaluating the impact of this standard, including coordinating with its industry group and advisors. Generation, ComEd, PECO, BGE, BSC, PHI, Pepco, DPL, ACE and PHISCO participate in Exelon s single employer plan and apply multi-employer accounting. Exelon is currently evaluating how the new standard will impact accounting and financial reporting for these registrants.

The standard will be effective January 1, 2018 and requires retrospective adoption for the presentation of the service cost component and the other components of net benefit cost and prospective adoption for the capitalization of only the service cost component of net benefit cost. Exelon will not early adopt this standard.

Leases (Issued February 2016): Increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The guidance requires lessees to recognize both the right-of-use assets and lease liabilities in the balance sheet for most leases, whereas today only financing type lease liabilities (capital leases) are recognized in the balance sheet. This is expected to require significant changes to systems, processes and procedures in order to

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

recognize and measure leases recorded on the balance sheet that are currently classified as operating leases. In addition, the definition of a lease has been revised in regards to when an arrangement conveys the right to control the use of the identified asset under the arrangement which may result in changes to the classification of an arrangement as a lease. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from current GAAP. The accounting applied by a lessor is largely unchanged from that applied under current GAAP. The standard is effective for fiscal years beginning after December 15, 2018. Early adoption is permitted, however the Registrants do not expect to early adopt the standard. Lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. Refer to Note 24 Commitments and Contingencies of the Combined Notes to the Consolidated Financial Statements in the Exelon 2016 Form 10-K for additional information regarding operating leases.

Impairment of Financial Instruments (Issued June 2016): Provides for a new Current Expected Credit Loss (CECL) impairment model for specified financial instruments including loans, trade receivables, debt securities classified as held-to-maturity investments and net investments in leases recognized by a lessor. Under the new guidance, on initial recognition and at each reporting period, an entity is required to recognize an allowance that reflects the entity s current estimate of credit losses expected to be incurred over the life of the financial instrument. The standard does not make changes to the existing impairment models for non-financial assets such as fixed assets, intangibles and goodwill. The standard will be effective January 1, 2020 and, for most debt instruments, requires a modified retrospective transition approach through a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption.

Goodwill Impairment (issued January 2017): Simplifies the accounting for goodwill impairment by removing Step 2 of the current test, which requires calculation of a hypothetical purchase price allocation. Under the revised guidance, goodwill impairment will be measured as the amount by which a reporting unit s carrying value exceeds its fair value, not to exceed the carrying amount of goodwill (currently Step 1 of the two step impairment test). Entities will continue to have the option to perform a qualitative assessment to determine if a quantitative impairment test is necessary. Exelon, Generation, ComEd, PHI, and DPL have goodwill as of March 31, 2017. This updated guidance is not currently expected to impact the Registrants financial reporting. The standard is effective January 1, 2020, with early adoption permitted, and must be adopted on a prospective basis.

Clarifying the Definition of a Business (issued January 2017): Clarifies the definition of a business with the objective of addressing whether acquisitions should be accounted for as acquisitions of assets or as acquisitions of businesses. If substantially all the fair value of the assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets, the set of transferred assets and activities is not a business. If the fair value of the assets acquired is not concentrated in a single identifiable asset or a group of similar identifiable assets, then an entity must evaluate whether an input and a substantive process exist, which together significantly contribute to the ability to produce outputs. The standard also revises the definition of outputs to focus on goods and services to customers. The standard could result in more acquisitions being accounted for as asset acquisitions. The standard will be effective January 1, 2018 and will be applied prospectively.

Intra-Entity Transfers of Assets Other Than Inventory (Issued October 2016): Requires entities to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs (compared to current GAAP which prohibits the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party). The standard is effective for fiscal years beginning after December 15, 2017 with early adoption permitted. The guidance is required to be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption.

Table of Contents

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments (Issued August 2016) and Restricted Cash (Issued November 2016): In 2016, the FASB issued two standards impacting the Statement of Cash Flows. The first adds or clarifies guidance on the classification of certain cash receipts and payments on the statement of cash flows as follows: debt prepayment or extinguishment costs, settlement of zero-coupon bonds, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies and bank-owned life insurance policies, distributions received from equity method investees, beneficial interest in securitization transactions, and the application of the predominance principle to separately identifiable cash flows. The second states that amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows (instead of being presented as cash flow activities). Exelon will adopt both standards on January 1, 2018 on a retrospective basis. Adoption of the second standard will result in a change in presentation of restricted cash on the face of the Statement of Cash Flows; otherwise the Registrants expect that adoption of the guidance will have insignificant impacts on the Registrants Consolidated Statements of Cash Flows and disclosures.

Recognition and Measurement of Financial Assets and Financial Liabilities (Issued January 2016): (i) Requires all investments in equity securities, including other ownership interests such as partnerships, unincorporated joint ventures and limited liability companies, to be carried at fair value through net income, (ii) requires an incremental recognition and disclosure requirement related to the presentation of fair value changes of financial liabilities for which the fair value option has been elected, (iii) amends several disclosure requirements, including the methods and significant assumptions used to estimate fair value or a description of the changes in the methods and assumptions used to estimate fair value, and (iv) requires disclosure of the fair value of financial assets and liabilities measured at amortized cost at the amount that would be received to sell the asset or paid to transfer the liability. The standard is effective for fiscal years beginning after December 15, 2017 with early adoption permitted. The guidance is required to be applied retrospectively with a cumulative effect adjustment to retained earnings for initial application of the guidance at the date of adoption (modified retrospective method).

3. Variable Interest Entities (All Registrants)

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

At March 31, 2017 and December 31, 2016, Exelon, Generation, BGE, PHI and ACE collectively consolidated nine VIEs or VIE groups, for which the applicable Registrant was the primary beneficiary (*see Consolidated Variable Interest Entities below*). As of March 31, 2017 and December 31, 2016, Exelon and Generation collectively had significant interests in seven and eight, respectively, other VIEs for which the applicable Registrant does not have the power to direct the entities activities and, accordingly, was not the primary beneficiary (*see Unconsolidated Variable Interest Entities below*).

Consolidated Variable Interest Entities

Exelon s, Generation s, BGE s, PHI s and ACE s consolidated VIEs consist of:

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

Table of Contents

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

- a group of solar project limited liability companies formed by Generation to build, own and operate solar power facilities,
- several wind project companies designed by Generation to develop, construct and operate wind generation facilities,
- a group of companies formed by Generation to build, own and operate other generating facilities,
- certain retail power and gas companies for which Generation is the sole supplier of energy,
- CENG,
- 2015 ESA Investco, LLC, a company that holds an equity method investment in a distributed energy company,
- BondCo, a special purpose bankruptcy remote limited liability company formed by BGE to acquire, hold, issue and service bonds secured by rate stabilization property, and
- ATF, a special purpose entity formed by ACE for the purpose of securitizing authorized portions of ACE s recoverable stranded costs through the issuance and sale of transition bonds.

As of March 31, 2017 and December 31, 2016, ComEd, PECO, Pepco and DPL did not have any material consolidated VIEs.

As of March 31, 2017 and December 31, 2016, Exelon, Generation, BGE, PHI and ACE provided the following support to their respective consolidated VIEs:

- Generation provides operating and capital funding to the solar and wind entities for ongoing construction, operations and maintenance of the solar and wind power facilities and there is limited recourse to Generation related to certain solar and wind entities.
- Generation provides approximately $27 million in credit support for the retail power and gas companies for which Generation is the sole supplier of energy.
- Generation provides a $75 million parental guarantee to a third-party gas supplier and provides limited recourse to other third-party gas suppliers and customers in support of its retail gas group.
- Generation provides operating and capital funding to the other generating facilities for ongoing construction, operations and maintenance and provides a parental guarantee of up to $275 million in support of the payment obligations related to the

Engineering, Procurement and Construction contract in support of one of its other generating facilities.

Generation and Exelon, where indicated, provide the following support to CENG (see Note 5 Investment in Constellation Energy Nuclear Group, LLC and Note 27 Related Party Transactions of the Exelon 2016 Form 10-K for additional information regarding Generation s and Exelon s transactions with CENG):

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

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

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

under power purchase agreements with CENG, Generation purchased or will purchase 50.01% of the available output generated by the CENG nuclear plants not subject to other contractual agreements from January 2015 through the end of the operating life of each respective plant. However, pursuant to amendments dated March 31, 2015, the energy obligations under the Ginna Nuclear Power Plant (Ginna) PPAs have been suspended during the term of the Reliability Support Services Agreement (RSSA) (see Note 5 Regulatory Matters for additional details),

Generation provided a $400 million loan to CENG. As of March 31, 2017, the remaining obligation is $320 million, including accrued interest, which reflects the principal payment made in January 2015,

Generation executed an Indemnity Agreement pursuant to which Generation agreed to indemnify EDF against third-party claims that may arise from any future nuclear incident (as defined in the Price-Anderson Act) in connection with the CENG nuclear plants or their operations. Exelon guarantees Generation s obligations under this Indemnity Agreement. (See Note 17 Commitments and Contingencies for more details),

Generation and EDF share in the $637 million of contingent payment obligations for the payment of contingent retrospective premium adjustments for the nuclear liability insurance,

Generation provides a guarantee of approximately $8 million associated with hazardous waste management facilities and underground storage tanks. In addition, EDF executed a reimbursement agreement that provides reimbursement to Exelon for 49.99% of any amounts paid by Generation under this guarantee,

Generation and EDF are the members-insured with Nuclear Electric Insurance Limited and have assigned the loss benefits under the insurance and the NEIL premium costs to CENG and guarantee the obligations of CENG under these insurance programs in proportion to their respective member interests (see Note 17 Commitments and Contingencies for more details), and

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

In the case of BondCo, BGE is required to remit all payments it receives from all residential customers through non-bypassable, rate stabilization charges to BondCo. During the three months ended March 31, 2017 and 2016, BGE remitted $19 million and $20 million to BondCo, respectively.

In the case of ATF, proceeds from the sale of each series of transition bonds by ATF were transferred to ACE in exchange for the transfer by ACE to ATF of the right to collect a non-bypassable Transition Bond Charge from ACE customers pursuant to bondable stranded costs rate orders issued by the NJBPU in an amount sufficient to fund the principal and interest payments on transition bonds and related taxes, expenses and fees. During the three months ended March 31, 2017 and 2016, ACE transferred $19 million and $14 million to ATF, respectively.

For each of the consolidated VIEs, except as otherwise noted:

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

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

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

Table of Contents

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

the creditors of the VIEs did not have recourse to Exelon s, Generation s, BGE s, PHI s or ACE s general credit.
The carrying amounts and classification of the consolidated VIEs assets and liabilities included in the Registrants consolidated financial statements at March 31, 2017 and December 31, 2016 are as follows:

	March 31, 2017					December 31, 2016				
	Exelon[(a)]	Generation	BGE	*Successor* PHI[(a)]	ACE	Exelon[(a)(b)]	Generation	BGE	*Successor* PHI[(a)]	ACE
Current assets	$ 1,018	$ 965	$ 42	$ 11	$ 7	$ 954	$ 916	$ 23	$ 14	$ 9
Noncurrent assets	8,891	8,855	3	33	23	8,563	8,525	3	35	23
Total assets	$ 9,909	$ 9,820	$ 45	$ 44	$ 30	$ 9,517	$ 9,441	$ 26	$ 49	$ 32
Current liabilities	$ 871	$ 791	$ 42	38	$ 34	$ 885	$ 802	$ 42	$ 42	$ 37
Noncurrent liabilities	2,745	2,654		91	81	2,713	2,612		101	89
Total liabilities	$ 3,616	$ 3,445	$ 42	$ 129	$ 115	$ 3,598	$ 3,414	$ 42	$ 143	$ 126

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

Table of Contents

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Assets and Liabilities of Consolidated VIEs

Included within the balances above are assets and liabilities of certain consolidated VIEs for which the assets can only be used to settle obligations of those VIEs, and liabilities that creditors, or beneficiaries, do not have recourse to the general credit of the Registrants. As of March 31, 2017 and December 31, 2016, these assets and liabilities primarily consisted of the following:

	March 31, 2017					December 31, 2016				
	Exelon[(a)]	Generation	BGE	*Successor* PHI [(a)]	ACE	Exelon[(a)(b)]	Generation	BGE	*Successor* PHI [(a)]	ACE
Cash and cash equivalents	$ 199	$ 199	$	$	$	$ 150	$ 150	$	$	$
Restricted cash	124	75	42	7	7	59	27	23	9	9
Accounts receivable, net										
Customer	347	347				371	371			
Other	23	23				48	48			
Mark-to-market derivatives assets	41	41				31	31			
Inventory										
Materials and supplies	191	191				199	199			
Other current assets	58	54		4		50	44		5	
Total current assets	983	930	42	11	7	908	870	23	14	9
Property, plant and equipment, net	5,425	5,425				5,415	5,415			
Nuclear decommissioning trust funds	2,286	2,286				2,185	2,185			
Goodwill	47	47				47	47			
Mark-to-market derivatives assets	57	57				23	23			
Other noncurrent assets	350	314	3	33	23	315	277	3	35	23
Total noncurrent assets	8,165	8,129	3	33	23	7,985	7,947	3	35	23
Total assets	$ 9,148	$ 9,059	$ 45	$ 44	$ 30	$ 8,893	$ 8,817	$ 26	$ 49	$ 32
Long-term debt due within one year	$ 237	$ 159	$ 41	$ 37	$ 33	$ 181	$ 99	$ 41	$ 40	$ 35
Accounts payable	275	275				269	269			
Accrued expenses	85	83	1	1	1	119	116	1	2	2
Mark-to-market derivative liabilities	18	18				60	60			
Unamortized energy contract liabilities	16	16				15	15			
Other current liabilities	11	11				30	30			
Total current liabilities	642	562	42	38	34	674	589	42	42	37
Long-term debt	626	535		91	81	641	540		101	89
Asset retirement obligations	1,929	1,929				1,904	1,904			
Pension obligation[(c)]	8	8				9	9			
Unamortized energy contract liabilities	18	18				22	22			
Other noncurrent liabilities	122	122				106	106			
Total noncurrent liabilities	2,703	2,612		91	81	2,682	2,581		101	89

Total liabilities	$ 3,345	$ 3,174	$ 42	$ 129	$ 115	$ 3,356	$ 3,170	$ 42	$ 143	$ 126

(a) Includes certain purchase accounting adjustments not pushed down to the ACE standalone entity.
(b) Includes certain purchase accounting adjustments not pushed down to the BGE standalone entity.
(c) Includes the CNEG retail gas pension obligation, which is presented as a net asset balance within the Prepaid pension asset line item on Generation s Consolidated Balance Sheets. See Note 13 Retirement Benefits for additional details.

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Unconsolidated Variable Interest Entities

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

The Registrants unconsolidated VIEs consist of:

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

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

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

As of March 31, 2017 and December 31, 2016, Exelon and Generation had significant unconsolidated variable interests in seven and eight VIEs, respectively for which Exelon or Generation, as applicable, was not the primary beneficiary; including certain equity investments and certain commercial agreements. The decrease in the number of unconsolidated VIEs is due to the sale of an equity investment in an energy generating facility. Exelon and Generation only include unconsolidated VIEs that are individually material in the tables below. However, Generation has several individually immaterial VIEs that in aggregate represent a total investment of $16 million. These immaterial VIEs are equity and debt securities in energy development companies. The maximum exposure to loss related to these securities is limited to the $16 million included in Investments on Exelon s and Generation s Consolidated Balance Sheets. The risk of a loss was assessed to be remote and, accordingly, Exelon and Generation have not recognized a liability associated with any portion of the maximum exposure to loss.

In June 2015, 2015 ESA Investco, LLC, then a wholly owned subsidiary of Generation, entered into an arrangement to purchase a 90% equity interest and 99% of the tax attributes of a distributed energy company, which is an unconsolidated VIE. In November 2015, Generation sold 69% of its equity interest in 2015 ESA Investco, LLC to a tax equity investor. Generation and the tax equity investor contributed a total of $227 million of equity incrementally from inception through the first quarter of 2017 in proportion of their ownership interests. Generation and the tax equity investor provided a parental guarantee of up to $275 million in proportion to their ownership interests in support of 2015 ESA Investco, LLC s obligation to make equity contributions to the distributed energy company. As all equity contributions were made as of March 31, 2017, there is no further payment obligation under the parental guarantee.

Table of Contents

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

March 31, 2017	Commercial Agreement VIEs	Equity Investment VIEs	Total
Total assets[a]	$ 647	$ 541	$ 1,188
Total liabilities[a]	73	230	303
Exelon s ownership interest in VIE[a]		276	276
Other ownership interests in VIE[a]	574	36	610
Registrants maximum exposure to loss:			
Carrying amount of equity method investments		279	279
Contract intangible asset	9		9
Debt and payment guarantees			
Net assets pledged for Zion Station decommissioning[b]	7		7

December 31, 2016	Commercial Agreement VIEs	Equity Investment VIEs	Total
Total assets[a]	$ 638	$ 567	$ 1,205
Total liabilities[a]	215	287	502
Exelon s ownership interest in VIE[a]		248	248
Other ownership interests in VIE[a]	423	32	455
Registrants maximum exposure to loss:			
Carrying amount of equity method investments		264	264
Contract intangible asset	9		9
Debt and payment guarantees		3	3
Net assets pledged for Zion Station decommissioning[b]	9		9

(a) These items represent amounts on the unconsolidated VIE balance sheets, not on Exelon s or Generation s Consolidated Balance Sheets. These items are included to provide information regarding the relative size of the unconsolidated VIEs.

(b) These items represent amounts on Exelon s and Generation s Consolidated Balance Sheets related to the asset sale agreement with ZionSolutions, LLC. The net assets pledged for Zion Station decommissioning includes gross pledged assets of $95 million and $113 million as of March 31, 2017 and December 31, 2016, respectively; offset by payables to ZionSolutions LLC of $88 million and $104 million as of March 31, 2017 and December 31, 2016, respectively. These items are included to provide information regarding the relative size of the ZionSolutions LLC unconsolidated VIE.

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

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

Acquisition of James A. FitzPatrick Nuclear Generating Station (Exelon and Generation)

On March 31, 2017, Generation acquired the 838 MW single-unit James A. FitzPatrick (FitzPatrick) nuclear generating station located in Scriba, New York from Entergy Nuclear FitzPatrick LLC (Entergy) for a total purchase price of $293 million, which consisted of a cash purchase price of $110 million and a net cost reimbursement to and on behalf of Entergy of $183 million. As part of the acquisition agreements, Generation provided nuclear fuel and reimbursed Entergy for incremental costs to prepare for and conduct a plant refueling outage; and Generation reimbursed Entergy for incremental costs to operate and maintain the plant for the period

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

after the refueling outage through the acquisition closing date. These reimbursements covered costs that Entergy otherwise would have avoided had it shut down the plant as originally intended in January 2017. The amounts reimbursed by Generation were offset by FitzPatrick s electricity and capacity sales revenues for this same post-outage period. As part of the transaction, Generation received the FitzPatrick NDT fund assets and assumed the obligation to decommission FitzPatrick. The NRC license for FitzPatrick expires in 2034. As of March 31, 2017, Generation had remitted purchase price consideration of $302 million (including $248 million of cash and $54 million of nuclear fuel) to and on behalf of Entergy and has $9 million included in Accounts receivable, net Other on Exelon s and Generation s Consolidated Balance Sheets, to be received during the second quarter of 2017.

The following table summarizes the acquisition-date fair value of the consideration transferred and the assets and liabilities assumed for the FitzPatrick acquisition by Generation as of March 31, 2017:

Cash paid for purchase price	$ 110
Cash paid for net cost reimbursement	129
Nuclear fuel transfer	54
Total consideration transferred	$ 293
Identifiable assets acquired and liabilities assumed	
Current assets	$ 58
Property, plant and equipment	278
Nuclear decommissioning trust funds	807
Other assets[(a)]	114
Total assets	$ 1,257
Current liabilities	$ 7
Asset retirement obligations	417
Pension and OPEB obligations	49
Deferred income taxes	144
Spent nuclear fuel obligation	110
Other liabilities	11
Total liabilities	$ 738
Total net identifiable assets, at fair value	$ 519
Bargain purchase gain (after-tax)	$ 226

(a) Includes a $110 million asset associated with a contractual right to reimbursement from the New York Power Authority (NYPA), a prior owner of FitzPatrick, associated with the DOE one-time fee obligation. See Note 24-Commitments and Contingencies of the Exelon 2016 Form 10-K for additional background regarding SNF obligations to the DOE.

The after-tax bargain purchase gain of $226 million is included within Exelon s and Generation s Consolidated Statements of Operations and Comprehensive Income and reflects differences in strategies between Generation and Entergy for the intended use and ultimate decommissioning of the plant.

The fair values of FitzPatrick s assets and liabilities were determined based on significant estimates and assumptions that are judgmental in nature, including projected future cash flows (including timing), discount rates reflecting risk inherent in the future cash flows and future power and fuel market prices. The valuations performed to assess the fair value of certain assets acquired and liabilities assumed are preliminary. Accounting guidance provides that the allocation of the purchase price may be modified up to one year from the date of the acquisition to the extent that additional information is obtained about the facts and circumstances that existed as of the acquisition date; however, Generation expects to finalize these amounts by the end of 2017. The significant assets and liabilities for which preliminary valuation amounts are recognized at March 31, 2017 include the fair value of the decommissioning ARO, pension and OPEB obligations and related deferred tax liabilities. Any changes to the fair value assessments may materially impact the purchase price allocation and the amount of the recorded bargain purchase gain.

For the three months ended March 31, 2017, Exelon and Generation incurred $32 million of merger and integration related costs which are included within Operating and maintenance expense in Exelon s and Generation s Consolidated Statements of Operations and Comprehensive Income.

Merger with Pepco Holdings, Inc. (Exelon)

Description of Transaction

On March 23, 2016, Exelon completed the merger contemplated by the Merger Agreement among Exelon, Purple Acquisition Corp., a wholly owned subsidiary of Exelon (Merger Sub) and Pepco Holdings, Inc. (PHI). As a result of that merger, Merger Sub was merged into PHI (the PHI Merger) with PHI surviving as a wholly owned subsidiary of Exelon and Exelon Energy Delivery Company, LLC (EEDC), a wholly owned subsidiary of Exelon which also owns Exelon s interests in ComEd, PECO and BGE (through a special purpose subsidiary in the case of BGE). Following the completion of the PHI Merger, Exelon and PHI completed a series of internal corporate organization restructuring transactions resulting in the transfer of PHI s unregulated business interests to Exelon and Generation and the transfer of PHI, Pepco, DPL and ACE to a special purpose subsidiary of EEDC.

Regulatory Matters

Approval of the merger in Delaware, New Jersey, Maryland and the District of Columbia was conditioned upon Exelon and PHI agreeing to certain commitments including where applicable: customer rate credits, funding for energy efficiency and delivery system modernization programs, a green sustainability fund, workforce development initiatives, charitable contributions, renewable generation and other required commitments. In addition, the orders approving the merger in Delaware, New Jersey, and Maryland include a most favored nation provision which, generally speaking, requires allocation of merger benefits proportionally across all the jurisdictions.

During the third and fourth quarters of 2016, Exelon and PHI filed proposals in Delaware, New Jersey and Maryland for amounts and allocations reflecting the application of the most favored nation provision, resulting in a total nominal cost of commitments of $513 million, excluding renewable generation commitments (approximately $444 million on a net present value basis amount, excluding renewable generation commitments and charitable contributions). These filings reflect agreements reached with certain parties to the merger proceedings in these jurisdictions. In 2016, the DPSC and NJBPU approved the amounts and allocations of the additional merger benefits for Delaware and New Jersey, respectively. On April 12, 2017, the MDPSC issued an order approving the amounts of the additional merger benefits for Maryland, but amending the proposed allocations of the benefits. The amended allocations do not have a material effect on any of the Registrants financial statements. No changes in commitment cost levels are required in the District of Columbia.

Table of Contents

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

The following amounts represent total commitment costs for Exelon, PHI, Pepco, DPL and ACE that have been recorded since the acquisition date:

Description	Expected Payment Period	Pepco	DPL	ACE	*Successor* PHI	Exelon
Rate credits	2016 2017	$ 91	$ 66	$ 101	$ 258	$ 258
Energy efficiency	2016 2021					122
Charitable contributions	2016 2026	28	12	10	50	50
Delivery system modernization	Q2 2016					22
Green sustainability fund	Q2 2016					14
Workforce development	2016 2020					17
Other		7	7		14	30
Total		$ 126	$ 85	$ 111	$ 322	$ 513

Pursuant to the orders approving the merger, Exelon made $73 million, $46 million and $49 million of equity contributions to Pepco, DPL and ACE, respectively, in the second quarter of 2016 to fund the after-tax amounts of the customer bill credit and the customer base rate credit commitments.

In addition, Exelon is committed to develop or to assist in the commercial development of approximately 37 MWs of new generation in Maryland, District of Columbia, and Delaware, 27 MWs of which are expected to be completed by 2018. These investments are expected to total approximately $137 million, are expected to be primarily capital in nature, and will generate future earnings at Exelon and Generation. Investment costs will be recognized as incurred and recorded on Exelon s and Generation s financial statements. Exelon has also committed to purchase 100 MWs of wind energy in PJM, to procure 120 MWs of wind RECs for the purpose of meeting Delaware s renewable portfolio standards, and to maintain and promote energy efficiency and demand response programs in the PHI jurisdictions.

Pursuant to the various jurisdictions merger approval conditions, over specified periods Pepco, DPL and ACE are not permitted to reduce employment levels due to involuntary attrition associated with the merger integration process and have made other commitments regarding hiring and relocation of positions.

In July 2015, the OPC, Public Citizen, Inc., the Sierra Club and the Chesapeake Climate Action Network (CCAN) filed motions to stay the MDPSC order approving the merger. The Circuit Court judge issued an order denying the motions for stay on August 12, 2015. On January 8, 2016, the Circuit Court judge affirmed the MDPSC s order approving the merger and denied the petitions for judicial review filed by the OPC, the Sierra Club, CCAN and Public Citizen, Inc. On January 19, 2016, the OPC filed a notice of appeal to the Maryland Court of Special Appeals, and on January 21, the Sierra Club and CCAN filed a notice of appeal. On January 27, 2017, the Maryland Court of Special Appeals affirmed the Circuit Court s judgment. The OPC and Sierra Club have each filed petitions seeking further review in the Court of Appeals of Maryland. Exelon, along with Prince George s County and Montgomery County have filed answers opposing those petitions, which Exelon believes are without merit.

Between March 25, 2016 and April 22, 2016, various parties filed motions with the DCPSC to reconsider its March 23, 2016 order approving the merger. On June 17, 2016, the DCPSC denied all motions. In August 2016, the District of Columbia Office of People s Counsel, the District of Columbia Government, and Public Citizen jointly with DC Sun each filed petitions for judicial review of the DCPSC s March 23, 2016 order with the District of Columbia Court of Appeals. On September 9, 2016, the Court consolidated the appeals. The parties have filed briefs and the Court scheduled oral argument for May 2. A decision on this matter is expected in the second or third quarter of 2017. Exelon believes the matters are without merit.

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Accounting for the Merger Transaction

The total purchase price consideration of approximately $7.1 billion for the PHI Merger consisted of cash paid to PHI shareholders, cash paid for PHI preferred securities and cash paid for PHI stock-based compensation equity awards as follows:

(In millions of dollars, except per share data)	Total Consideration
Cash paid to PHI shareholders at $27.25 per share (254 million shares outstanding at March 23, 2016)	$ 6,933
Cash paid for PHI preferred stock[(a)]	180
Cash paid for PHI stock-based compensation equity awards[(b)]	29
Total purchase price	$ 7,142

(a) As of December 31, 2015, the preferred stock was included in Other non-current assets on Exelon s Consolidated Balance Sheets.
(b) PHI s unvested time-based restricted stock units and performance-based restricted stock units issued prior to April 29, 2014 were immediately vested and paid in cash upon the close of the merger. PHI s remaining unvested time-based restricted stock units as of the close of the merger were cancelled. There were no remaining unvested performance-based restricted stock units as of the close of the merger.

PHI shareholders received $27.25 of cash in exchange for each share of PHI common stock outstanding as of the effective date of the merger. In connection with the Merger Agreement, Exelon entered into a Subscription Agreement under which it purchased $180 million of a new class of nonvoting, nonconvertible and nontransferable preferred securities of PHI prior to December 31, 2015. On March 23, 2016, the preferred securities were cancelled for no consideration to Exelon, and accordingly, the $180 million cash consideration previously paid to acquire the preferred securities was treated as purchase price consideration.

The preliminary valuations performed in the first quarter of 2016 were updated in the second, third, and fourth quarters of 2016. There were no adjustments to the purchase price allocation in the first quarter of 2017 and the purchase price allocation is now final.

Table of Contents

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Exelon applied push-down accounting to PHI, and accordingly, the PHI assets acquired and liabilities assumed were recorded at their estimated fair values on Exelon s and PHI s Consolidated Balance Sheets as of March 23, 2016, as follows:

Purchase Price Allocation[(a)]	
Current assets	$ 1,441
Property, plant and equipment	11,088
Regulatory assets	5,015
Other assets	248
Goodwill	4,005
Total assets	$ 21,797
Current liabilities	$ 2,752
Unamortized energy contracts	1,515
Regulatory liabilities	297
Long-term debt, including current maturities	5,636
Deferred income taxes	3,447
Pension and OPEB obligations	821
Other liabilities	187
Total liabilities	$ 14,655
Total purchase price	$ 7,142

(a) Amounts shown reflect the final purchase price allocation and the correction of a reporting error identified and corrected in the second quarter of 2016. The error had resulted in a gross up of certain assets and liabilities related to legacy PHI intercompany and income tax receivable and payable balances.

On its successor financial statements, PHI has recorded, beginning March 24, 2016, Membership interest equity of $7.2 billion, which is greater than the total $7.1 billion purchase price, reflecting the impact of a $59 million deferred tax liability recorded only at Exelon Corporate to reflect unitary state income tax consequences of the merger.

The excess of the purchase price over the estimated fair value of the assets acquired and the liabilities assumed totaled $4.0 billion, which was recognized as goodwill by PHI and Exelon at the acquisition date, reflecting the value associated with enhancing Exelon s regulated utility portfolio of businesses, including the ability to leverage experience and best practices across the utilities and the opportunities for synergies. For purposes of future required impairment assessments, the goodwill has been preliminarily assigned to PHI s reportable units Pepco, DPL and ACE in the amounts of $1.7 billion, $1.1 billion and $1.2 billion, respectively. None of this goodwill is expected to be tax deductible.

Immediately following closing of the merger, $235 million of net assets included in the table above associated with PHI s unregulated business interests were distributed by PHI to Exelon. Exelon contributed $163 million of such net assets to Generation.

The fair values of PHI s assets and liabilities were determined based on significant estimates and assumptions that are judgmental in nature, including projected future cash flows (including timing), discount rates reflecting risk inherent in the future cash flows, future market prices and impacts of utility rate regulation. There were also judgments made to determine the expected useful lives assigned to each class of assets acquired.

Through its wholly-owned rate regulated utility subsidiaries, most of PHI s assets and liabilities are subject to cost-of-service rate regulation. Under such regulation, rates charged to customers are established by a regulator to provide for recovery of costs and a fair return on invested capital, or rate base, generally measured at historical cost. In applying the acquisition method of accounting, for regulated assets and liabilities included in rate base or otherwise earning a return (primarily property, plant and equipment and regulatory assets earning a return), no fair value adjustments were recorded as historical cost is viewed as a reasonable proxy for fair value.

Fair value adjustments were applied to the historical cost bases of other assets and liabilities subject to rate regulation but not earning a return (including debt instruments and pension and OPEB obligations). In these instances, a corresponding offsetting regulatory asset or liability was also established, as the underlying utility asset and liability amounts are recoverable from or refundable to customers at historical cost (and not at fair value) through the rate setting process. Similar treatment was applied for fair value adjustments to record intangible assets and liabilities, such as for electricity and gas energy supply contracts as further described below. Regulatory assets and liabilities established to offset fair value adjustments are amortized in amounts and over time frames consistent with the realization or settlement of the fair value adjustments, with no impact on reported net income. See Note 5 Regulatory Matters for additional information regarding the fair value of regulatory assets and liabilities established by Exelon and PHI.

Fair value adjustments were recorded at Exelon and PHI for the difference between the contract price and the market price of electricity and gas energy supply contracts of PHI s wholly-owned rate regulated utility subsidiaries. These adjustments are intangible assets and liabilities classified as unamortized energy contracts on Exelon s and PHI s Consolidated Balance Sheets as of March 31, 2017. The difference between the contract price and the market price at the acquisition date of the Merger was recognized for each contract as either an intangible asset or liability. In total, Exelon and PHI recorded a net $1.5 billion liability reflecting out-of-the-money contracts. The valuation of the acquired intangible assets and liabilities was estimated by applying either the market approach or the income approach depending on the nature of the underlying contract. The market approach was utilized when prices and other relevant information generated by market transactions involving comparable transactions were available. Otherwise the income approach, which is based upon discounted projected future cash flows associated with the underlying contracts, was utilized. In certain instances, the valuations were based upon certain unobservable inputs, which are considered Level 3 inputs, pursuant to applicable accounting guidance. Key estimates and inputs include forecasted power prices and the discount rate. The unamortized energy contract fair value adjustment amounts and the corresponding offsetting regulatory asset and liability amounts are amortized through Purchase power and fuel expense or Operating revenues, as applicable, over the life of the applicable contract in relation to the present value of the underlying cash flows as of the merger date.

As mentioned, under cost-of-service rate regulation, rates charged to customers are established by a regulator to provide for recovery of costs and a fair return on invested capital, or rate base, generally measured at historical cost. Historical cost information therefore is the most relevant presentation for the financial statements of PHI s rate regulated utility subsidiary registrants, Pepco, DPL and ACE. As such, Exelon and PHI did not push-down the application of acquisition accounting to PHI s utility registrants, and therefore the financial statements of Pepco, DPL and ACE do not reflect the revaluation of any assets and liabilities.

The current impact of PHI, including its unregulated businesses, on Exelon s Consolidated Statements of Operations and Comprehensive Income includes Operating revenues of $1.2 billion and Net income of $140 million during the three months ended March 31, 2017, and Operating revenues of $107 million and Net loss of $(315) million during the three months ended March 31, 2016.

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

For the three months ended March 31, 2017 and 2016, the Registrants have recognized costs to achieve the PHI acquisition as follows:

Acquisition, Integration and Financing Costs[(a)]	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Exelon[(b)]	$ 9	$ 102
Generation	9	16
ComEd[(c)]		(8)
PECO	1	2
BGE	2	2
Pepco	1	27
DPL[(d)]	(7)	16
ACE	1	13

	Successor		*Predecessor*
Acquisition, Integration and Financing Costs[(a)]	**Three Months Ended March 31, 2017**	**March 24, 2016 to March 31, 2016**	**January 1, 2016 to March 23, 2016**
PHI[(d)]	$ (5)	$ 56	$ 29

(a) The costs incurred are classified primarily within Operating and maintenance expense in the Registrants respective Consolidated Statements of Operations and Comprehensive Income, with the exception of the financing costs, which are included within Interest expense. Costs do not include merger commitments discussed above.

(b) Reflects costs (benefits) recorded at Exelon related to financing, including mark-to-market activity on forward-starting interest rate swaps.

(c) For the three months ended March 31, 2016, includes the reversal of previously incurred acquisition, integration and financing costs of $9 million, incurred at ComEd that have been deferred and recorded as a regulatory asset for anticipated recovery. See Note 5 Regulatory Matters for more information.

(d) For the three months ended March 31, 2017, includes the reversal of previously incurred acquisition, integration and financing costs of $8 million, incurred at DPL that have been deferred and recorded as a regulatory asset for anticipated recovery. See Note 5 Regulatory Matters for more information.

Pro-forma Impact of the Merger

The following unaudited pro forma financial information reflects the consolidated results of operations of Exelon as if the merger with PHI had taken place on January 1, 2015. The unaudited pro forma information was calculated after applying Exelon s accounting policies and adjusting PHI s results to reflect purchase accounting adjustments.

The unaudited pro forma financial information has been presented for illustrative purposes only and is not necessarily indicative of results of operations that would have been achieved had the merger events taken place on the dates indicated, or the future consolidated results of operations of the combined company.

	Three Months Ended March 31, 2016[(a)]	Year Ended December 31, 2016[(b)]
Total operating revenues	$ 8,556	$ 32,342

Net income attributable to common shareholders		577		1,562
Basic earnings per share	$	0.63	$	1.69
Diluted earnings per share		0.62		1.69

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(a) The amounts above include adjustments for non-recurring costs directly related to the merger of $639 million and intercompany revenue of $170 million for the three months ended March 31, 2016.
(b) The amounts above include adjustments for non-recurring costs directly related to the merger of $680 million and intercompany revenue of $171 million for the year ended December 31, 2016.

5. Regulatory Matters (All Registrants)

Except for the matters noted below, the disclosures set forth in Note 3 Regulatory Matters of the Exelon 2016 Form 10-K reflect, in all material respects, the current status of regulatory and legislative proceedings of the Registrants. The following is an update to that discussion.

Illinois Regulatory Matters

Distribution Formula Rate (Exelon and ComEd). On April 13, 2017, ComEd filed its annual distribution formula rate with the ICC pursuant to EIMA. The filing establishes the revenue requirement used to set the rates that will take effect in January 2018 after the ICC s review and approval, which is due by December 2017. The revenue requirement requested is based on 2016 actual costs plus projected 2017 capital additions as well as an annual reconciliation of the revenue requirement in effect in 2016 to the actual costs incurred that year. ComEd s 2017 filing request includes a total increase to the revenue requirement of $96 million, reflecting an increase of $78 million for the initial revenue requirement for 2017 and an increase of $18 million related to the annual reconciliation for 2016. The revenue requirement for 2017 provides for a weighted average debt and equity return on distribution rate base of 6.47% inclusive of an allowed ROE of 8.40%, reflecting the average rate on 30-year treasury notes plus 580 basis points. The annual reconciliation for 2016 provided for a weighted average debt and equity return on distribution rate base of 6.45% inclusive of an allowed ROE of 8.34%, reflecting the average rate on 30-year treasury notes plus 580 basis points less a performance metrics penalty of 6 basis points. See table below for ComEd s regulatory assets associated with its distribution formula rate. For additional information on ComEd s distribution formula rate filings see Note 3 Regulatory Matters of the Exelon 2016 Form 10-K.

On December 6, 2016, the ICC issued a final order approving the 2016 distribution formula rate, which included a total increase to the revenue requirement of $127 million, reflecting an increase of $134 million for the initial revenue requirement for 2016 and a decrease of $7 million related to the annual reconciliation for 2015. On December 20, 2016, the ICC granted ComEd s and other parties joint application for rehearing on the impact that changing ComEd s OSHA recordable rate for 2014 and 2015 has on the revenue requirement approved in this order. On March 22, 2017, the ICC issued an order approving ComEd s proposal to reduce the 2016 revenue requirement by $18 million, which will be reflected in customer rates in 2017.

Illinois Future Energy Jobs Act (Exelon, Generation, and ComEd).

Background

On December 7, 2016, FEJA was signed into law by the Governor of Illinois. FEJA is effective June 1, 2017, and includes, among other provisions, (1) a ZES providing compensation for certain nuclear-powered generating facilities, (2) an extension of and certain adjustments to ComEd s electric distribution formula rate, (3) new cumulative persisting annual energy efficiency MWh savings goals for ComEd, (4) revisions to the Illinois RPS requirements, (5) provisions for adjustments to or termination of FEJA programs if the average impact on ComEd s customer rates exceeds specified limits, (6) revisions to the existing net metering statute to (i) mandate net metering for community generation projects, and establish billing procedures for subscribers to those projects, (ii) provide immediately for netting at the energy-only rate for nonresidential customers, and

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(iii) transition from netting at the full retail rate to the energy-only rate for certain residential net metering customers once the net meter customer load equals 5% of total peak demand supplied in the previous year and (7) support for low income rooftop and community solar programs.

Zero Emission Standard

FEJA includes a ZES that provides compensation through the procurement of ZECs targeted at preserving the environmental attributes of zero-emissions nuclear-powered generating facilities that meet specific eligibility criteria. ZES will have a 10-year duration extending through May 31, 2027. Eligible generators may participate in a procurement event overseen by the IPA and selected generators will directly contract with Illinois utilities for the procurement of the ZECs based upon the number of MWh produced by the eligible facilities, subject to specified annual caps. The ZEC price will be based upon the current social cost of carbon as determined by the federal government and is initially established at $16.50 per MWh of production, subject to future adjustments based on specified escalation and pricing adjustment mechanisms designed to lower the ZEC price based on increases in underlying energy and capacity prices.

Illinois utilities, including ComEd, will be required to purchase from eligible nuclear facilities an amount of ZECs equivalent to 16% of the actual amount of electricity delivered in 2014. ComEd will recover all costs associated with purchasing ZECs through a new rate rider, which will provide for an annual reconciliation and true-up to actual costs incurred by ComEd to purchase ZECs, with any difference to be credited to or collected from ComEd s retail customers in subsequent periods.

On February 14, 2017, two lawsuits were filed in the Northern District of Illinois against the IPA alleging that the state s ZEC program violates certain provisions of the U.S. Constitution. One lawsuit was filed by customers of ComEd, led by the Village of Old Mill Creek, and the other was brought by the EPSA and three other electric suppliers. Both lawsuits argue that the Illinois ZEC program will distort FERC s energy and capacity market auction system of setting wholesale prices, and seek a permanent injunction preventing the implementation of the program. Exelon intervened and filed motions to dismiss in both lawsuits. These motions are currently pending. In addition, on March 31, 2017, plaintiffs in both lawsuits filed motions for preliminary injunction with the court. Exelon cannot predict the outcome of these lawsuits. It is possible that resolution of these matters could have a material, unfavorable impact on Exelon s and Generation s results of operations, financial positions and cash flows.

See Note 7 Early Nuclear Plant Retirements for the impacts of the provisions above on Generation s Consolidated Balance Sheets and Consolidated Statements of Operations and Comprehensive Income. These provisions do not impact ComEd s Consolidated Balance Sheets, Consolidated Statements of Operations and Comprehensive Income or Consolidated Statements of Cash Flows until second quarter of 2017.

ComEd Electric Distribution Rates

FEJA extends the sunset date for ComEd s performance-based electric distribution formula rate from 2019 to the end of 2022, allows ComEd to revise the electric distribution formula rate to eliminate the ROE collar, and allows ComEd to implement a decoupling tariff if the electric distribution formula rate is terminated at any time. ComEd will revise its electric distribution formula rate to eliminate the ROE collar beginning with the reconciliation filed in 2018 for the 2017 calendar year. Elimination of the ROE collar effectively offsets the favorable or unfavorable impacts to Operating revenues associated with variations in delivery volumes associated with above or below normal weather, numbers of customers or usage per customer. ComEd began reflecting the impacts of this change in its electric distribution services costs regulatory asset beginning in first quarter 2017. As of March 31, 2017, ComEd recorded an increase to Operating revenues and its electric distribution services costs regulatory asset of approximately $16 million for this change.

FEJA requires ComEd to make non-recoverable contributions to low income energy assistance programs of $10 million per year for 5 years as long as the electric distribution formula rate remains in effect. With the exception of these contributions, ComEd will recover from customers, subject to certain caps explained below, the costs it incurs pursuant to FEJA either through its electric distribution formula rate or other recovery mechanisms.

Energy Efficiency

Existing Illinois law requires ComEd to implement cost-effective energy efficiency measures and, for a 10-year period ending May 31, 2018, cost-effective demand response measures to reduce peak demand by 0.1% over the prior year for eligible retail customers.

Beginning January 1, 2018, FEJA provides for new cumulative annual energy efficiency MWh savings goals for ComEd, which are designed to achieve 21.5% of cumulative persisting annual MWh savings by 2030, as compared to the deemed baseline of 88 million MWhs of electric power and energy sales. FEJA, deems the cumulative persisting annual MWh savings to be 6.6% from 2012 through the end of 2017. ComEd expects to spend approximately $250 million to $400 million annually from 2017 through 2030 to achieve these energy efficiency MWh savings goals. In addition, FEJA extends the peak demand reduction requirement from 2018 to 2026. Because the new requirements apply beginning in 2018, FEJA extends the existing energy efficiency plans, which were due to end on May 31, 2017, through December 31, 2017. FEJA also exempts customers with demands over 10 MW from energy efficiency plans and requirements beginning June 1, 2017.

FEJA allows ComEd to cancel its existing energy efficiency rate rider and replace it with an energy efficiency formula rate, and to defer energy efficiency costs (except for any voltage optimization costs which will be recovered through the electric distribution formula rate) as a separate regulatory asset that will be recovered through the energy efficiency formula rate over the weighted average useful life, as approved by the ICC, of the related energy efficiency measures. ComEd will earn a return on the energy efficiency regulatory asset at a rate equal to its weighted average cost of capital, which is based on a year-end capital structure and calculated using the same methodology applicable to ComEd s electric distribution formula rate. Through December 31, 2030, the return on equity that ComEd earns on its energy efficiency regulatory asset is subject to a maximum downward or upward adjustment of 200 basis points if ComEd s cumulative persisting annual MWh savings falls short of or exceeds specified percentage benchmarks of its annual incremental savings goal. ComEd will be required to file an update to its energy efficiency formula rate on or before June 1 each year, with resulting rates effective in January of the following year. The annual update will be based on projected current year energy efficiency costs and the related projected year-end regulatory asset balance less any related deferred taxes. The update will also include a reconciliation of any differences between the revenue requirement in effect for the prior year and the revenue requirement based on actual prior year costs and year-end energy efficiency regulatory asset balances less any related deferred taxes.

ComEd expects to cancel its existing energy efficiency rider after FEJA becomes effective on June 1, 2017, at which time it must perform a reconciliation of revenues and costs incurred through the cancellation date and issue a one-time credit on retail customers bills for any over-recoveries. As of March 31, 2017, ComEd s over-recoveries associated with its existing energy efficiency rider of $139 million were reflected in Current regulatory liabilities on Exelon s and ComEd s Consolidated Balance Sheets. ComEd expects to provide a one-time credit to customers in the second half of 2017 to address this over-recovery.

Renewable Portfolio Standard

Existing Illinois law requires ComEd to purchase each year an increasing percentage of renewable energy resources for the customers for which it supplies electricity. This obligation is satisfied through the procurement

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

of RECs. FEJA revises the Illinois RPS to require ComEd to procure RECs for all retail customers by June 2019, regardless of the customers electricity supplier, and provides support for low-income rooftop and community solar programs, which will be funded by the existing Renewable Energy Resources Fund and ongoing RPS collections. ComEd will recover all costs associated with purchasing RECs through rate riders, which will provide for a reconciliation and true-up to actual costs, with any difference between revenues and expenses to be credited to or collected from ComEd s retail customers in subsequent periods. The first reconciliation and true-up for RECs will cover revenues and costs for the four year period beginning June 1, 2017 through May 31, 2021. Subsequently, the RPS rate rider will provide for an annual rec