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Executive Summary

This Application-Declaration seeks approvals under the Public Utility Holding Company Act of 1935 (the "Act") relating to the proposed acquisition by Exelon Corporation ("Exelon") of all the common stock of:

- . Commonwealth Edison Company ("ComEd"), an electric utility company, and currently a subsidiary of Unicom Corporation ("Unicom");
- . PECO Energy Company ("PECO"), an electric and gas utility company;
- . one or more corporations (collectively, "Genco"), to which the generating assets of ComEd and PECO will be transferred, each of which will be an electric utility company; and, indirectly,
- . the public utility subsidiaries of ComEd and PECO.

Following the transaction (referred to as the "Merger"), Exelon will register as a holding company under the Act. Accordingly, Exelon must establish, among other things, that combining ComEd and PECO will result in a "single integrated public-utility system." To satisfy this "integration" test, Exelon must show that it is "interconnected" in a way that will allow it to conduct coordinated utility operations economically in a "single area or region." The combined electric utility systems of ComEd and PECO, including particularly the Genco subsidiary, will clearly meet the integration and all other requirements of the Act.

All of Exelon's generating capacity, nuclear and other, will be owned or controlled by a single entity -- Genco. Genco will coordinate, through the interconnected system, the efficient use of the generation formerly held by ComEd and PECO for the benefit of the Exelon system. Genco will supply power to its affiliates and to non-affiliated customers. Exelon will be interconnected through the transmission facilities of ComEd and PECO and the extensive, available interstate open access transmission. Exelon will have the legal right under Federal Energy Regulatory Commission ("FERC") mandated Open Access Transmission Tariffs (OATTs) to move power economically to customers as needed and in amounts sufficient to meet -- under normal conditions -- its operating needs throughout the Exelon system. Exelon believes the use of a flexible array of firm and non-firm transmission reservations available through the OATTs is sufficient under the Act, and is the best and most economical way, to satisfy the interconnection requirement necessary to establish integration. Finally, Exelon Services Company will be formed to oversee all centralized corporate and administrative services.

Given the operating and regulatory structure of today's industry, Exelon will operate within a single area or region within the meaning of the Act. ComEd and PECO have an extensive five-year history of successful power exchanges with each other. In addition, they both buy and sell power in the same markets. The ability to transfer power economically, taking into account transmission cost, demonstrates that ComEd and PECO are in the same area or region. Further, Exelon's distribution areas -- surrounding Chicago, Illinois and Philadelphia, Pennsylvania -- are homogeneous and have similar operating characteristics. Illinois and Pennsylvania have enacted

customer choice utility restructuring legislation. Finally, Exelon will in fact operate all of its utility facilities as a single, coordinated system.

Although the United States is now largely interconnected electrically, only

those utilities, such as Exelon, which can and will operate their separate utilities economically and in a coordinated manner within the meaning of the

Act, can be considered to be in the same area or region. Exelon, with corporate

headquarters in Chicago, will coordinate utility operations functions with facilities in Chicago and Philadelphia. ComEd and PECO will maintain the benefits of localized management through local offices throughout their service areas. Exelon's utility subsidiaries will remain fully subject to applicable State and Federal public utility regulation, which will not be adversely affected by the Merger. Thus, this is not a case involving "scattered" properties or the impairment of local management, efficient operation or effective regulation.

This Application-Declaration will show that the Merger fits within existing Commission precedent and is made possible, applying the standards of the Act, by reason of significant legislative, regulatory and technological changes that have occurred in the electric utility industry in recent years. Approving the Merger as requested will not result in any of the harms Congress sought to prevent by adopting the Act and will be consistent with the requirements of the Act.

The foregoing executive summary focused on the integration requirement -- the keystone of the Act. This Application-Declaration will also demonstrate that the other requirements of the Act are met in this case as well.^{/1/} In order to permit timely consummation of the Merger and the realization of the substantial benefits it is expected to produce, the Applicant requests that the Commission's review of this Application-Declaration commence and proceed as expeditiously as practicable.

Item. 1. Description of Proposed Transaction

A. Introduction -- Benefits of the Merger

The Merger is in response to changes in the utility industry described in this Application-Declaration. Unicom and PECO believe that the Merger will join two well-managed companies of similar market capitalization, operating in States that have adopted comprehensive customer choice utility restructuring laws, and that share a commitment to developing an energy company responsive to increased competition and other changes in the industry. The Merger will provide substantial strategic and financial benefits to PECO Energy's and Unicom's shareholders, employees and customers. The Merger will significantly improve the companies' competitive positions and create an enhanced platform for growth for all segments of their businesses. These benefits of the Merger expected to include:

- . Expanded and Coordinated Generation Capacity
- . Integrated Power Marketing and Trading Business
- . Broadened, More Efficient Distribution System
- . Foundation for Future Growth
- . Cost Savings

B. Overview of the Transaction

The Agreement and Plan of Exchange and Merger, dated September 22, 1999 (the "Original Merger Agreement"), as amended and restated January 7, 2000 (the "Merger Agreement"), provides for a "merger-of-equals" business combination of Unicom and PECO. The transaction will be accomplished through a mandatory share exchange whereby Exelon, a Pennsylvania corporation, will exchange its common stock for the outstanding common stock of PECO (the "First Step Exchange"), followed by the merger of Unicom Corporation ("Unicom"), the current parent of ComEd, with and into Exelon, with Exelon as the surviving corporation (the "Second Step Merger"). The First Step Exchange and the Second Step Merger are referred to collectively as the "Merger".

^{/1/} Prior to completion of the Merger, Exelon expects to file one or more additional applications-declarations under the Act with respect to ongoing activities (including financing activities) and other matters pertaining to Exelon after the Merger.

After the Merger, Unicom and PECO's non-utility subsidiaries will be realigned. At or about the time of the Merger, ComEd and PECO will transfer their generating facilities to Genco (the "Restructurings"). As part of the Merger and Restructurings, one or more service companies and/or operating companies will be formed and the other corporate organizational changes described herein will be made.

Pursuant to the Merger Agreement, each outstanding share of Unicom common stock will be exchanged for 0.875 shares of Exelon common stock and \$3.00 in cash and each outstanding share of PECO common stock will be exchanged for one share of Exelon common stock. Upon completion of the Merger and the Restructurings, Exelon will have the following direct or indirect public-utility subsidiary companies: ComEd, Commonwealth Edison Company of Indiana (the "Indiana Company"), PECO and Genco. Exelon will also hold, directly or indirectly, PECO's existing electric utility subsidiaries that hold the Conowingo hydroelectric project. In addition, one or more subsidiaries of Exelon will act as service companies for the Exelon system under Section 13 of the Act.^{/2/} Finally, Exelon will continue to own all of Unicom's existing non-utility subsidiaries and will acquire, directly or indirectly, all of the outstanding capital stock of the non-utility subsidiaries of PECO and certain of the operating divisions of PECO engaged in nonregulated businesses. A copy of the Merger Agreement is incorporated by reference as Exhibit B-1. The Merger transaction will be submitted to the shareholders of Unicom and PECO at meetings to be held in May 2000.

Various aspects of the Merger and the transactions relating thereto have been submitted for review and/or approval by: (i) the Pennsylvania Public Utility Commission (the "Pennsylvania Commission"), (ii) the Illinois Commerce Commission (the "Illinois Commission"), (iii) the FERC and (iv) the Nuclear Regulatory Commission (the "NRC"). Further, the Merger cannot proceed until the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"), has expired or been terminated by the regulators. Approval will also be necessary from the Federal Communications Commission (the "FCC") in connection with various licenses. Apart from the approval of the Commission under the Act, the foregoing approvals are the only major governmental approvals required for the Merger.

The Restructurings will also require regulatory approval by the Pennsylvania Commission, the Illinois Commission, FERC and the NRC as well as private letter rulings from the Internal Revenue Service. The completion of the Merger is not conditioned on the completion of the Restructurings. The approvals sought herein assume that the Restructurings will be consummated concurrently with the Merger and accordingly, the corporate structure

^{/2/} The integration and transition teams of Unicom and PECO are developing the final organizational structure for Exelon. The companies may use one or more operating companies to perform some utility functions. If an "Opco" operates facilities that are electric or gas facilities within the meaning of Section 2(a)(3) or 2(a)(4) of the Act, it will also constitute a public utility company, in which case such approvals as would be required for Exelon to acquire such Opco are also sought herein. All references to the utility subsidiaries of Exelon in this Application-Declaration shall be deemed to include any "public utility" Opco. Conversely, these "Opcos" may be more properly characterized as service companies. All references to service companies herein include any "service company" Opcos.

described herein to be in effect for Exelon following the Merger assumes that the Restructurings and the realignment of non-utility subsidiaries have also been completed./3/

C. Description of the Parties to the Merger

1. Exelon Corporation

Exelon Corporation, a Pennsylvania corporation, currently a subsidiary of PECO, has no assets and has conducted no business operations to date. Pursuant to the Merger, Exelon will become the parent holding company of ComEd, PECO, Genco and the other subsidiaries described herein. Exelon will have its principal executive office in Chicago, Illinois.

2. Unicom and its Subsidiaries

Unicom, incorporated in January 1994, is the parent of its principal subsidiary, ComEd, a regulated electric utility, and Unicom Enterprises, an unregulated subsidiary engaged, through its subsidiaries, in energy service activities. Unicom is a public utility holding company exempt from registration pursuant to Commission order under Section 3(a)(1) of the Act./4/ Unicom's principal executive offices are located at 10 South Dearborn Street, 37th/Floor, Chicago, Illinois 60603.

ComEd's Utility Business

ComEd is an Illinois corporation with its principal office in Chicago, Illinois. ComEd is a majority-owned subsidiary (greater than 99%) of Unicom./5/ ComEd is engaged in generating, transmitting and distributing electric energy to the public in northern Illinois. In 1998 and 1999 ComEd sold all of its fossil-fired generating capacity. ComEd retains 10 nuclear generating units totaling 9,550 MW of generating capacity located at five stations in Illinois. ComEd serves approximately 3.4 million retail electric customers in an 11,300 square mile service area including the City of Chicago in Illinois.

ComEd has 5,300 miles of transmission facilities and has an open access tariff on file with FERC. ComEd is a participant in the Mid-America Interconnected Network ("MAIN") as well as the Midwest Independent System Operator, Inc. ("MISO"). MISO has been approved by

/3/ If it is not feasible for corporate, tax or regulatory reasons to transfer all or certain of the ComEd or PECO generating assets to Genco, the centralized coordination of all generating activities will occur in Genco, whether or not Genco is the legal owner of generating facilities. If it appears that the Restructurings will not take place coincident with the Merger, Applicant will amend this Application-Declaration to reflect its revised plans.

/4/ Unicom Corporation, Holding Co. Act Release No. 35-26090 (July 22, 1994).

/5/ At December 31, 1999, 4,859 of the 231,973,810 shares of common stock of ComEd were not owned by Unicom but were in the hands of the public as a result of exercises of warrants or convertible preferred stock into ComEd common stock not followed by an exchange of such stock for Unicom common stock. The rights under the ComEd warrants and convertible preferred stock to acquire or convert into ComEd common stock will not be changed by the Merger. Following the Merger, Exelon will offer to exchange any such ComEd common stock issued on exercise of such warrants or convertible preferred stock for Exelon common stock.

FERC to act as an regional transmission operator for its member utilities in the Midwest and adjacent areas./6/ On December 13, 1999, ComEd and other unaffiliated transmission providers in the Midwest submitted to FERC a joint petition for a declaratory order regarding a proposed plan or template for an independent transmission company ("ITC") that would operate under the oversight of the MISO./7/ ComEd plans to transfer control of its transmission assets to an ITC.

Maps of the electric service area and transmission system of ComEd are filed as Exhibit E-1.

ComEd is an electric utility and a holding company exempt from registration pursuant to a Commission order under Section 3(a)(1) of the Act pursuant to order and pursuant to Rule 2./8/ ComEd is subject to regulation as a public utility under the Illinois Public Utilities Act ("Illinois PUA") as to retail electric rates and charges, issuance of most of its securities, service and facilities, classification of accounts, transactions with affiliated interests, as defined in the Illinois PUA, and other matters. In addition, the Illinois Commission in certain of its rate orders has exercised jurisdiction over ComEd's environmental control program. ComEd is also subject to regulation by FERC pursuant to the Federal Power Act with respect to the classification of accounts, rates for wholesale sales of electricity, the interstate transmission of electric power and energy, interconnection agreements and acquisitions and sales of certain utility properties. ComEd is also subject to the jurisdiction of the NRC with respect to the operation of its nuclear generating stations.

The Illinois legislature has enacted a retail access program in Illinois. Since October 1, 1999, (a) customers with peak loads of four MW or greater, (b) a percentage of commercial customers with ten or more locations with peak load of 9.5 MW or greater, and (c) a percentage of other non-residential customers have been eligible via direct access to choose their electricity supply. The balance of ComEd's non-residential customers will become eligible for direct access by December 31, 2000, and all of its residential customers by May 1, 2002. ComEd will continue to provide delivery service to all customers. As a part of the Illinois retail access program, ComEd's retail rates are capped through 2005.

Unicom's Other Businesses

Unicom, directly or indirectly, owns all the outstanding common stock of the non-utility subsidiary companies identified and described in Exhibit I-1 hereto. These companies are organized under Unicom Enterprises, Inc. or Unicom. In addition, ComEd has the subsidiaries identified on that Exhibit which relate to its utility operations.

As described in detail herein, the non-utility operations of Unicom will qualify as additional businesses of Exelon under the Act pursuant to Rule 58 or otherwise. Exelon requests that the investment in the Unicom Enterprises activities which it will acquire at consummation of

/6/ 84 FERC (P) 61,231, order on reconsideration, 85 FERC (P) 61,250, order on reh'g, 85 FERC (P) 61,372 (1998).

/7/ See Docket No. EL00-25-000. FERC gave preliminary approval to the ITC proposal on February 24, 2000.

/8/ Commonwealth Edison Co., Holding Co. Act Release No. 35-26090 (July 22, 1994)

the merger be disregarded for purposes of calculating the dollar limitation upon investment in energy-related companies under Rule 58./9/

Unicom's Financial Position

The authorized capital stock of Unicom consists of 400,000,000 shares of common stock. As of the close of business on December 31, 1999, 217,835,570 shares of Unicom common stock were issued and outstanding./10/ The Unicom common stock is listed on the New York Stock Exchange, Inc. ("NYSE"), the Chicago Stock Exchange and the Pacific Stock Exchange.

The consolidated assets of Unicom, as of December 31, 1999, were approximately \$23.4 billion, representing \$12.1 billion in net electric utility property, plant and equipment; \$521.3 million in non-utility subsidiary property, plant and equipment; and \$10.8 billion in other corporate assets. For the year ended December 31, 1999, Unicom had electric utility revenues of \$6.8 billion.

Unicom and ComEd are financially strong companies. Following the announcement of the revised Merger Agreement on January 7, 2000, Duff & Phelps Credit Rating Co. reaffirmed its ratings of Unicom and ComEd. At that date, Unicom's implied senior unsecured debt was rated "BBB;" ComEd's first mortgage bonds were rated "A-" and its unsecured debt was rated "BBB+."

Further Information

More detailed information concerning Unicom and its subsidiaries, including the utility assets and operations of ComEd, is contained in the Unicom and ComEd combined Annual Report on Form 10-K and the Quarterly Reports on Form 10-Q, which are filed as exhibits hereto and incorporated by reference.

3. PECO and its Subsidiaries.

PECO is an investor-owned public utility company that was incorporated in Pennsylvania in 1929 as the successor to various companies dating back as early as 1881. PECO is made up of several unincorporated divisions, including PECO Energy Distribution, PECO Nuclear, the Power Team and the Power Generation Group. PECO provides electric and gas utility service in southeastern Pennsylvania. PECO owns and operates a variety of nuclear and non-nuclear power generation plants, and also participates in the national wholesale electricity market and in retail access programs. PECO's principal executive offices are located at 2301 Market Street, P.O. Box 8699, Philadelphia, Pennsylvania 19101.

/9/ See SCANA Corporation, Holding Company Act Release No. 35-27133 (Feb. 9, 2000); New Century Energies, Inc., Holding Company Act Release No. 35-26748 (August 1, 1997). Conectiv, Inc., Holding Company Release Act No. 35-26832 (February 25, 1998); Ameren Corp., Holding Company Release Act No. 35-26809 (December 30, 1997).

/10/ Under the Merger Agreement, Unicom has agreed to repurchase \$1.0 billion of its common stock prior to the merger. At January 31, 2000 Unicom had acquired about 731,400 shares. This amount is in addition to the 26.3 million shares of common stock purchased in January, 2000 upon settlement of certain forward purchase contracts. Unicom outstanding common shares at January 31, 2000 was 190,916,288.

PECO's Utility Business

PECO provides retail electric service to customers in the City of Philadelphia and five nearby counties. PECO serves approximately 1.5 million electric retail customers in its 1,972 square-mile service territory. PECO also owns interests in three nuclear generating facilities (six units), seven fossil fuel facilities (including coal-fired, oil-fired, and combination gas-oil units), a pumped-storage hydro facility, a landfill gas facility, and thirty-three distributed generation units that are primarily gas-fired. Through subsidiaries, PECO owns and operates the 514 MW Conowingo Hydroelectric Project ("Conowingo Project"), located on the Susquehanna River in Pennsylvania and Maryland. These generation facilities have an estimated aggregate net installed electric generating capacity (summer rating) of 9,262 MW./11/

PECO owns transmission facilities located in the Pennsylvania-New Jersey-Maryland ("PJM") control area. The PJM independent system operator offers transmission service over those PECO transmission facilities and the transmission facilities of other PJM members under the PJM open access transmission tariff on file with FERC./12/ PECO also has an open access transmission tariff on file with FERC./13/

PECO also provides natural gas distribution service to over 400,000 retail customers in a 1,475 square-mile area of southeastern Pennsylvania adjacent to Philadelphia. The electric and gas service territories substantially overlap, with the major exception of the City of Philadelphia. In 1999, 8.8% of PECO's operating revenues and 6.6% of its operating income were from its gas operations. Maps of the electric and gas service areas of PECO are filed as Exhibit E-2.

Regulation as a Utility

PECO is currently a public utility holding company exempt from the provisions of the Act, except Section 9(a)(2), by reason of the annual exemption statements filed by it pursuant to Rule 2 of the Commission's rules and regulations. PECO currently has three wholly owned subsidiaries that are public utility companies within the meaning of the Act: PECO Energy Power Company ("PEPCO"), Susquehanna Power Company ("SPCO") and Susquehanna Electric Company ("SECO"). The Conowingo Project is owned and operated through PEPCO, SPCO and SECO./14/

/11/ PECO is in the process of acquiring additional ownership interests in the Peach Bottom Atomic Power Station which would increase its ownership share to 50%, an additional 80 MW.

/12/ Pennsylvania-New Jersey-Maryland Interconnection, et al., 81 FERC (P) 61,257 (1997), reh'g pending.

/13/ PECO Energy Co., 74 FERC (P) 61,336 (1996).

/14/ PEPCO, a registered holding company, has one wholly owned subsidiary, SPCO, a public utility company within the meaning of the Act and an indirect subsidiary of PECO. PEPCO owns the portion of the Conowingo Project located in Pennsylvania and SPCO owns the portion located in Maryland. The Conowingo Project is leased to and operated by SECO, which sells the Project's output to PECO. In addition to the companies identified above, SPCO also owns The Proprietors of the Susquehanna Canal, an inactive entity incorporated in 1783 and acquired in connection with the development of the Conowingo Project. See Holding Company Act Release No. 35-6718, June 18, 1946; Holding Company Act Release No. 35-16636, March 12, 1970; Holding Company Act Release No. 35-14782, January 2, 1963; Susquehanna Power Co.,

19 FERC (P) 61,

PECO is subject to regulation by the Pennsylvania Commission with respect to retail rates, accounting, service standards, service territory, issuance of securities, certification of generation and transmission projects, and various other matters. PECO is also subject to the jurisdiction of FERC under the Federal Power Act for some phases of its business, including regulation of its rates relating to wholesale sales of energy and interstate transmission, licensing its hydroelectric stations, accounting, and certain other matters. PECO is also subject to the jurisdiction of the NRC with respect to the ownership and operation of its nuclear generating stations.

The Pennsylvania Electricity Generation Customer Choice and Competition Act (the "Competition Act"), enacted in 1996, mandated the restructuring of the electric utility industry in Pennsylvania, including retail competition for generation beginning in 1999. The Competition Act unbundled electric service into separate generation, transmission and distribution services with open retail competition for generation. Electric distribution service remains regulated by the Pennsylvania Commission. The Competition Act required utilities to submit restructuring plans to the Pennsylvania Commission, including quantification of their stranded costs (the loss in value of a utility's electric generation-related assets which resulted from competition). The Competition Act authorizes the recovery of stranded costs through charges to distribution customers during a transition period. During the stranded cost recovery period, the utility is subject to a rate cap which provides that total charges to customers cannot exceed rates in place as of December 31, 1996, subject to certain exceptions. In PECO's case, the stranded cost recovery period will last until the end of 2010, during which time PECO's generation rates are capped in accordance with a schedule approved by the Pennsylvania Commission. In addition, PECO's transmission and distribution rates are capped through June 30, 2005, subject to certain exceptions.

Pursuant to the Competition Act, PECO filed with the Pennsylvania Commission a comprehensive restructuring plan detailing its proposal to implement full customer choice of electric generation supplier. On May 14, 1998 the Pennsylvania Commission issued its Final Order accepting a "Joint Petition for Settlement of PECO's Restructuring Plan and Related Appeals and Application for a Qualified Rate Order and Application of Transfer of Generation Assets" (hereinafter referred to as "Restructuring Settlement"). Pursuant to the terms of the Restructuring Settlement, PECO's retail electric customers received an 8% rate reduction in 1999 and are receiving a 6% rate reduction in 2000. Pursuant to the Restructuring Settlement, PECO is authorized to, among other things, recover from its retail electric customers approximately \$5.3 billion of stranded assets and costs and transfer its generation assets and liabilities and wholesale power contracts to a separate corporate affiliate. Under the Restructuring Settlement transactions between and among certain PECO affiliates are subject to safeguards to ensure fair dealing. PECO's was the first restructuring plan approved in Pennsylvania and, on a percentage and absolute numbers basis, PECO has the highest number of customers exercising their retail choice by buying electricity from alternative suppliers.

PECO's Other Businesses

348, order on reh'g, 13 FERC (P) 61,132 (1980) (the initial order was inadvertently omitted from the proper volume of FERC's reports).

In addition to its regulated distribution businesses, PECO actively competes in deregulated retail markets for electricity and natural gas. Although its utility property and operations are generally confined to Pennsylvania, /15/ PECO markets or brokers electricity to retail customers in Massachusetts and New Jersey as well. /16/ PECO markets or brokers natural gas to a small number of retail commercial and industrial customers in New Jersey and to customers in areas of Pennsylvania outside its gas franchise territory. In these retail choice programs, PECO acts as a marketer or broker. It does not own any utility distribution property or operate any utility distribution facilities in states other than Pennsylvania. PECO also engages in wholesale marketing of electricity through its Power Team division. PECO PowerLabs is a division which calibrates and verifies the accuracy of laboratory measuring and testing equipment.

PECO has multiple subsidiaries that support its utility operations. A complete list of PECO's subsidiaries and affiliated business interests is contained in Exhibit I-2 hereto.

In addition to PECO's utility and retail competition operations, PECO is also engaged in certain non-utility businesses either directly, through subsidiaries or through affiliated business ventures. In addition to the information given on Exhibit I-2, the following describes certain of these non-utility businesses.

PECO, British Energy, plc of Edinburgh, Scotland, and BE, Inc., a U.S. subsidiary of British Energy, have formed AmerGen Energy Company, L.L.C. ("AmerGen") to pursue opportunities to acquire and operate nuclear generating stations in the United States. PECO and BE, Inc. each own a 50% equity interest in AmerGen. As of the date of this Application-Declaration, AmerGen has acquired the Three Mile Island Unit 1 in Pennsylvania and Clinton Power Station in Illinois. AmerGen has also entered into separate Asset Purchase Agreements with Niagara Mohawk Power Company, New York State Electric and Gas Company, Vermont Yankee Nuclear Power Corporation, and GPU Nuclear, Inc. and Jersey Central Power & Light

/15/ The only utility property located outside Pennsylvania is the Conowingo Project, which is located in both Pennsylvania and Maryland, and a 42.6% interest (which will increase to 50%) in Salem Nuclear Generating Station Unit Nos. 1 and 2, located in New Jersey. The Salem station is directly interconnected with PECO's system through the PJM operated transmission system. The Commission has previously recognized that joint participation in the construction of large generating facilities (particularly nuclear facilities) is appropriate and does not controvert the integration requirement of Section 2(a)(29)(A) of the Act. See Electric Energy, Inc., Holding Co. Act Release No. 13871 (November 28, 1958); Yankee Atomic Electric Co., Holding Co. Act Release No. 13048 (November 25, 1955); Mississippi Valley Generating Co., Holding Co. Act Release No. 12794 (February 9, 1955).

/16/ Exelon's electricity and natural gas brokering and marketing activities are permissible under the Act. The Commission and the SEC Staff have both recognized, on numerous prior occasions, that marketing activities are not utility activities under the Act. See UNITIL, Holding Company Act Release No. 26650 (January 21, 1997); SEI Holdings, Inc., Holding Co. Act Release No. 26581 (September 26, 1996); PP&L Resources, Inc., Holding Co. Act Release No. 26905 (August 12, 1998); Enron Capital & Trade Resources Corp., SEC No-Action Letter, 1997 SEC No-Act. LEXIS 287 (February 13, 1997); LG&E Power Marketing, Inc., SEC No-Action Letter, 1996 SEC No-Act. LEXIS 510 (April 26, 1996). In SEI Holdings the Commission stated "[i]ndustry trends and competitive pressures make it important for registered system companies to be poised to compete in new markets as they are created. Such participation would appear to promote the goals of United States energy policy, including increased competition and lower rates."

Company to acquire, respectively, Nine Mile Point Unit 1, 59% of Unit 2, Vermont Yankee/17/ and Oyster Creek nuclear plants. AmerGen has been granted exempt wholesale generator ("EWG") determinations from the FERC in connection with the first of these acquisitions and is applying for EWG determination with request to the others./18/ PECO's 50% interest in AmerGen is authorized by section 32(e) of the Act./19/

In accordance with the provisions of the Telecommunications Act of 1996, PECO entered the telecommunications business through undertakings with experienced operators. PECO Hyperion Telecommunications is a general partnership with Adelphia Business Solutions, Inc. that provides "competitive local exchange carrier" services such as local dial tone, long distance, Internet service and point-to-point (voice and data) communications for businesses and institutions in eastern Pennsylvania. Through its subsidiary PECO Wireless, LLC, PECO holds a 49% interest in a company which offers personal communications services in the Philadelphia "Major Trading Area." PECO's interests in these businesses are authorized by section 34 of the Act. Other telecommunications related entities in which PECO holds an interest are described in Exhibit I-2. /20/

As discussed below under Item 3.B.3(a)(v), "Retention of Other Businesses," the non-utility operations of PECO will qualify as additional businesses of Exelon under the Act pursuant to Rule 58 and other applicable provisions. Exelon requests that the investment in the PECO activities which it will acquire at consummation of the merger be disregarded for purposes of calculating the dollar limitation upon investment in energy-related companies under Rule 58./21/ A list of Rule 58 non-utility businesses and the basis for their retention is contained in Exhibit I-2 hereto.

PECO Financial Position

PECO's authorized capitalization consists of 500 million shares of common stock, 15 million shares of cumulative preferred stock and 100 million shares of series preference stock. As of the close of business on December 31, 1999, there were 181,271,692 shares of PECO

/17/ AmerGen is assigning its rights and obligations under the Asset Purchase Agreement for Vermont Yankee to AmerGen Vermont, LLC, its wholly owned subsidiary formed for the purpose of owning and operating Vermont Yankee.

/18/ Letter Order, reported at 90 FERC (P) 62,061 (2000).

/19/ Exelon's compliance with Rule 53 will be discussed in the separate financing Application-Declaration to be filed by Exelon.

/20/ To the extent that the companies identified above have not registered with the Federal Communications Commission ("FCC") as Exempt Telecommunications Companies on the date of the filing of this Application-Declaration, Exelon submits that it will act to ensure their registration with the FCC under Section 34 of the Act. To the extent such registration is not completed prior to the entry by the Commission of an order approving the Merger, Exelon expects to request that the Commission reserve its jurisdiction over these entities until Exelon makes a filing identifying the companies that have registered or explaining why they may otherwise be retained in accordance with the Act and the Commission's Rules.

/21/ See SCANA Corporation, Holding Company Act Release No. 35-27133 (Feb. 9, 2000); New Century Energies, Inc., Holding Company Act Release No. 35-26748 (August 1, 1997). Conectiv, Inc., Holding Company Release Act No. 35-26832 (February 25, 1998); Ameren Corp., Holding Company Release Act No. 35-26809 (December 30, 1997).

common stock and 1,930,920 shares of PECO cumulative preferred stock of various series issued and outstanding./22/ PECO common stock is listed on the NYSE and the Philadelphia Stock Exchange. Consolidated assets of PECO and its subsidiaries as of December 31, 1999 were approximately \$13 billion, consisting of \$4 billion in net electric utility property, plant and equipment; \$931 million in net gas utility property, plant and equipment; and \$138 million in non-utility subsidiary assets, and \$8 billion in other corporate assets. For the year ended December 31, 1999, PECO had electric utility revenues of \$4.85 billion and gas utility revenues of \$481 million.

Like Unicom and ComEd, PECO is a financially strong company. Following the announcement of the revised Merger Agreement on January 7, 2000, Duff & Phelps Credit Rating Co reaffirmed its ratings of PECO. At that date, PECO's first mortgage bonds were rated "A-" and its implied senior unsecured debt was rated "BBB+."

Further Information

More detailed information regarding the utility assets and operations of PECO is included in its Annual Report on Form 10-K and Quarterly Reports on Form 10-Q which are filed as exhibits hereto and incorporated by reference.

D. Exelon Services.

Exelon Services will enter into a service agreement with ComEd, PECO, Genco and other affiliates (the "General Services Agreement"). (A copy of the form of the General Services Agreement is filed as Exhibit B-2.) The General Services Agreement will include non-utility subsidiaries of Exelon as client companies. In this Application-Declaration, Applicant seeks an exemption from or waiver of the Commission's rules regarding the provision of service at cost to certain affiliates of Exelon as described herein. Exelon may create more than one service company to better organize its utility and non-utility operations. Other service companies may perform some but not all of the services contemplated in the General Services Agreement and would conduct business pursuant to a service agreement substantially the same as the General Services Agreement and pursuant to the allocation methods approved for Exelon Services.

E. Description of the Merger

The Merger is structured as a merger of equals. Following the Merger, Unicom shareholders will own about 46% and PECO shareholders will own approximately 54% of Exelon. The Merger is subject to customary closing conditions, including the receipt of the requisite shareholder approvals of Unicom and PECO and all necessary governmental approvals, including the approval of the Commission.

The Merger Agreement provides that through a transition period beginning with the closing of the merger and ending December 31, 2003, the Board of Directors of Exelon will consist of 16 members initially, 50% of the directors will be recommended by Unicom from

/22/ Under the Merger Agreement, PECO has agreed to repurchase \$500 million of its common stock prior to the Merger.

among the members of its board at the time of closing and 50% of the directors will be recommended by PECO from among the members of its board at the time of closing. The Board of Directors will be divided into three classes, as nearly equal in number as possible, with equal numbers (as nearly as possible) of Unicom and PECO directors in each class. In addition to the executive committee, which shall include the two Co-CEO's and two PECO independent directors and two Unicom independent directors, initially there will be other committees of the board, with the chairmen to be equally divided between PECO designated directors and Unicom designated directors. For the first half of the transition period, Mr. Corbin A. McNeill, Jr., current Chairman and CEO of PECO, will be Chairman and Co-CEO of Exelon, and Mr. John W. Rowe, current Chairman and CEO of Unicom, will be Chairman of the Executive Committee of the Board, President and Co-CEO of Exelon. For the second half of the transition period, Mr. McNeill will be Chairman of the Executive Committee of the Board and Co-CEO of Exelon and Mr. Rowe will be Chairman and Co-CEO of Exelon. At the expiration of the transition period, Mr. McNeill will retire as an officer and employee of Exelon but will remain a director. The bylaws of Exelon will provide that during the transition period the terms of employment of Messrs. McNeill and Rowe and the succession process described above can be changed only by a vote of at least two-thirds of the directors.

The Merger is structured to be tax-free to holders of PECO common stock and Unicom common stock for United States Federal income tax purposes, except for that portion of Merger consideration (\$3.00 per share) received by Unicom shareholders in cash, including any cash received instead of any fractional shares in Exelon common stock. For accounting purposes, the Merger will be treated as a "purchase" of Unicom by PECO.

The Merger Agreement contains certain covenants relating to the conduct of business by the parties pending the consummation of the Merger. Generally, the parties must carry on their businesses in the ordinary course consistent with past practice, may not increase common stock dividends beyond specified levels and may not issue capital stock except as specified. The Merger Agreement also contains restrictions on, among other things, charter and bylaw amendments, capital expenditures, acquisitions, dispositions, incurrence of indebtedness, and certain increases in employee compensation and benefits. Under the Merger Agreement, Unicom is to use commercially-reasonable efforts to purchase in the open market, or otherwise, its common stock in an amount of \$1.0 billion prior to the closing of the Merger. Under the Merger Agreement, PECO is to use commercially-reasonable efforts to purchase in the open market, or otherwise, its common stock in an amount of \$500 million prior to the closing of the Merger.

The Merger Agreement provides that, after the effectiveness of the Merger, Exelon's principal corporate office will be located in Chicago, Illinois. Exelon will maintain corporate offices in Philadelphia as the headquarters of PECO Energy and the combined entity's generation business will be headquartered in southeastern Pennsylvania.

Item. 2. Fees, Commissions and Expenses

The fees, commissions and expenses to be paid or incurred, directly or indirectly, in connection with the Merger, including the solicitation of proxies, registration of securities of Exelon under the Securities Act of 1933, and other related matters, are estimated as follows:

Commission filing fee for the Joint Registration Statement on Form S-4 \$/23/

Accountants' fees.....
Legal fees and expenses relating to the Act.....
Other legal fees and expenses.....
Shareholder communication and proxy solicitation.....
NYSE listing fee.....
Exchanging, printing, and engraving of stock certificates.....
Investment bankers' fees and expenses.....
Consulting fees related to the Merger.....
Miscellaneous.....
TOTAL.....	=====

Item. 3. Applicable Statutory Provisions

The following sections of the Act and the Commission's rules thereunder are or may be directly or indirectly applicable to the Merger:

Section of the Act -----	Transactions to which section or rule may be applicable: -----
4, 5	Registration of Exelon as a holding company following consummation of the Merger.
6(a), 7	Issuance of Exelon common stock in exchange for shares of Unicom and PECO common stock.
9(a)(1), 10	Acquisition by Exelon of stock of Exelon Services and of non-utility subsidiaries of Unicom and PECO.
9(a)(2), 10(a), (b), (c) and (f), 11(b)	Acquisition by Exelon of common stock of ComEd, the Indiana Company, PECO, Genco, the Conowingo Companies and any "utility" Opco.

/23/ To be filed by amendment

Section of the Act ----- 8, 9(c)(3), 11(b), 21	Transactions to which section or rule may be applicable: ----- Retention by Exelon of the retail gas utility operations of PECO; investment in and retention of other businesses of Unicom and PECO and their direct and indirect subsidiaries.
12	Transfer of generating assets of ComEd and PECO to Genco in the Restructuring; transfer of assets to Exelon Services in connection with establishment of service company.
13	Approval of the services to be provided by Exelon Services and any service company Opco to utility subsidiaries in accordance with the General Services Agreement (or equivalent); approval of services to be provided thereunder by Exelon Services to the direct and indirect non-utility subsidiaries of Unicom and PECO; approval of the performance of certain services between Exelon system companies; and exemption from at-cost standards with respect to certain services between Exelon system companies.

Rules

43-44	Transfers of utility assets and securities of public utility subsidiaries
80-92	Affiliate transactions, generally.

To the extent that other sections of the Act or the Commission's rules thereunder are deemed to be applicable to the Merger, such sections and rules should be considered to be set forth in this Item 3.

A. Application of the Act in Light of the Evolving "State of the Art" of the Electric Utility Industry

To approve the Merger, the Commission must find that Section 10 of the Act is satisfied. The Section 10 analysis is presented in detail below in section B "Section by Section Analysis" in this Item 3. The highlight of the analysis is whether the Merger will tend toward the economical and the efficient development of an integrated public-utility system under Sections 11 and 2(a)(29) of the

Act. Applicant believes that it will. Before setting forth in detail how the Merger satisfies each requirement of the Act, this Application-Declaration will first describe in some of the recent changes in the utility industry that have resulted in the current "state of the art."

The Act directs the Commission to consider the "state of the art" in determining whether the requirements of the Act are satisfied./24/ The Commission has long recognized that as the industry changes -- by means of technological development and by reason of new laws and regulations -- the Commission faces the task of applying the requirements of the Act in light of these changing conditions. Such changes since 1935 have made it possible for ever larger and geographically more diverse companies to satisfy the standards of the Act. Systems that would have been unlikely to receive approval in an earlier era have proven to be not only permitted, but in fact made necessary, by the evolving state of the art./25/ Neither the Act nor what it means have changed, but the means by which utilities can comply with the Act have changed. The Exelon system presents yet another case of a new way of complying with the long-standing requirements of the Act. In particular, the manner in which Exelon proposes to establish that it is "interconnected" and therefore to show that it meets one of the conditions to the requirement of an "integrated" system, presents a new idea. As will be shown, the means of interconnection -- through the use of available open access transmission -- is fully consistent with the requirements of the Act as demonstrated by recent cases. /26/

In recent years the Commission has emphasized that the Act "creates a system of pervasive and continuing economic regulation that must in some measure at least be fashioned from time to time to keep pace with changing economic and regulatory climates."/27/ In recent decisions, the Commission has cited U.S. Supreme Court and Circuit Court of Appeals cases that recognize that an agency is not required to "establish rules of conduct to last forever,"/28/ but must "adapt [its] rules and policies to the demands of changing circumstances"/29/ and to "treat experience not as a jailer but as a teacher."/30/ Consequently, the Commission has attempted to "respond flexibly to the legislative, regulatory and technological changes that are transforming the structure and shape of the utility industry," as recommended by Division of Investment Management (the "Staff") in its report issued in June 1995 entitled "The Regulation of Public

/24/ See the definition of "integrated public-utility system" in Section 2(a)(29).

/25/ See, e.g., American Electric Power Company, Inc., Holding Co. Act Release No. 20633 (July 21, 1978)

/26/ The discussion of the method of establishing "interconnection" sufficient to meet the integration requirements of the Act is found under Item 3, section 3. (ii) "The Merger is Not Detrimental to Carrying Out the Provisions of Section 11" and Item 3, section 3. (iii) (A) "Exelon Will Meet All Four Parts of the Integration Requirement -- Interconnection."

/27/ Union Electric Co., Holding Co. Act Release No. 18368, n. 52(April 10, 1974), quoted in Consolidated Natural Gas Co., Holding Co. Act Release No. 26512 (April 30, 1996) (authorizing international joint venture to engage in energy marketing activities); Eastern Utilities Associates, Holding Co. Act Release No. 26232 (Feb. 15, 1995) (removing restrictions on energy management activities); and Southern Co., Holding Co. Act Release No. 25639 (Sept. 23, 1992) (approving acquisition of foreign public-utility subsidiary company).

/28/ Rust v. Sullivan, 500 U.S. 173 (1991); American Trucking Assns., Inc. v. Atchison, T.&S.F.R. Co., 387 U.S. 397 (1967); Shawmut Assn. v. SEC, 146 F.2d, 791 (1st Cir. 1945).

/29/ NIPSCO Industries, Inc., Holding Co. Act Release No. 26975 (Feb. 10, 1999) [hereinafter "NIPSCO"], citing Rust v. Sullivan at 186-187. Accord, Sempra Energy, Holding Co. Act Release No. 26971 n.23 (Feb. 1, 1999) (interpreting the integration standards of the 1935 Act in light of developments in the gas industry).

/30/ NIPSCO, supra, citing Shawmut Assn. v. SEC at 796-97.

Utility Holding Companies" (the "1995 Report"). Indeed, with specific reference to the integration requirements of the Act, the 1995 Report explains:

The statute recognizes . . . that the application of the integration standards must be able to adjust in response to changes in "the state of the art." As discussed previously, the Division believes the SEC must respond realistically to the changes in the utility industry and interpret more flexibly each piece of the integration equation./31/

The current state of the art is characterized by the development of competitive wholesale electric supply markets resulting from changes in Federal law and regulations and the adoption by States of utility restructuring laws leading to retail customer choice and other changes. Increasingly, electric utilities no longer rely solely on acquiring their own, more efficient generation to achieve efficiencies and economies.

Because of these changes, the electric utility industry today is much different from what it was -- even in the recent past. The utility market

model, with generation functionally unbundled from transmission and distribution, is supplanting the vertically integrated monopoly model throughout

the country. Developments in Federal law and regulations have led to a wholesale competitive electric generating market. The access for all eligible parties to interstate transmission is a critical component of this market. The market model has evolved further in some States, like Illinois and Pennsylvania. Unlike many recent or pending merger cases at the Commission, in this case the legislatures of the States where the companies operate have enacted State utility restructuring legislation. In Illinois and Pennsylvania, pursuant to this recent legislation, retail customers have a choice in determining who will supply their electric power. Customer choice -- the elimination of the traditional monopoly over the generation aspects of electric service -- fundamentally changes the nature of regulation. In this case, each State has adopted laws and policies seeking to provide consumers the benefits of competition. Further, technological developments are changing the nature of the industry. So called "distributed generation" and other developments have fundamentally changed how electricity is produced and distributed and have accelerated the movement to the market model.

The Merger is unique in that it is one of the first to take full advantage of the developing market model of achieving integrated and coordinated operations. Unlike many registered holding companies, Exelon will consolidate all of its generating assets in a single entity: Genco. Genco will control and coordinate the efficient use of all these generating assets by supplying the generation needs of ComEd and PECO as well as supplying Exelon's other wholesale customers. Exelon will obtain its power supply not just from its owned facilities -- the facilities formerly owned by ComEd and PECO and transferred to Genco -- but from a variety of market sources. Further, Exelon will coordinate the dispatch of these generation sources not only through the use of the ComEd and PECO transmission systems, but by using a portion of the open access transmission grid. The entire working model of the industry has shifted from "build and own all generation necessary to serve your load" to "consider all supply options available in the market -- both local and distant." Likewise, the transmission grid has developed physically, but more

/31/ 1995 Report at 71.

importantly in the legal and operational manner discussed below, to accommodate this new working model.

Development of the competitive model for electric generation began with the Public Utility Regulatory Policies Act of 1978 ("PURPA"), which encouraged the development of new sources of generation. The development of the market for non-traditional generation for the wholesale market accelerated significantly after adoption of the Energy Policy Act of 1992 ("EPACT"). This progress has been facilitated by FERC's willingness to permit the sale of electric capacity and energy at market-based rates. The regulatory policy fostering market based rates for the commodity of electricity applies not only to non-utility generators and independent power producers ("IPPs"), which developed in the wake of PURPA, but also to traditional integrated utilities, like ComEd and PECO, who have increasingly focused on their own wholesale marketing efforts.^{/32/} The increasing number of wholesale sellers has also led to the development of power marketers (many of which are affiliated with utilities) -- a relatively new class of wholesale market participant that purchases and sells power produced by third parties, not from their own resources.

The increase in the number of, and capacity controlled by, non-traditional generators, and the volume of trading by power marketers has been dramatic. Nationwide, plans to build new plants by non-utility entities have expanded dramatically. For example, PJM makes public requests received by it for interconnection to the PJM transmission grid by new generating sources. As of January, 2000, the "queue" of applications for connection with the PJM grid included about 100 active projects with a total of about 40,000 MW.^{/33/} Similar plant additions have been announced by IPPs in the Midwest as well. By the first quarter of 1999, power traded by marketers exceeded 400 million MWh, with over 100 entities engaged in the business.^{/34/}

The increased capacity of non-traditional generators, and the number of suppliers, as well as the liquidity created by power marketers has had an impact on energy pricing. Energy marketers commonly arbitrage energy price differentials by buying in one market and selling in another. The effect of these trading strategies is to minimize margins to be gained in interregional sales and therefore to drive electric supply market prices closer to a regional-wide marginal (or incremental) cost. As prices move to marginal cost, rate differentials arising from historical embedded cost begin to disappear. Non-traditional generators operating in the national energy markets also are becoming a more significant factor in the electric utility industry. Their significant plant additions lessen the impact of historical embedded utility-specific price differentials by changing the cost structure of the industry as a whole.

^{/32/} ComEd and PECO have each been granted market rate authority and participate in wholesale markets. PECO's wholesale power marketing operation division (the Power Team) is one of the most active power marketers in the country. It ranked 14th out of the top 45 wholesale power sellers in 1998. Power Markets Week, at 16 (June 28, 1999).

^{/33/} Current information can be found at <http://www.pjm.com/> For reference, the PJM ISO has a peak load of about 51,000 MW.

^{/34/} Order No. 2000 at 15.

At the same time as these developments were occurring, many States began implementing integrated resource planning requirements that mandate that utilities focus on both supply-side and demand-side resources and that require local utilities to competitively bid their resource requirements to obtain the lowest cost resources possible. Under these resource procurement requirements, utilities typically must purchase power from third parties (rather than provide for their own generation) if to do so would result in lower costs to consumers. Thus, State regulators have widely recognized that the economic operation of a utility system must include the benefits of integration through the marketplace and not just the effects of vertically-integrated ownership structure. Illinois and Pennsylvania have moved beyond these steps, however, and have acted to fully open the generation supply function to competition.

For various reasons, including State utility restructuring laws, utilities have been selling large amounts of generating assets. From August 1997, through early 1999 approximately 80,000 MW of generating capacity was sold (or was under contract to be sold) by utilities. In total, this represents more than 10 percent of U.S. generating capacity.^{/35/} ComEd itself has sold 11,272 MW of capacity (about 55% of its total capacity before the sales) to unaffiliated purchasers. These sales contribute to the development of the market for generation by increasing the capacity in the hands of non-traditional generators and bringing new competitors into most local markets.

These developments make it clear -- the old model of "generating all you use" no longer prevails. The traditional means of achieving economies and efficiencies -- acquiring additional generation -- no longer apply. Utilities -- to the extent they provide retail bundled service -- will have to shop from a number of sources to obtain the most economical generation. The development of the open access transmission grid enables the utility to expand the region in which they can find supplies. Further, in states such as Illinois and Pennsylvania, which have opened the generating function to competition, the traditional utility will no longer be the only source of generation. All customers will rely a wide-spread, increasingly national market to provide generation at a market driven price.

The Merger is in direct response to these developments. ComEd and PECO will use Genco to coordinate their "shopping" efforts. Further, Genco will use its marketing abilities to sell the generation output of facilities controlled by Exelon in the most efficient manner possible -- to ComEd and PECO and to other customers. Importantly, and as described in the following paragraphs, Genco will be able to arrange for the delivery of this power to where it is needed by relying on open access transmission.

Following the enactment of EPACT, FERC recognized that the full development of a vigorous and competitive wholesale generation market would not be possible without a means for these new classes of generators and power marketers to move power from the generating facility to distant customers. Seeking to foster the wholesale generation markets, FERC has mandated changes in the legal framework of the interstate transmission grid to enable these generators to market electricity to an expanding number of customers. As a result, traditional

^{/35/} RTO NOPR at 33,690.

utilities may also use the transmission grid to coordinate the activities of

their own generation and distribution functions.

EPACT changed the legal framework for the interstate transmission of electricity. Under this law, utilities could request transmission service over the systems of others. This expanded the circumstances in which a non-traditional generator, or two remote generation owning utilities, could economically move power from one place to another. FERC initially implemented EPACT on a case-by-case basis, ordering individual utilities to enter into specific transactions to transmit another entity's power over the transmission owner's system. Later it used its authority under EPACT, and its authority to

remedy discriminatory conduct under the Federal Power Act (FPA), to require all

utilities under its jurisdiction to open their transmission systems and allow

any qualified entity to use their system on a regular basis to deliver electricity at a fair and non-discriminatory rate. The new requirements, known simply and descriptively as "open access" came about in 1996 in FERC's Order No. 888 and its progeny./36/ Order No. 888's key provision was the requirement that utilities file standard transmission tariffs (called "OATTs" -- open access transmission tariffs) under which a transmission provider must offer service to any qualified user. OATTs provided utilities, other generation owners and power marketers for the first time with a generally available right to use the transmission systems of others to move power at tariffed rates.

In Order No. 889,/37/ a companion 1997 ruling, FERC also mandated that transmission owners establish a comprehensive information system regarding the availability and price of their transmission service on an Internet site called Open Access Same-Time Information System ("OASIS"). The OASIS provides a practical and efficient means for distant utilities to use the interstate transmission grid to coordinate their operations. Because of these changes it is now possible for utilities that are not adjacent to gain the advantages of coordinated operation, to jointly use their various generating assets on an economic basis and otherwise act as an integrated public utility company through the use of the OATTs and OASIS. Importantly, "open access" as dictated by Order Nos. 888 and 889, provides an easy to use, day-to-day means of coordinating electric operations. Unlike in the past, when inter-company transmission required complex, separately negotiated agreements, open access is available to all on minimal notice and at standard terms.

As a means of establishing interconnection sufficient to achieve integration under the Act, these legal and practical circumstances have only become available in recent years -- in fact

/36/ Promoting Wholesale Competition Through Open Access Non-Discriminatory Transmission Service by Public Utilities; Recovery of Stranded Costs by Public Utilities and Transmitting Utilities, FERC Stats. and Regs., Regulations Preambles, (P) 31,036 (1996) ("Order No. 888"), order on rehearing, FERC Stats. & Regs., Regulations Preambles, (P) 31,048 (1997) ("Order No. 888-A"), order on rehearing, 81 FERC (P) 61,248 (1997) ("Order No. 888-B"), order on rehearing, 82 FERC (P) 61,046 (1998) ("Order No. 888-C").

/37/ Open Access Same-Time Information System (formerly Real-Time Information

Network) and Standards of Conduct, Order No. 889, [1991-1996 Transfer

Binder] FERC Stats. & Regs., Regs. Preambles (P) 31,035, at 31,585 (1996),
order on reh'g, Order No. 889-A, III FERC Stats. & Regs., Regs. Preambles

(P) 61,253 (1997).

only since about 1997./38/ The Merger of Unicom and PECO is one of the first to take advantage of this opportunity.

Because of the importance of OATTs and OASIS to Exelon's assertion that its electric facilities are "interconnected" and, therefore, that it is an integrated system, Exelon has prepared an Analysis of How the Interconnection

Requirement of PUHCA is Satisfied by OATTs and OASIS ("Interconnection Analysis"). This Interconnection Analysis, filed as Exhibit K-1 to this

Application-Declaration and incorporated by reference herein, describes in detail the historical development of the interstate transmission grid in the United States referred to in the preceding paragraphs of this Application-Declaration. The Interconnection Analysis also traces the development of the

competitive generating sector of the electric utility industry and demonstrates how that development, spurred by EPACT and FERC Order Nos 888 and 889, has led to a system which will enable Exelon to operate efficiently, under normal conditions, as a coordinated and integrated public-utility system. Finally, the Interconnection Analysis includes a practical guide to moving power describing

in detail exactly how the OATT and OASIS system will work to effectively and economically interconnect the parts of the Exelon system. The Interconnection

Analysis does not attempt a legal analysis of how Exelon meets the integrated

public-utility system requirement of the Act -- that analysis follows in Part B, "Section by Section Analysis" to this Item 3. Rather, the Interconnection

Analysis gives a description, too detailed to include here, of the factual basis

for the conclusion that open access transmission constitutes "interconnection" within the meaning of the Act.

Unicom and PECO recognize and embrace the changes in the industry and believe that the Merger will result in an integrated public-utility system positioned for competition in the utility industry of the future. Open access to transmission, retail electric competition and technological changes are promoting the growth of larger and more competitive regional wholesale power markets. As more buyers and sellers participate in broader bulk power markets, increased competition will tend to produce lower and more stable electricity prices for the benefit of consumers. Although open access transmission is fully developed to enable Exelon to coordinate its utility operations, the transmission markets will become even more liquid and seamless, as a result of FERC's policy of promoting regional transmission organizations ("RTOs"), as most recently evidenced by its issuance of Order No. 2000 on December 15, 1999./39/ The development of RTOs will further streamline the currently robust market for the

/38/ The requirement to file an OATT was effective in 1996. OASIS went into operation in 1997.

/39/ Order No. 2000, Docket No. RM99-2-000, Final Rule Regional Transmission Organizations (December 15, 1999), 89 FERC (P) 61,285 (1999). FERC defines an RTO as an entity that satisfies the minimum characteristics (independence, scope and regional configuration, operational authority and short-term reliability) and minimum functions (tariff administration and design, congestion management, parallel path flow, ancillary services, OASIS information, market monitoring, planning and expansion and interregional coordination). 18 CFR (S) 35.34. Under the provisions of Order No. 2000, to date the only proposed "RTO" is the Alliance RTO. Alliance Companies, 89 FERC (P) 61,298 (1999). The regional organizations

to which ComEd and PECO belong, MISO and PJM, are "independent system operators," which is a type of organization structure for the control or operation of transmission facilities of multiple owners. Order No. 2000 at 24. MISO and PJM may become RTOs in the future. Order No. 2000 requires all public utilities that own, operate or control interstate transmission facilities subject to FERC jurisdiction to file, by October 15, 2000, a proposal for an RTO with the minimum characteristics and functions identified in Order No. 2000, or, alternatively, a description of any efforts made by the utility to participate in an RTO, any obstacles to participation, and any plans and timetable for further work toward RTO participation. Public utilities that are

interstate movement of electricity and provide the tools for meeting the ever increasing demand for capacity on the interstate grid. State and Federal policy makers have recognized that the economic operation of utility systems can be achieved, and indeed is perhaps best achieved, through contractual relations in a competitive marketplace, and not simply through ownership of generation, transmission and distribution facilities.

To summarize the current state of the art described in this section, the ongoing corporate restructuring of the U.S. utility industry reflects the effects of emerging FERC policy on market-based power pricing and on transmission, including Order Nos. 888, 889 and 2000 requiring open access transmission on comparable terms and the functional unbundling of the transmission and wholesale merchant functions, the formation of ISOs and the development of RTOs. It is also the product of many recent State laws mandating competitive resource procurement, retail electric competition and the functional separation (and in some States, divestiture) of generation from transmission and distribution operations. Layered on these changes are both rapid developments in technology and the emergence and growth of the power marketing and energy trading industry, both of which facilitate efficient and competitive low-cost electric markets. The cumulative effect of these regulatory, technological and economic changes has dramatically altered the "state of the art" that Congress directed the Commission to consider more than sixty years ago. The Commission must "respond realistically to the changes in the utility industry and interpret more flexibly each piece of the integration equation."/40/ The SEC Staff in its 1995 Report advised the SEC that "open access under FERC Order No. 636, wholesale wheeling under the Energy Policy Act and the development of an increasingly competitive and interconnected market for wholesale power have expanded the means for achieving the interconnection and the economic operation and coordination of utilities with non-contiguous service territories." The "means for achieving interconnection" referred to in the 1995 Report are even more developed because of the open access requirements of Order No. 888 and Order No. 2000 which were promulgated after the 1995 Report was prepared.

The 1935 Act was intended, among other things, to prevent the evils that arise "when the growth and extension of holding companies bears no relation to the economy of management and operation or the integration and coordination of related operating properties . . ."/41/ The Exelon system will be an example of growth that promotes economies and coordination of related operating properties within a single region in a manner consistent not only under the policies of

members of an existing, FERC-approved regional entity must file by January 15, 2001 an explanation of the extent to which the regional entities in which they participate meet the minimum characteristics and functions of an RTO. In Order No. 2000, FERC has adopted a flexible approach that permits a number of different types of RTOs to come into being, including non-profit independent system operators and for-profit transmission companies (transcos), combinations of these two types of entities, or other approaches as yet to be determined. FERC also adopted the principle of "open architecture" so that an RTO and its members can evolve over time and improve structure, geographic scope, market support and operations to meet market needs. FERC will allow RTOs to propose changes to their enabling agreements to meet changing market, organization and policy needs. The inefficiencies that continue to exist in today's open access transmission system will be reduced as RTOs develop and mature. More information on how RTOs will further facilitate the open access transmission system is set forth in the Interconnection Analysis.

/40/ 1995 Report at 67.

/41/ Section 1(b)(4).

the Act, but also with the policies of FERC and State regulatory initiatives. Under the Act, the ultimate determination has always been whether, on the facts of a given matter, the proposed transaction "will lead to a recurrence of the evils the Act was intended to address." /42/ The following section B, "Section by Section Analysis" will examine each of the requirements of the Act and show that the Merger will satisfy all those provisions, will not result in a recurrence of the evils to which the Act is directed and, therefore, should be approved by the Commission.

B. Section by Section Analysis

The following is a section-by-section analysis that will demonstrate that the Merger is consistent with each of the referenced sections of the Act and should, therefore, be approved by the Commission. This discussion will show that the Merger clearly comports with Commission precedent. As noted, the one area where the Merger might be said to present novel facts, is in the method of establishing "interconnection" sufficient to meet the integration requirements of the Act. The discussion of this topic is found under section 3. (ii) "The Merger is Not Detrimental to Carrying Out the Provisions of Section 11" and section 3. (iii) (A) "Exelon Will Meet All Four Parts of the Integration Requirement -- Interconnection," below.

1. Section 9(a)(2) -- Acquisition of Utility Stock

Section 9(a)(2) makes it unlawful, without approval of the Commission under Section 10, "for any person...to acquire, directly or indirectly, any security of any public-utility company, if such person is an affiliate...of such company and of any other public-utility or holding company, or will by virtue of such acquisition become such an affiliate." /43/ As a result of the Merger, Exelon will directly or indirectly acquire all of the outstanding voting securities of, and therefore be an affiliate of, each of the following public-utility companies: ComEd, the Indiana Company, PECO, Genco and the Conowingo Companies. /44/ The Merger therefore requires prior Commission approval under the standards of Section 10. The relevant standards are set forth in Sections 10(b), 10(c) and 10(f) of the Act.

The Merger complies with all of the applicable provisions of Section 10 of the Act and should be approved by the Commission:

- . The consideration to be paid in the Merger is fair and reasonable.

/42/ Union Electric Co., quoted in Southern Co., Holding Company Act Release

No. 25639 (Sept. 23, 1992).

/43/ Under the definition set forth in Section 2(a)(11), an "affiliate" of a specified company means "any person that directly or indirectly owns, controls, or holds with power to vote, 5 per centum or more of the outstanding voting securities of such specified company," and "any company 5 per centum or more of whose outstanding voting securities are owned, controlled, or held with power to vote, directly or indirectly, by such specified company."

/44/ See Note 2 supra regarding the possibility of additional "public utility

companies" being created as part of the Exelon system. Any such public utility will involve only the existing facilities and operations of ComEd or PECO and no utility facilities or operations of any other unaffiliated party will be acquired (other than qualified EWGs and FUCOs).

- . The Merger will not create detrimental interlocking relations or concentration of control.
- . The Merger will not result in an unduly-complicated capital structure for the Exelon system.
- . The Merger is in the public interest and the interests of investors and consumers.
- . The Merger is consistent with Section 8 and not detrimental to carrying out the provisions of Section 11 of the Act.
- . The Merger tends toward the economical and efficient development of an integrated electric system and a permitted additional integrated gas system.
- . The Merger will comply with all applicable State laws.

2. Section 10(b) -- Commission to Approve if Three Requirements Met

Section 10(b) provides that if the requirements of Section 10(f) are satisfied, the Commission shall approve an acquisition under Section 9(a) unless the Commission finds that:

- . such acquisition will tend towards interlocking relations or the concentration of control of public-utility companies, of a kind or to an extent detrimental to the public interest or the interests of investors or consumers;
- . in case of the acquisition of securities or utility assets, the consideration, including all fees, commissions, and other remuneration, to whomsoever paid, to be given, directly or indirectly, in connection with such acquisition is not reasonable or does not bear a fair relation to the sums invested in or the earning capacity of the utility assets to be acquired or the utility assets underlying the securities to be acquired; or
- . such acquisition will unduly complicate the capital structure of the holding-company system of the applicant or will be detrimental to the public interest or the interests of investors or consumers or the proper functioning of such holding-company system.

Control (a) Section 10(b)(1) -- Interlocking Relations/Concentration of

Applicable Standard. The standards of Section 10(b)(1) are satisfied

because the Merger will not "tend towards interlocking relations or the concentration of control of public utility companies, of a kind or to an extent detrimental to the public interest or the interests of investors or consumers." By its nature, any merger results in new links between previously unrelated companies. The Commission has recognized that such interlocking relationships are permissible in the interest of efficiencies and economies./45/ The links that will be established as a result of the

/45/ Northeast Utilities, Holding Co. Act Release No. 25221 (Dec. 21, 1990),

 as modified, Holding Co. Act Release No. 25273 (Mar. 15, 1991), aff'd sub

 nom. City of Holyoke v. SEC, 972 F.2d 358 (D.C. Cir. 1992) ("interlocking

 relationships are necessary to integrate [the two merging entities]").

Merger are not the types of interlocking relationships targeted by Section 10(b)(1), which is primarily aimed at preventing business combinations for reasons unrelated to attaining operating synergies. In the present circumstances, the so-called interlocking relationships will consist of new Boards of Directors of Exelon and its subsidiaries and various contractual arrangements designed to integrate the Exelon system and to produce efficiencies and economies. The Merger Agreement provides for the Board of Directors of Exelon to consist of up to 16 members, one-half designated by Unicom and one-half designated by PECO.^{46/} This is a typical arrangement in a merger of equals transaction such as the Merger.

A variety of contractual arrangements among the companies in the Exelon system will be established, including the following:

- . General Service Agreements. ComEd, the Indiana Company, PECO, Genco ----- and the Conowingo Companies will each enter into a General Services Agreement with Exelon Services. Under the General Services Agreement, Exelon Services will also provide services to Exelon's direct and indirect non-utility subsidiaries. Through the consolidation of functions into Exelon Services, the Exelon system will achieve substantial economies and efficiencies. Services incidental to their business function may be provided directly by ComEd or PECO. These services will be also subject to Commission rules. The provision of services between ComEd and PECO and certain affiliates will be subject to State regulation as well.
- . Genco, ComEd, PECO Power Sales Agreements. All generating facilities ----- of ComEd and PECO will be transferred to Genco. Genco will enter into arrangements with ComEd and PECO to provide them with power necessary for them to meet their "bundled service" or "provider of last resort" obligations under State law and, at the request of ComEd and PECO, will be available to meet future supply needs or coordinate purchases from non-affiliated suppliers. Genco will coordinate Exelon's purchases of power from non-affiliated entities for its competitive marketing activities. Because of this consolidation of generation in a single entity, the Exelon system will not need the typical "joint operating agreement" or "joint dispatch agreement" that many other systems use to achieve coordinated operations.
- . Operating Agreements. To maximize the efficient operation of the ----- Exelon system, Exelon may provide for certain utility functions, such as operation and maintenance of generating or transmission facilities, to be coordinated through an "Operating Company" subsidiary. Opco will have the necessary agreements with the owner of the facilities (Genco, ComEd, PECO, or the EWG's owned by AmerGen or otherwise) to provide these operating and maintenance functions. In all cases, the ultimate control over nuclear generating stations and the operation of those stations will remain with the owner and NRC licensee of those facilities.

^{46/} The Applicant acknowledges the requirements of Section 17(c) of the Act and Rule 70 thereunder with respect to limitations upon directors and officers of registered holding companies and subsidiary companies thereof having affiliations with commercial banking institutions and investment bankers and undertake that, upon completion of the Merger, it will be in compliance with the applicable provisions thereof.

Marketing. The function of marketing the available generating capacity

of the Exelon system will be coordinated by Genco. Genco will include
the existing energy marketing functions of PECO's Power Team as well
as the wholesale sales and marketing operations of ComEd.

These arrangements are necessary to integrate ComEd, the Indiana Company,
PECO, Genco and the Conowingo Companies fully into the Exelon system and will
therefore be in the public interest and the interest of investors and consumers.
Forging such relationships is beneficial to the protected interests under the
Act and, thus, is not prohibited by Section 10(b)(1). Because substantial
benefits will accrue to the public, investors and consumers from the combination
of Unicom and PECO, whatever interlocking relationships may occur as a result of
the combination are not detrimental.

In applying Section 10(b)(1) to utility acquisitions, the Commission must
further determine whether the acquisition will create "the type of structures
and combinations at which the Act was specifically directed." /47/ The Merger
will not create a "huge, complex and irrational system" but, rather, will afford
the opportunity to achieve economies of scale and efficiencies for the benefit
of investors and consumers. The Merger is a direct response to the desire of the
legislature and regulators in Illinois and Pennsylvania to enhance competition
in the electric utility business. See American Electric Power Company, Inc.,

Holding Co. Act Release No. 20633 (July 21, 1978) ("AEP"). As explained in the

Joint Proxy Statement and Prospectus of Unicom and PECO (the "Joint Proxy
Statement") (a copy of which is included as Exhibit C-2), a primary reason for
the Merger is to position the companies to participate in the growing and
increasingly competitive energy markets. Specifically, the Merger will combine
the strengths of the two companies, enabling them to offer customers a broader
array of energy products and services more efficiently and cost-effectively than
could either company acting alone. At the same time Exelon will benefit from
larger and more diverse asset and customer bases, with enhanced opportunities
for operating efficiencies and risk diversification. Although Exelon will be
one of the larger registered holding companies, its operations will not exceed
the economies of scale of current electric generation and transmission
technology, nor provide undue market power or control to Exelon in the region in
which it will provide service.

Size. While the combination of Unicom and PECO will result in a larger

utility system, it will not exceed the economies of scale that may be achieved
from modern electric generation and transmission technology, on the one hand,
and gas transportation technology on the other. If approved, the Exelon system
will serve approximately 4.8 million electric customers and 400,000 gas
customers located primarily in two states. As of December 31, 1999, the
combined consolidated assets of Unicom and PECO totaled approximately \$35.7
billion and, for the year ended December 31, 1999, combined consolidated
operating revenues totaled approximately \$12.2 billion. As of December 31,
1999, the combined owned summer generating capacity of the regulated utility
operations of ComEd and PECO totaled approximately 18,000 to 19,000 MW. This
figure does not include generating assets owned by AmerGen.

/47/ Vermont Yankee Nuclear Power Corp., Holding Co. Act Release No. 15958

(Feb. 6, 1968).

The following table shows the Exelon system's relative size as compared to other registered systems in terms of assets, operating revenues and customers/48/:

System	Total Assets (\$ Millions)	Operating Revenues (\$ Millions)	Electric Customers (Thousands)
Southern Energy	\$36,192	\$11,403	3,794
AEP /49/	22,848	11,495	2,495
CSW	19,483	6,346	3,022
GPU	13,744	5,482	1,752
Exelon	16,288	4,249	2,041
	36,726	12,225	4,737

Moreover, the Commission has approved a number of acquisitions involving larger and similarly-sized operating utilities./50/

The Commission has rejected a mechanical size analysis under Section 10(b)(1) in favor of assessing the size of the resulting system with reference to the economic efficiencies that can be achieved through the integration and coordination of utility operations. See, e.g., AEP, supra. The Commission in

AEP noted that, although the framers of the Act were concerned about "the evils of bigness, they were also aware that the combination of isolated local utilities into an integrated system afforded opportunities for economies of scale, the elimination of duplicate facilities and activities, the sharing of production capacity and reserves and generally more efficient operations...[and] [t]hey wished to preserve these opportunities." Id. By virtue of the Merger,

Exelon will be in a position to realize precisely these types of benefits. Among other things, the Merger is estimated to yield labor cost savings, corporate and administrative and purchasing savings, and savings in the cost of fuel, information technology, facilities, vehicles, and corporate programs including insurance, advertising, organization dues and benefits./51/

/48/ Source: U.S. Securities and Exchange Commission, Financial and Corporate Report. Holding Companies Registered under the Public Utility Holding Company Act of 1935 as of July 1, 1999 (data provided is as of December 31, 1998); Unicom and PECO from Unaudited Pro Forma Combined Condensed Financial Statements included in S-4 Registration Statement filed as an Exhibit hereto.

/49/ The proposed merger of American Electric Power and Central and South West Corporation is pending before the Commission. In Amendment No. 4 to the U-1 filed in connection with the merger American Electric Power indicates that the combined company would have revenues of \$9,834 million, assets of \$33,227 million and electric customers of 4.7 million.

/50/ See, e.g., Entergy Corporation, Holding Co. Act Release No. 25952 (Dec. 17, 1993) (acquisition of Gulf States Utilities; combined assets at time of acquisition in excess of \$22 billion); TUC Holding Company, Holding Co. Act Release No. 26749 (Aug. 1, 1997) (combination of Texas Utilities Company and ENSERCH Corporation; combined assets at time of acquisition of \$24.0 billion).

/51/ These expected economies and efficiencies from the combined utility operations are described in greater detail in Item 3.B. 3(b).

Competitive Effects. Section 10(b)(1) also requires the Commission to

consider the possible anticompetitive effects of a proposed combination. In this case, Unicom and PECO have filed Notification and Report Forms with the Department of Justice and the Federal Trade Commission pursuant to the HSR Act describing the effects of the Merger on competition in the relevant market. It is a condition to the consummation of the Merger that the applicable waiting period under the HSR Act shall have expired or been terminated.

The competitive impact of the Merger will also be considered by FERC. The Commission has found, and the courts have agreed, that it may watchfully defer to FERC with respect to such matters./52/

As summarized in the testimony of Dr. Hieronymus submitted in support of the FERC application (filed as Exhibit D-1.2 hereto), there is no adverse impact on competition resulting from the consolidation of the pre-merger market shares of ComEd and PECO. The Merger passes the required economic capacity screening analysis except for a relatively minor failure in one destination market in certain time periods. This single failure arises from Dr. Hieronymus' conservative treatment of a ten-year, 300 MW sales agreement which PECO and ComEd entered into in 1996./53/ While in their FERC application ComEd and PECO request that no mitigation be required to offset this screen failure, they nevertheless propose a mitigation measure that eliminates the source of the screen failure, which they will implement if FERC deems mitigation necessary.

Looking beyond the numerical content of the analyses, a broader, qualitative review of the Merger and the other restructuring efforts by ComEd and PECO supports the conclusion that the Merger should be approved with little or no mitigation. Horizontally, ComEd has given up ownership of nearly half of its generation in northern Illinois, a measure which addresses ComEd's position in its own highly concentrated market. Although PECO owns substantial generation in its own right, the newly merged system will own a portfolio of generation that is approximately the same size as, but which is dispersed over a larger area than, ComEd's pre-divestiture portfolio. In the competitive generation market in which they operate, ComEd and PECO will continue to have little ability or incentive to raise market prices. Further, within a relatively short time-frame, ComEd's transmission operation and control area functions will be turned over to the MISO, an independent regional organization that meets FERC's

standards./54/ PECO's transmission already is controlled by PJM.

The Merger will not have any adverse impact on competition within the nuclear power industry. The nuclear power industry consists of a large number of nuclear utilities and suppliers

/52/ See *City of Holyoke v. SEC.*, supra at 363-64, quoting *Wisconsin's Environmental Decade v. SEC.*, 882 F.2d 523, 527 (D.C. Cir. 1989).

/53/ Dr. Hieronymus treats the 300 MW contract as increasing ComEd and PECO's concentration ratios in the ComEd destination market by virtue of the Merger during all hours (except peak periods when ComEd contractually retains control of the energy). In fact, however, the 300 MW Contract provides for delivery of the energy to the American Electric Power or Ameren destination markets. In the absence of Dr. Hieronymus' conservative treatment of the 300 MW contract, no destination market would fail the competitive screen analysis using the economic capacity measure.

/54/ ComEd may turn over its transmission assets to the control of an ITC which will operate with MISO oversight.

engaged in the purchase and sale of nuclear reactors, equipment, fuel and services in a highly competitive worldwide market involving light water reactors, heavy water reactors, gas cooled reactors and other types of power reactors. The combined nuclear operating fleet of ComEd and PECO, consisting entirely of light water reactors, will have a generating capacity of approximately 14,000 MW, representing only 4.6% of the installed worldwide generating capacity of approximately 301,700 MW for light water reactors. Even if PECO's share of the additional light water reactors owned and operated by, or proposed to be acquired by, AmerGen, consisting of an additional 1,676 MW, is included in these totals, the Genco fleet will represent only 5.2% of the installed generating capacity. Because owners of nuclear plants worldwide are potential customers for the products of nuclear suppliers and because of the relatively small share of nuclear generating capacity that Genco will possess, Genco will not be in a position to exert any anticompetitive influence on nuclear suppliers. Accordingly, the "concentration of control" of the combined nuclear operations of ComEd and PECO in Genco resulting from the Merger will not be "of a kind or to an extent detrimental to the public interest or the interests of investors or consumers."

(b) Section 10(b)(2) -- Merger Consideration and Fees

Applicable Standard. Section 10(b)(2) precludes approval of an

acquisition if the consideration to be paid in connection with the combination, including all fees, commissions and other remuneration, is "not reasonable or does not bear a fair relation to the sums invested in or the earning capacity of . . . the utility assets underlying the securities to be acquired." The Commission has found "persuasive evidence" that the standards of Section 10(b)(2) are satisfied where, as here, the agreed consideration for an acquisition is the result of arm's-length negotiations between the managements of the companies involved, supported by opinions of financial advisors./55/

First, the Merger is a merger of equals, with the former Unicom shareholders holding about 46% and the former PECO shareholders holding approximately 54% of the shares of Exelon.

Second, as explained in the Joint Proxy Statement (Exhibit C-2 hereto), the historical price data for Unicom and PECO common stock provide support for the consideration of 0.875 shares of Exelon common stock and \$3.00 in cash for each share of Unicom common stock and one share of Exelon common stock for each share of PECO common stock.

Third, the merger consideration is the product of extensive and vigorous arm's-length negotiations between Unicom and PECO. These negotiations were preceded by extensive due diligence, analysis and evaluation of the assets, liabilities and business prospects of each of the respective companies. This process is described in "Background of the Merger" in the Joint Proxy Statement. As recognized by the Commission in Ohio Power Co., Holding Co. Act Release No.

16753 (June 8, 1970), prices arrived at through arm's-length negotiations are particularly persuasive evidence that Section 10(b)(2) is satisfied.

/55/ See Southern Company, Holding Co. Act Release No. 24579 (Feb. 12, 1988);

Consolidated Natural Gas Co., et al., Holding Co. Act Release No. 25040

(February 14, 1990).

Fourth, nationally recognized independent investment bankers have reviewed extensive information concerning PECO and Unicom, analyzed the merger consideration employing a variety of valuation methodologies, and ultimately opined that the merger consideration is fair to the respective holders of Unicom common stock and PECO common stock as of January 7, 2000, the date of the amendment to the Original Merger Agreement which resulted in the Merger Agreement and the final merger consideration. The investment bankers' analyses are described in detail and their opinions are included in full in the Joint Proxy Statement. The assistance of independent consultants in setting consideration has been recognized by the Commission as evidence that the requirements of Section 10(b)(2) have been met. Southern Company, supra; and SV Ventures, Inc., Holding Co. Act Release No. 24579 (Feb. 12, 1988).

Finally, submitting the Merger for approval by the shareholders of both Unicom and PECO will provide additional assurance that the prices paid are reasonable.

Fees and Expenses. A further consideration under Section 10(b)(2) is the overall fees, commissions and expenses to be incurred in connection with the Merger. Unicom and PECO believe that these items are reasonable and fair in light of the size and nature of the Merger relative to other utility mergers and acquisitions. The anticipated benefits of the Merger to the public, investors and consumers are consistent with recent precedent and meet the standards of Section 10(b)(2).

As set forth in Item 2 of this Application-Declaration, Unicom and PECO together expect to incur a combined total of approximately \$87.4 million in fees, commissions and expenses in connection with the Merger, including the fees of financial and other advisors. AEP and Central and South West Corporation have represented that they expect to incur total transaction fees and regulatory processing fees of approximately \$53 million in connection with their proposed merger. New Century Energies and Northern States Power incurred an estimated \$43.7 million in fees in connection with their proposed merger. The Cincinnati Gas and Electric Company and PSI Resources incurred \$47.12 million in fees in connection with their reorganization as subsidiaries of CINergy; Northeast Utilities alone incurred \$46.5 million in fees and expenses in connection with its acquisition of Public Service of New Hampshire; and Entergy alone incurred \$38 million in fees in connection with its acquisition of Gulf States Utilities--which amounts all were approved as reasonable by the Commission./56/

The Applicant believes that the estimated fees and expenses in this matter bear a fair relation to the value of their respective companies and the benefits to be achieved by the Merger, and further that the fees and expenses are fair and reasonable in light of the size and nature of the Merger. See Northeast Utilities, supra (noting that fees and expenses must constitute normal costs and represent a minor part of the overall acquisition). Based on the closing prices of Unicom and PECO common stock on September 21, 1999, which was the day prior to the original announcement of the transaction, the Merger would be valued at approximately \$18 billion. The total estimated fees and expenses of \$87.4 million represent approximately 0.49% of the value of the consideration to be paid, and are consistent with percentages previously approved by the Commission. See, e.g., Entergy Corp., supra (fees and expenses represented

/56/ CINergy, Holding Co. Act Release No. 26146 (Oct. 21, 1994); Northeast Utilities, Holding Co. Act Release No. 25548 (June 3, 1992); and Entergy Corp., Holding Co. Act Release No. 25952 (Dec. 17, 1993).

approximately 1.7% of the value of the consideration paid to the shareholders of Gulf States Utilities); Northeast Utilities, supra (fees and expenses represented approximately 2% of the value of the assets to be acquired).

(c) Section 10(b)(3) -- Complicated Capital Structure; No Detriment to Protected Interests

Applicable Standard. Section 10(b)(3) requires the Commission to determine whether the Merger will "unduly complicate the capital structure" or be "detrimental to the public interest or the interest of investors or consumers or the proper functioning" of the Exelon system.

Exelon's Capital Structure. The capital structure of Exelon will be substantially similar to capital structures approved by the Commission in other orders.^{/57/} Exelon's capital structure will also be similar to the capital structures of existing registered holding company systems. The shareholders of Unicom and PECO will each receive Exelon common stock. Exelon will own directly or indirectly 100% of the common stock of PECO, Genco, the Indiana Company and the Conowingo Companies, and there will be no minority common stock interest in any of those companies. Exelon will own virtually all (over 99%) of the common stock of ComEd. The very small outstanding amount of ComEd common stock not owned by Exelon relates to outstanding warrants and convertible preferred stock of ComEd which converts into ComEd common stock. Although Unicom has had a standing exchange offer whereby it will exchange for Unicom common stock any ComEd common stock issued on the exercise of these warrants or convertible preferred stock, some shareholders have failed to take advantage of the offer. Exelon expects to continue to make available a similar exchange offer post merger.^{/58/} Consequently, there will be no disadvantage to those few holders of ComEd common stock as a result of the transactions. They will be able to exchange their ComEd common stock for Exelon common stock at any time.

Although Exelon will have an authorized class of preferred stock, there are no current plans to issue any Exelon preferred stock. Exelon will have the ability to issue, subject to the approval of the Commission, preferred stock, the terms of which may be set by Exelon's Board of Directors. See, e.g.,

Columbia Gas System, Inc., Holding Co. Act Release No. 26361 (Aug. 25, 1995)

(approving restated charter, including authorization to issue preferred stock the terms of which, including voting rights, can be established by the board of directors). The only outstanding class of voting securities of Exelon's direct non-utility subsidiaries will be common stock and, in each case, all issued and outstanding shares of such common stock will be held by Exelon (except as noted in Exhibits I-1 and I-2).

The existing debt securities and preferred stock of ComEd and PECO will remain outstanding without change.

^{/57/} See, e.g., Ameren Corporation, Holding Co. Act Release No. 26809 (Dec. 30, 1997); CINergy Corp; Holding Co. Act Release No. 26934 (Nov. 2, 1998); and Centerior Energy Corp., Holding Co. Act Release No. 24073 (April 29, 1986).

^{/58/} Exelon will seek the necessary approval for such exchange in a separate Application-Declaration covering its financing needs following the Merger.

Set forth below are summaries of the capital structures of Unicom and PECO as of December 31, 1999, and the pro forma combined consolidated capital structure of Exelon (assuming the Merger occurred on December 31, 1999):

Unicom and PECO Historical Capital Structures
(dollars in millions)

	Unicom -----	PECO ----
Common stock equity	\$ 5,333	\$1,773
Preferred stock	352	321
Long-term debt	7,130	5,969
Short-term debt/15/	742	291
	-----	-----
Total	\$13,557	\$8,354
	=====	=====

Exelon Pro Forma Consolidated Capital Structure
(dollars in millions)(unaudited)

Common stock equity	\$ 6,506
Preferred stock	673
Long-term debt	13,599
Short-term debt/59/	1,333

Total	\$22,111
	=====

Exelon's pro forma consolidated common equity to total capitalization ratio of 29.4% is at the "traditionally acceptable 30% level."/60/ Accordingly, the Merger will not unduly complicate the capital structure of the resulting holding company.

No Detriment to Protected Interests. Section 10(b)(3) also requires the

Commission to determine whether the proposed combination will be detrimental to the public interest, the

/59/ Includes current portion of long-term debt.

/60/ Northeast Utilities, Holding Co. Act Release No. 25221 (Dec. 21, 1990);

Exemption of Issuance and Sale of Certain Securities by Public-Utility

Subsidiary Companies of Registered Public-Utility Holding Companies,

Holding Company Act Release No. 25573 (July 7, 1992). Under section 7(d)(1) of the Act, the Commission generally has required a registered holding company system and its public-utility subsidiaries to maintain no more than a 65/30 debt/common equity ratio, with the balance generally being preferred equity. Such debt/equity capitalization requirement was included in rule 52, as originally adopted, as applied to securities issued by public-utility subsidiaries, but was eliminated in 1992. Several extraordinary events in recent years involving write-offs related to utility restructuring have resulted in lower than historical levels of retained earnings at Unicom and PECO. The companies expect that Exelon's common stock ratio will improve after the merger. See Unaudited Pro Forma Combined Condensed Financial Statements in the Form S-4 Registration Statement filed as an exhibit hereto.

interests of investors or consumers or the proper functioning of the combined Exelon system. The combination of Unicom and PECO is entirely consistent with the proper functioning of a registered holding company system. The utility operations of ComEd, the Indiana Company, PECO, Genco and the Conowingo Companies will be (a) effectively interconnected by means of available open access transmission capacity, (b) economically operated under normal conditions as a single, coordinated system, through Genco's centralized generation and marketing function and (c) confined to a single area or region in northern Illinois and eastern Pennsylvania which is not so large as to impair (considering the state of the art) localized management, efficient operation and effective regulation. Further, the combination will result in substantial, otherwise unavailable, savings and benefits to the public and to consumers and investors of both companies, and the integration of ComEd, the Indiana Company, PECO, Genco and the Conowingo Companies will improve the efficiency of their respective systems.

Finally, consummation of the Merger is conditioned upon receipt of all necessary State and Federal regulatory approvals. These regulatory approvals will assure that the interests of retail customers and wholesale customers are adequately protected. FERC's approval will provide assurances that there is no significant adverse effect on competition, no adverse effect on wholesale rates, and no adverse effect on Federal and State regulation. Moreover, as noted by the Commission in approving Entergy's acquisition of Gulf States Utilities, "concerns with respect to investors' interests have been largely addressed by developments in the Federal securities laws and the securities market themselves."/61/ Exelon, ComEd and PECO will be reporting companies subject to the continuous disclosure requirements of the Securities Exchange Act of 1934, as amended ("1934 Act") following the completion of the Merger. The various reports previously filed by Unicom, ComEd and PECO under the 1934 Act contain readily available information concerning the Merger. For these reasons, the Applicant believes that the Merger will be in the public interest and the interest of investors and consumers and will not be detrimental to the proper functioning of the resulting holding company system.

3. Section 10(c) -- Sections 8 and 11; Integration

Section 10(c) of the Act provides that, notwithstanding the provisions of Section 10(b), the Commission shall not approve:

- . an acquisition of securities or utility assets, or of any other interest, which is unlawful under the provisions of Section 8 or is detrimental to the carrying out of the provisions of Section 11; or
- . the acquisition of securities or utility assets of a public utility or holding company unless the Commission finds that such acquisition will serve the public interest by tending towards the economical and the efficient development of an integrated public-utility system.

/61/ Entergy Corp., Holding Co. Act Release No. 25952 (Dec. 17, 1993).

(a) Section 10(c)(1) -- Sections 8 and 11

(i) The Merger will be lawful under Section 8

Section 10(c)(1) first requires that the Merger be lawful under Section 8. That section was intended to prevent holding companies, by the use of separate subsidiaries, from circumventing State restrictions on common ownership of gas and electric operations. The Merger will not result in any new situations of common ownership - so-called "combination" systems - within a given State. ComEd has provided, and will continue to provide, only electric service and only in Illinois. PECO will continue to provide electric service only in and around Philadelphia, Pennsylvania and, as it has for many years, also provide gas distribution services in southeastern Pennsylvania. Because Pennsylvania law does not prohibit combination gas and electric utilities serving the same area, the Merger does not raise any issue under Section 8 or the first clause of Section 10(c)(1).

Additional assurances are expected to be provided in connection with PECO's application for merger approval filed before the Pennsylvania Commission. In its Pennsylvania application PECO has requested that the Pennsylvania Commission find that the proposed combination "is [not] likely to result in anticompetitive or discriminatory conduct, including the unlawful exercise of market power, which will prevent retail [gas] customers in this Commonwealth from obtaining the benefits of a properly functioning and workable competitive retail [natural gas] market," as required by the Pennsylvania Natural Gas Competition Act./62/ A favorable finding by the Pennsylvania Commission will provide the Commission additional assurance that the requirements of Section 8 of the Act have been satisfied.

(ii) The Merger Is Not Detrimental to Carrying Out Provisions of Section 11

Section 10(c)(1) also requires that the Merger not be "detrimental to the carrying out of the provisions of Section 11." Section 11(b)(1) directs the Commission generally to limit a registered holding company "to a single integrated public-utility system" and permitted "additional" systems. Because the combination of ComEd, PECO and Genco will result in a single, integrated electric utility system (the "Exelon Electric System") and Exelon will hold a permitted additional gas-utility system, the Merger will in no way be detrimental to carrying out the provisions of Section 11.

(A) The Utility Systems Created by the Merger

The Merger will result in the combination of the electric systems of ComEd and PECO, which as noted operate primarily in only two States. ComEd and PECO will transfer their generating assets to Genco. Genco will provide power to ComEd and PECO pursuant to FERC approved power purchase agreements. Genco will be able to provide power to ComEd's traditional retail bundled load, to PECO's traditional bundled or provider of last resort load, and to other wholesale and retail customers of Exelon on an economical and efficient basis. As the single, central controlling entity for all the electric generation of the Exelon Electric System, Genco will be able to balance the supply it controls with the needs of the Exelon Electric System

and off-system opportunities. Through the ComEd and PECO transmission facilities, as well as the open access transmission capacity available to Exelon, Genco will be able to move power as needed from Exelon's generating resources to those customers.

The gas distribution facilities of PECO are and have been for many years a single, integrated gas utility system (the "Exelon Gas System"). Consequently, the Commission should find that the Exelon Electric System will be the primary integrated public-utility system for purposes of Section 11(b)(1), and that the Exelon Gas System is a permissible additional system under the A-B-C clauses of that section.

(B) Statutory Standard -- Integration of Electric Operations In Today's Environment

The electric system of ComEd can be combined with the electric operations of PECO and Genco to form a single integrated electric public-utility system. The term, as applied to electric utility companies, means:

a system consisting of one or more units of generating plants and/or transmission lines and/or distributing facilities, whose utility assets, whether owned by one or more electric utility companies, are physically interconnected or capable of physical interconnection and which under normal conditions may be economically operated as a single interconnected and coordinated system confined in its operations to a single area or region, in one or more States, not so large as to impair (considering the state of the art and the area or region affected) the advantages of localized management, efficient operation, and the effectiveness of regulation.

Section 2(a)(29)(A). As the definition suggests, and the Commission has observed, Section 11 is not intended to impose "rigid concepts" but rather creates a "flexible" standard designed "to accommodate changes in the electric utility industry." /63/ Section 2(a)(29)(A) expressly directs the Commission to consider the "state of the art" in analyzing the integration requirement. As indicated above, the Commission is not constrained by its past decisions interpreting the integration standards based on a different "state of the art." See AEP, supra (noting that the state of the art -- technological advances in generation and transmission, unavailable thirty years prior -- served to distinguish a prior case and justified "large systems spanning several states.")

The ultimate determination under Section 11 of the Act has always been whether, on the facts of a given matter, the proposed transaction "will lead to a recurrence of the evils the Act

/63/ UNITIL Corp., Holding Co. Act Release No. 25524 (April 24, 1992); see also Yankee Atomic Electric. Co., Holding Co. Act Release No. 13048 (Nov. 25, 1955) ("We think it is clear from the language of Section 2(a)(29)(A), which defines an integrated public-utility system, that Congress did not intend to imposed [sic] rigid concepts with respect thereto.") (citations omitted); and see also Madison Gas and Electric Company v. SEC, 168 F.3d 1337 (D.C. Cir. 1999) ("section 10(c)(1) does not require that new acquisitions comply to the letter with section 11"). The Commission interprets the 1935 Act and its integration standards "in light of... changed and changing circumstances." Sempra Energy, Holding Co. Act Release No. 26971 (Feb. 1, 1999) (interpreting the integration standards of the 1935 Act in light of developments in the gas industry). Accord, NIPSCO.

was intended to address."/64/ As shown by this Application-Declaration, the combination of Unicom and PECO will in no way lead to a recurrence of the problems the Act was designed to eliminate. In the following section, this Application-Declaration describes how the Exelon electric system will meet all of the four requirements of integration set out in the Act.

(iii) Exelon Will Meet All Four Parts of the Integration Requirement of the Act.

ComEd and PECO intend to integrate their operations in the most economic manner possible, consistent with State and FERC regulatory requirements, to take full advantage of the opportunities available to produce and distribute power at lower cost for the benefit of its customers and shareholders. The following summarizes the factors establishing integration:

- . Centralized Generation Function. Genco will coordinate the efficient

use of the generation formerly held by ComEd and PECO for the benefit of the Exelon Electric System. The creation of Genco is made possible, in part, by the passage of utility regulation restructuring legislation in Illinois and Pennsylvania.
- . Centralized Operations Function. Genco will coordinate the economic

dispatch of all generation and, together with one or more specialized operating subsidiaries, will coordinate the efficient functioning of Exelon's entire electric utility operations -- including transmission and distribution systems. As the industry moves to a competitive model, to the extent the regulated distribution functions continue to be energy suppliers, they will increasingly look to all potential sources of generation in the market. Genco will be able to supply power to its affiliates and to non-affiliated customers.
- . Centralized Nuclear Operations Function. The safe and efficient

operation of all of Exelon's nuclear generating stations will be coordinated through a centralized function which will adopt best practices and gain efficiencies through concentrated efforts.
- . Centralized Administrative Function. Exelon Services Company will be

formed to oversee all centralized corporate and administrative services. Exelon, with corporate headquarters in Chicago, Illinois, will coordinate utility operations functions with facilities in Chicago and Philadelphia, Pennsylvania. ComEd and PECO will maintain the benefits of localized management through local offices throughout their service areas. Exelon's utility subsidiaries will remain fully subject to applicable State and Federal public utility regulation, which will not be adversely affected by the Merger.
- . Centralized Interconnection Management. Exelon will effectuate the

coordinated operations of its generation, transmission and distribution functions through Genco's administration of transmission interconnections sufficient to ensure that the benefits of the centralized control and dispatch of generating assets are realized. Exelon will

/64/ Union Electric, supra.

be interconnected through the transmission facilities of ComEd and PECO and extensive interstate open access transmission capacity. Exelon will have the legal right under the OATTs to move power economically to customers as needed in amounts sufficient to meet its operating needs throughout the Exelon system. Because of legal and operating changes in transmission made within the last five years, Exelon will be one of the first companies to be able to operate in an interconnected and coordinated manner --under normal conditions -- by use of OATTs. Exelon believes the use of a flexible array of firm and non-firm transmission reservations available through the OATTs is sufficient under the Act, and is the best and most economical way, to achieve the interconnection necessary to establish integration. The reservation of a single end-to-end, all hours firm contract path will not add any significant increased capacity, availability, flexibility or reliability to Exelon's interconnections; but will add cost. However, to the extent the Commission deems it necessary under the Act, Exelon will procure a 100 MW firm transmission path as described herein to be part of its interconnection resources.

Size; Single Area or Region. Exelon will not be too large. Given the

"state of the art," Exelon will be sufficiently large to compete effectively in today's electric utility industry. Given the operating and regulatory structure of today's industry, and the fact that Genco will coordinate all generating facilities and one or more service companies will coordinate all operations, Exelon will be confined to a single area or region within the meaning of the Act. ComEd and PECO have a five year history of economic power exchange transactions. The ability to economically interchange power, taking into account transmission cost, demonstrates that ComEd and PECO are in the same area or region. Further, Exelon's distribution areas -- surrounding Chicago and Philadelphia -- are homogeneous and have similar operating characteristics. Although the United States is electrically

interconnected, only those utilities, such as Exelon, which can operate their separate utilities economically and in a coordinated

manner within the meaning of the Act can be considered to be in the

same area or region. This is not a case involving "scattered" properties prohibited by the Act.

Changes brought about in the industry through State and Federal energy restructuring and deregulation have produced a "state of the art" making a combination like Exelon possible today under the standards of the Act. This Application-Declaration will show that the Merger fits squarely within existing Commission precedent. Each of the four integration standards of Section 2(a)(29)(A) is discussed specifically below.

(A) Interconnection

The first requirement for an integrated electric utility system is that the electric generation and/or transmission and/or distribution facilities comprising the system be "physically interconnected or capable of physical interconnection." Historically, the Commission has focused on physical interconnection through facilities that the parties owned or, by specific contract, controlled./65/ As early as 1978, however, -- well before the developments creating a

/65/ See, e.g., Northeast Utilities, Holding Co. Act Release No. 25221 (Dec. 21, 1990) ("Northeast Utilities") at n.74, supplemented, Holding Co. Act Release No. 25273 (Mar. 15, 1991), aff'd sub nom. City of Holyoke v. SEC., 972 F.2d 358 (1992) (Northeast had the right to use a Vermont Electric line for ten years, with automatic

flexible, open access transmission grid -- the Commission considered the effect of joint participation in a power pool as a basis for a finding of integration./66/ To date, the Commission has found interconnection through memberships in "tight" power pools and ISOs./67/ These findings are consistent with the recommendation of the 1995 Report that the Commission "adopt a more flexible interpretation of the geographic and physical integration standards, with more emphasis on whether an acquisition will be economical and subject to effective regulation."/68/

The 1995 Report further recommended that the Commission should increasingly rely on an acquisition's demonstrated economies and efficiencies, rather than upon the physical interconnection of facilities, to meet the integration standard./69/ The 1995 Report noted that the 1935 Act provides the necessary flexibility to adjust the integration standards in light of changes in the "state of the art."/70/ The 1995 Report concluded that it would be a logical extension of prior orders for the Commission to find that wheeling and other forms of sharing power (such as reliability councils and proposed regional transmission groups) meet the statutory interconnection standard./71/

It is important to note that the 1995 Report was issued before FERC's issuance of Order No. 888. As summarized above in Item 3.A, and as described in detail in the Interconnection Analysis included as Exhibit K-1 hereto, it was

Order No. 888 which created the legal framework of practical access to the transmission grid for all generators. Order No. 888 moved

two-year extensions, subject to termination upon two years notice, in order to provide power to a Northeast affiliate.); Centerior Energy Corp.,

Holding Co. Act Release No. 24073 (April 29, 1986) (Cleveland Electric Illuminating Company and Toledo Edison Company were connected by a line owned by Ohio Edison. All three were members of the Central Ohio Power Coordination Group ("CAPCO"). The line connecting Cleveland Electric, Ohio Edison and Toledo was a CAPCO line with segments owned by each of the three named utilities.); Electric Energy, Inc., 38 SEC 658, 668-671 (1958)

(the right to use a transmission line owned by a different company found sufficient to satisfy integration.); Cities Service Power & Light, Co., 14

SEC 28, 53 n.44 (1943) (two companies in the same holding company system were found to be interconnected where energy was transmitted between two separated parts of the system over a transmission line owned by the United States Bureau of Reclamation, under an arrangement which afforded the system the privilege of using the line).

/66/ See AEP, supra ("The pooling issue is one aspect of the major debate, ...

as to what should be the future structure of the electric utility industry. We will not undertake to resolve these issues since they are beyond our mandate in this case and because they are within the province of the Congress and the Department of Energy.").

/67/ UNITIL Corp., supra (interconnection through NEPOOL), and Conectiv, Inc.,

Holding Co. Act Release No. 26382 (Feb. 25, 1998) (interconnection through PJM, Inc.). See also Yankee Atomic Elec. Co., 36 SEC 552, 565 (1955);

Connecticut Yankee Atomic Power Co., 41 SEC 705, 710 (1963) (authorizing

various New England companies to acquire interests in a commonly-owned nuclear power company and finding the interconnection requirement met because the New England transmission grid already interconnected the companies).

/68/ 1995 Report, at 70

/69/ Id.

/70/ Id. at 71.

/71/ Id.

"open access" from a "case-by-case" arrangement of individually negotiated contracts to a standardized system where transmission is available on short notice to all comers at a set price. If the 1995 Report were being written today it seems reasonable to conclude that it would find that the current state of the open access transmission system results in the "interconnection" of participating utilities within the meaning of the Act. /72/

The Commission in the past has found the interconnection requirement met where the parties had a firm contract path. "The physical interconnection requirements of [Section 2(a)(29)(A)] are met if the two service areas are connected by power transmission lines that the companies have the right to use whenever needed."/73/

ComEd and PECO will be "physically interconnected or capable of physical interconnection" through the open access transmission service which they "have the right to use" by virtue of EPACT, FERC Order No. 888 and the applicable open access tariffs of the utilities forming the paths between the two parts of the Exelon Electric System. Genco will coordinate Exelon's access to transmission services from several, redundant sources -- those unaffiliated transmission providers which operate in the region where the Exelon Electric System will be located. These transmission providers are required to offer a wide variety of highly flexible, time and quality differentiated services. These services are available under the providers' FERC mandated OATTs. Service can be reserved and scheduled by Genco by using readily available, easy to use, and redundant communications systems. Genco will be able to obtain the transmission services that are required to connect the Exelon Electric System at just, reasonable and nondiscriminatory rates, which by regulation, can be no higher than the rates these unaffiliated transmission providers must charge themselves for their own comparable transactions. In effect, Genco will be able to control the movement of power within the Exelon Electric System just as reliably and efficiently as if all generation, transmission and distribution facilities of Genco, ComEd and PECO were directly interconnected over Exelon owned facilities.

Further, as detailed in the Interconnection Analysis, the legal rights

encompassed in Order No. 888 and the open access tariffs of transmission owners will provide a more comprehensive and reliable method of interconnection than the single contract path relied upon in prior cases. The transmission capacity available through open access transmission tariffs is directly analogous to the rights attendant to participation in a power pool. In fact, the "right to use" transmission afforded by OATTs is equivalent, in all respects essential to the analysis under

/72/ See the 1995 Report at 71.

/73/ Centerior, supra (emphasis added). Dicta in a series of Commission

decisions states that contract rights cannot be relied on to integrate two "distant" systems. See, e.g., WPL Holdings, Inc., Holding Co. Act Release

No. 26856 (April 14, 1998), citing UNITIL Corp., supra; Northeast

Utilities, Holding Co. Act Release No. 25273 (March 15, 1991); Centerior

Energy Corp., supra. In the Applicant's view, it would be incorrect to

interpret these statements to mean that a firm contract path might not
meet the "physical interconnection" requirement because of its length. In
both UNITIL and Northeast Utilities, the Commission explained that the

reason a contract path might not "integrate" two distant utilities was due
to the "single area or region" requirement of Section 2(a)(29)(A). UNITIL,

supra at n.30; Northeast Utilities, supra at n.75. The Commission did not

hold in any of these cases that the length of a firm contract path was
relevant in determining whether the "physically interconnected or capable
of physical interconnection" requirement of Section 2(a)(29)(A) was met.
Such a holding would be contrary to the literal language of Section
2(a)(29)(A).

the Act, to the rights associated with power pools which the Commission has often, and recently, relied on for a finding of interconnection and the ability to operate in a coordinated manner./74/

In 1992, the Commission approved the merger of UNITIL Corporation with Fitchburg Gas and Electric Light Company based on their common membership in the New England Power Pool ("NEPOOL"), a regional power pool./75/ UNITIL and Fitchburg were not connected through transmission lines that they owned. Rather, as the Commission noted in its order:

Access to and use of the regional transmission network, which

is owned by the larger New England utilities, is provided by
the NEPOOL Agreement and by transmission rate schedules and
contracts filed with the Federal Energy Regulatory Commission.

In this matter, the Companies are indirectly interconnected
through NEPOOL- designated transmission facilities ("PTF")
and other nonaffiliated transmission facilities pursuant to
the NEPOOL Agreement and other separate agreements with
nonaffiliated companies. The Commission has previously
found a system to be "capable of physical interconnection"
on the basis of contractual rights to use a third-party's
transmission lines.

This matter differs from prior orders in that there will be
no particular line through which transfers of power will be

made among the Companies. Instead, power will be delivered

through a nonaffiliated system and a transmission charge

will be paid to the owner of the facilities. On the facts

of this matter, the Commission is satisfied that the
Companies' contractual arrangements for transmission
service establish that the UNITIL electric system will
satisfy the physical interconnection requirement of the
Act. (emphasis added)/76/

In 1998, based on UNITIL, the Commission found in Conectiv, Inc.,/77/ that

Delmarva Power & Light Company and Atlantic Energy, Inc. met the physical
interconnection

/74/ E.g., Conectiv, Inc., Holding Co. Act Release No. 26832 (February 25,

1998).

/75/ New England Power Pool, 79 FERC (P)61,374 (1997); New England Power Pool,

83 FERC (P)61,045 (1998).

/76/ With respect to the "other separate agreements with nonaffiliate
companies" described above, the Commission by footnote explained that
Fitchburg obtained primary transmission service from New England Power
Company ("NEPCO") under the NEPOOL Agreement and through NEPCO's FERC
Tariff Number 3, which provided for non-firm service. The Commission went
on to note that Fitchburg was eligible to use NEPCO's FERC Tariff No. 4
should Fitchburg and UNITIL Power conduct more power sales or swaps. The
interconnection found in these cases was therefore effected pursuant to
FERC filed tariffs. Similarly, the FERC filed OATTS constitute tariffs
pursuant to which Exelon will "have the right" to use intervening
transmission facilities to conduct its coordinated operations.

/77/ Conectiv, Inc., Holding Co. Act Release No. 26832 (February 25, 1998).

requirements of Section 2(a)(29)(A) through their common membership in PJM./78/
The Commission noted that Delmarva and Atlantic were not physically interconnected, but:

are interconnected through their undivided ownership
interest in, and/or rights to use, the same regional

generation facilities and extra-high voltage transmission
facilities, as well as through their contractual rights

to use the transmission facilities of other members of

the PJM regional power pool. (emphasis added)/79/

The language from UNITIL and Conectiv quoted above also describes the

arrangement which Exelon proposes. All of the essential elements necessary for
the Commission's findings in those cases are present in this case:

- . Exelon will use the tariffed transmission service available from others.
- . Exelon will use "no particular line" but will be able to transmit power,
for a tariffed charge, over the facilities of an unaffiliated person (or
persons).
- . Through the tariff, which each transmission owner must file with FERC,
Exelon will have a legal right to obtain this service./80/

Thus, under the clear precedent of UNITIL and Conectiv, the systems of

ComEd and PECO will be "interconnected" within the meaning of the Act.

Applicant believes that relying on numerous transmission service reservations is a better, more flexible and more economical way of realizing significant interchange capability -- better than a more traditional contract path. The open access approach increases the number of potential interconnection options and allows the flexible use of less expensive non-firm products where appropriate while providing a high level of assurance that transmission capacity will be available when needed. This flexible use of the transmission grid also enhances competition by more efficiently utilizing transmission resources. When combined, ComEd and PECO will continue to develop and refine this open access approach, and make other changes necessary to meet anticipated needs in the short-, medium- and long-term markets. The open access approach, therefore, will promote the public interest and benefit consumers and shareholders.

The model of single contract path or single line interconnection as a means of establishing integration that has characterized past Commission decisions was developed in an industry characterized by the almost universal feature of vertically integrated electric utilities. This industry structure, particularly the absence of open access transmission, made it impossible for two merging companies to force a utility which controlled transmission in the area between them to provide transmission on an economic or reasonable basis. Thus, it was practically

/78/ Pennsylvania -- New Jersey -- Maryland Interconnection, 81 FERC (P)

61,257 (1998). PJM is a regional power pool and the first, FERC-approved,
operational ISO.

/79/ Conectiv, Inc., Holding Co. Act Release No. 26832 (February 25, 1998).

/80/ See the Interconnection Analysis included as Exhibit K-1 for a detailed
description of how OATTs will allow Exelon to transmit power.

impossible to arrange for more than minimal interties. The best compromise was limited capacity, individually-negotiated contract paths. The capacity and duration were often limited because it was not economic to arrange for greater capacity or duration. Similarly, when utilities were able to construct new interties between their areas, these were also often limited in size because of economic constraints.

As described above and in the Interconnection Analysis in Exhibit K-1, with -----
the advent of EPACT and FERC Order No. 888, an intervening utility is now obligated to provide available transmission capacity and, if there is insufficient capacity, are obligated to offer to construct additional transmission. These changes in the law, and more importantly the resulting development of a robust market for transmission services -- which will only be enhanced in the future as a result of the development of existing and future RTO's -- have enabled a far superior method of providing for economic coordination of electric utilities. These developments allow utilities to obtain a balanced portfolio of transmission capacity over multiple paths, with various degrees of firmness, providing for various amounts of capacity which can be designed by the holding company system to enhance its optimal integrated operations. Today, superior interchange ability can be achieved via a portfolio of short-term firm and non-firm transmission at a lower all-in cost than the more limited, rigid, single firm contract path.

The feasibility of transmitting power from the ComEd electric system to the PECO electric system is clearly demonstrated by the actual recent operations of the companies. ComEd and PECO have engaged in power sales arrangements since 1996. PECO has been able to move this power to Pennsylvania for its use through various firm and non-firm open access transmission arrangements. Details regarding the power transferred under these arrangements are included in the Interconnection Analysis in Exhibit K-1.

(B) The Contract Path

Exelon believes that the required electrical interconnection can be established without a firm path, and that its ability to operate economically under normal conditions as a single interconnected and coordinated (integrated) system will be enhanced through the use of an array of firm and non-firm open access transmission reservations as presented in this Application-Declaration./81/

Nevertheless, if the Commission finds it necessary to more fully establish the integration of the Exelon Electric System, for three years following consummation of the Merger, ComEd and PECO will procure a firm contract for a 100 MW unidirectional path from ComEd to PECO. If required, Exelon will procure this transmission capacity through one or a combination of three alternative paths that are available. The path may be:

- . ComEd to American Electric Power to First Energy to PJM
- . ComEd to American Electric Power to Virginia Electric Power to PJM; or
- . ComEd to American Electric Power to Allegheny Power System to PJM.

/81/ If the Commission requires Exelon to establish the 100 MW firm contract path, this path will be used as a part of the overall portfolio of transmission arrangements that Exelon will use to conduct its coordinated operations following the Merger.

As noted in the Interconnection Analysis, Exelon believes that there is sufficient available transmission capacity to allow Exelon to economically reserve this 100 MW path on a firm basis for a period of 3 years following the Merger. Further, because the transmission owners listed above are obligated under their OATTs to provide this service, if available, at their tariffed rates, Exelon can be assured that it will have the ability to procure the needed service at a reasonable price./82/

Applicant notes that the Commission has in the past declined to require a holding company system to build an additional line or otherwise increase physical interconnections when no economic benefit would be derived from such action./83/ Applicant submits that an inflexible requirement for a specific contract path falls within this precedent -- requiring a fixed, firm contract path would be uneconomical -- and the Commission should rely on the dynamic operation of the transmission grid and OATTs to make the finding of interconnection of the Exelon system./84/

(C) Coordination

Coordination of Generation. Historically, the Commission has interpreted the requirement that an integrated electric system be economically operated under normal conditions as a single interconnected and coordinated system, "to refer to the physical operation of utility assets as a system in which, among other things, the generation and/or flow of current within the system may be centrally controlled and allocated as need or economy directs."/85/ The Commission has noted that, through this standard, Congress "intended that the utility properties be so connected and operated that there is coordination among all parts, and that those parts bear an integral operating relationship to one another."/86/

/82/ PECO has made an OASIS request on the AEP transmission system for 100 MW for the period 2001, 2002, and 2003 with a Point-of-Receipt (POR) of ComEd and a Point-of-Delivery (POD) of Virginia Power (VP). As of March 1, 2000, the request had not yet been accepted by AEP. No other requests have been made. However, PECO currently has firm rights to 820 MW of VP transmission with a POR of AEP and a POD of PJM for the year 2000. It is expected that PECO will exercise its right of "rollover" on this transmission reservation, subject to Section 2.2 of the Virginia Power Open Access Transmission Tariff. With respect to the PJM leg of any firm path it would obtain, it is expected that Exelon will rely on the right PECO Energy will have as a Load-Serving Entity to use "Secondary Service" as defined by Section 28.4 of the PJM Open Access Transmission Tariff rather than obtain from PJM 100 MW of firm point-to-point transmission service. If required by the Commission to obtain 100 MW of firm point-to-point service, then a request for such service will be made on the PJM OASIS at an appropriate time. With respect to the ComEd leg of any firm path Exelon would obtain, Exelon would make a reservation for such transmission service at an appropriate time.

/83/ UNITIL, supra, at note 29; Electric Energy, Inc., 38 SEC 658, 669 (1953) (direct interconnection not required in circumstances which would have resulted in an uneconomic duplication of transmission facilities.)

/84/ See the Interconnection Analysis for information regarding the cost of a firm contract path.

/85/ See, e.g. Conectiv, supra, citing The North American Company, Holding Co. Act Release No. 3466 (April 14, 1942), aff'd, 133 F.2d 148 (2d Cir. 1943), aff'd on constitutional issues, 327 U.S. 686 (1946) (emphasis supplied).

/86/ Id., (citations omitted).

Traditionally, the most obvious indicia of "coordinated operations" was the ability to engage in "automatic central dispatch" or "joint economic dispatch." A single controller would determine which generating units should run at what time to achieve the lowest overall cost of generation. For this to work, all generating resources had to be interconnected with the distribution system.

It is clear from the language of the Act and Commission precedent that central or joint dispatch is not per se a requirement for a finding of coordinated operations./87/ Central dispatch was a means to accomplish the

efficient "coordinated" operations required by the Act not an end in itself.

Applicant submits that the need for joint economic dispatch that the Commission has historically focused on reflects a past structure of the industry and regulatory requirements. So-called "single system" dispatch and committed bilateral power exchanges are not required by the explicit terms of the statute and, indeed, may be inconsistent with regulatory requirements and the economical and efficient operation of large systems. In any event, the goals formerly satisfied by centralized, coordinated dispatch are now met by employing market mechanisms. Applicant submits that in today's environment, the coordination requirement should be deemed satisfied if:

- . utilities are able to achieve efficiencies through such measures as coordinated generation operations, even where such operations do not rise to the level of traditional "joint economic dispatch" within a single control area;
- . utilities are able to coordinate cost-effective transmission of power to loads by using open access to transmission; and
- . utilities engage in coordinated marketing efforts, both as a buyer and seller of electricity and integrate other functions including administrative and general services and programs.

These factors are consistent with the requirements of the Act. Applicant will not use traditional joint automatic economic dispatch of the systems of ComEd and PECO as do other registered systems that effectively operate as tight power pools. Given that ComEd and PECO are in separate "control areas," such true automatic joint dispatch would not be feasible./88/

/87/ Electric Energy, Inc., 38 SEC 658 (1958); Cities Service Power & Light Co., 14 SEC 28 (1943). In fact, the Commission has even held that a system could be deemed integrated even if power never flowed between two parts of the system. Environmental Action, Inc. v. SEC, 895 F.2d 1255 (9th Cir. 1990). Environmental Action involved the acquisition by a holding company of an interest in an electric generating plant ("Plant"). The intervenors argued that the acquisition did not satisfy the standards of the 1935 Act because, among other things, the system's existing electric utility company ("UtilCo") had represented that it might purchase up to twenty percent of Plant's capacity if and only if the price of such power was competitive in the market. The Court of Appeals noted that the UtilCo might not purchase any of Plant's output but, nonetheless, concluded that the Commission had correctly found that UtilCo and Plant could be operated as part of a coordinated system, within the meaning of the Act. Id. at 1264-65, citing Electric Energy, Inc., Holding Co. Act Release No. 13871 (Nov. 28, 1958) (the companies sponsoring the construction of a generating plant only pledged to buy any surplus energy remaining after the plant had supplied the needs of the major purchaser, a nonaffiliated government agency).

/88/ A control area is a portion of the transmission and distribution grid where electric control over the area's electric system is performed by one entity, usually the vertically integrated utility having the certificated

However, Exelon will centralize all its generating assets and activities in Genco. Genco will provide power to ComEd and PECO as one of several competing options to meet those companies' bundled load or provider of last resort load obligations. Because of this organizational structure, Exelon will have no need for the type of "joint operating agreement" that many registered public-utility systems have. Those agreements are necessary to achieve integrated operations among several separate subsidiary utility companies. In Exelon's case all generation resources are controlled in a single entity.

Further, under the Exelon system, each utility will be free -- indeed may be required by the Illinois Commission or Pennsylvania Commission -- to seek other sources of supply. Genco may coordinate this effort for ComEd and PECO. It can no longer be assumed that power from affiliates will be the lowest cost source of supply. Because both Illinois and Pennsylvania have adopted retail customer choice regimes, the energy portion of retail service is deregulated. ComEd and PECO are no longer the monopoly provider of generation. Accordingly, coordination through market mechanisms (and not simply joint dispatch of owned generation) will be the key means of achieving the efficiency objectives previously attained through joint dispatch.

The operation and coordination of the ComEd transmission system will increasingly be performed by an ITC operating under the purview of the MISO, just as PJM now operates PECO's transmission facilities. These RTOs will develop all operating procedures and schedules, approve all transmission requests and direct the operation of the transmission grid for all transmission users. The RTOs will also control maintenance and planning of all of the transmission facilities within their respective areas. This degree of coordination and integration of transmission assets is comparable to that presented to, and accepted by, the Commission in UNITIL and Conectiv./89/

Genco will conduct marketing efforts, both as a buyer and seller, for the Exelon system. System dispatchers at Genco will continually monitor the generation needs and capacity of the ComEd and PECO systems. ComEd and PECO already have the ability to reach common

service area corresponding with that portion of the grid. The operators of a control area ensure the constant balanced operation of the grid and directly control the output of all generation within the control area and also control the movement of power into and out of or across the control area. See the Interconnection Analysis in Exhibit K-1. Traditionally, the

several electric utilities making up a registered holding company system acted as a single control area. Thus, it was possible for direct system-wide coordination of generation to achieve maximum efficiency of dispatch of generation. The Commission recognized early that much of the benefit of coordinated operations could be achieved even without centralized automatic dispatch through a single controller. Several cases refer to coordination of generation through voice communication. See, e.g., Electric Energy, Inc., 38 SEC 658 (1958); Cities Service Power & Light

Co., 14 SEC 28 (1943). With the increase in interchange sales between

control areas, and the developing market for wholesale generation, it is now possible to achieve economic benefits equivalent to those achieved by

centralized automatic dispatch across areas that are not in the same control area. The elimination of the need to be in the same control area to achieve generation efficiencies is demonstrated by the development of RTOs. RTOs will assume much of the function of the control areas including control of the transmission grid and dispatching of generation within the RTO's area. See Conectiv, Inc., Holding Co. Act Release No. 26832

(February 25, 1998) at n. 9. ("The PJM staff centrally forecasts, schedules and coordinates the operation of generating units, bilateral transactions and the spot energy market to meet load requirements.")

/89/ See also MISO Order, supra at n. 162 and n. 169.

suppliers, purchasers, and trading hubs in various combinations. The rapidly evolving wholesale power markets surrounding the energy industry will allow Genco to operate its generation assets wherever located as a single system by buying and selling power as the situation dictates to decrease the overall production costs of the system. This method of operation will result in lower available energy costs for the ComEd and PECO distribution functions and provide Genco with an attractively priced product for other market sales. The diversity of weather, time, fuel supply and localized economic conditions applicable to the various generating assets will create opportunities to allocate resources more efficiently.

Coordination of Non-Operating Activities. In applying the integration

standard, the Commission looks beyond simply the coordination of the generation and transmission within a system to the coordination of other activities./90/ Recently, the Commission has found coordinated operational and administrative functions to constitute "de facto" integration for exempt holding companies./91/ Moreover, the coordination of administrative functions and joint marketing activities were crucial factors in the Commission's determination that the coordination requirement was satisfied in Semptra and NIPSCO.

The combined system of Exelon will be coordinated in a variety of ways beyond simply the coordination of the generation and transmission within the system. Among other things, administrative and general services will be performed for the Exelon System by Exelon Services. Exelon may develop additional service companies and/or Opcos to perform specialized functions. Exelon will have a single accounting organization which will be managed by a single team in one or more locations. The coordination and integration of the combined system is expected to be further achieved through the coordination and integration of information system networks; customer service; procurement organizations; organizational structures for power generation, energy delivery and customer relations; and support services.

Efficiency. As indicated by the language of Section 2(a)(29)(A) that the

coordinated system be "economically operated," the Commission further analyzes whether the coordinated operation of the system results in economies and efficiencies. The question whether a combined system will be economically operated under Section 10(c)(2) and Section 2(a)(29)(A) was

/90/ See, e.g., General Public Utilities Co., Holding Co. Act Release No.

13116 (Mar. 2, 1956) (integration is accomplished through power dispatching by a central load dispatcher as well as through coordination of maintenance and construction requirements); Middle South Utilities,

Inc., Holding Co. Act Release No. 11782 (Mar. 20, 1953), petition to

reopen denied, Holding Co. Act Release No. 12978 (Sept. 13, 1955), rev'd

sub nom. Louisiana Public Service Comm'n v. SEC, 235 F.2d 167 (5th Cir.

1956), rev'd, 353 U.S. 368 (1957), reh'g denied, 354 U.S. 928 (1957)

(integration is accomplished through an operating committee which coordinates not only the scheduling of generation and system dispatch, but also makes and keeps records and necessary reports, coordinates construction programs and provides for all other interrelated operations involved in the coordination of generation and transmission); North

American Company, Holding Co. Act Release No. 10320 (Dec. 28, 1950)

(economic integration is demonstrated by the exchange of power, the coordination of future power demand, the sharing of extensive experience with regard to engineering and other operating problems, and the furnishing of financial aid to the company being acquired). See also NIPSCO, supra (functional merger of Bay States and NIPSCO gas supply

department through NIPSCO Services, "a service company subsidiary of NIPSCO that provides financial, accounting, tax, purchasing, natural gas portfolio management, and other administrative services to associate companies.")

/91/ Sierra Pacific Resources, Holding Co. Act Release No. 27054 (July 26,

1999).

recently addressed by the Court of Appeals in *Madison Gas and Electric Company*
v. SEC, 168 F.3d 1337 (D.C. Cir. 1999). In that case, the court determined that
in analyzing whether a system will be economically coordinated, the focus must
be on whether the acquisition "as a whole" will "tend toward efficiency and
economy." *Id.* at 1341. The Merger will meet this standard given the significant
savings and synergies and other benefits expected to result from the Merger.

In short, all aspects of the combined system will be centrally and
efficiently planned and operated. As with other merger applications approved by
the Commission, the combined system will be capable of being economically
operated as a single interconnected and coordinated system as demonstrated by
the variety of means through which its operations will be coordinated and the
efficiencies and economies expected to be realized by the proposed
transaction./92/

(D) Single Area or Region

As required by Section 2(a)(29)(A), the operations of the Exelon Electric
System will be confined to a "single area or region in one or more States."
While the terms "area" and "region" are not defined in the 1935 Act, the "single
area or region" requirement does not mandate that a system's operations be
confined to a small geographic area or a single State./93/ The Commission has
specifically found that the combining systems need not be contiguous in order
for the requirement to be met./94/ Rather, the Commission has found that the
single area or region test should be applied flexibly when doing so does not
undercut the policies of the 1935 Act against "'scatteration' -- [that is,] the
ownership of widely dispersed utility properties which do not lend themselves to
efficient operation and effective state regulation."/95/ Conversely, utilities
which may be "efficiently and economically operated" in an integrated fashion,
and where effective State regulation is not hampered by such combination, should
be considered in the same area or region.

/92/ The savings, synergies and other benefits are discussed under Item
3.B.3.(b).

/93/ In considering size, the Commission has consistently found that utility
systems spanning multiple States satisfy the single area or region
requirement of the 1935 Act. For example, the Entergy system covers
portions of four States (Entergy, *supra*), the Southern system provides
electric service to customers in portions of four States (Southern Co.,
Holding Co. Act Release No. 24579 (Feb. 12, 1988)), and the principal
integrated system of New Century Energies covers portions of five States
(with all of its electric operations serving customers in six States). If
New Century Energies merger with Northern States Power is approved, the
new holding company will serve in 12 States ranging from Michigan and
Minnesota to Colorado and Texas. As early as 1945, the Commission found
that the operations of American Electric Power in seven States were
confined to a single region or area. The AEP system spans about 425 miles
from western Virginia to southern Michigan. American Gas and Electric Co.,
Holding Co. Act Release No. 6333 (Dec. 28, 1945). If approved, the
combined system of AEP and Central and South West would encompass 11
states and about 1,200 miles from the Rio Grande River at the Texas-Mexico
border to the Blue Ridge area of Virginia. By contrast, Exelon's regulated
utility operations will be primarily in only two States. Its main service
areas, Chicago and Philadelphia, are about 750 miles apart.

/94/ See, e.g., *Conectiv*, *supra*; cf. *New Century Energies*, *supra* (integration
test was met where entities planned to build a 300-mile transmission line
to interconnect the systems which operated in noncontiguous territories).

/95/ NIPSCO, *supra* (applying single area or region requirement with respect to
gas utility system); accord, *Sempra*, *supra*. In *Gaz Metropolitan, Inc.*, the
Commission agreed that a single area or region could include areas across
international borders. Holding Co. Act Release No. 26170 (Nov. 23, 1994).

In the 1995 Report, the Staff recommended that the Commission "interpret the 'single area or region' requirement flexibly, recognizing technological advances, consistent with the purposes and provisions of the Act" and that the Commission place "more emphasis on whether an acquisition will be economical."/96/ The Staff recognized that "recent institutional, legal and technological changes . . . have reduced the relative importance of . . . geographical limitations by permitting greater control, coordination and efficiencies" and "have expanded the means for achieving the interconnection and economic operation and coordination of utilities with noncontiguous service territories."/97/ The 1995 Report also recognized that the concept of "geographical integration" has been affected by "technological advances in the ability to transmit electric energy economically over longer distances, and other developments in the industry, such as brokers and marketers."/98/

Importantly, there have been significant further developments since the 1995 Report which further reinforce the conclusions reached by the Staff at that time. FERC Order No. 888 established and Order 2000 will further refine the open access transmission system. In the words of the 1995 Report, these developments dramatically changed the "relative importance of . . . geographical limitations." In 1995, the Staff concluded that the "state of the art" had "expanded the means for achieving the interconnection and economic operation and coordination of utilities with noncontiguous service territories." With the development of open access transmission, the nascent "means" of interconnection seen by the Staff in 1995 have fully developed into more effective and economical "means" by which Exelon may, under normal conditions, achieve the economic operation and coordination of its utilities with noncontiguous service territories as required by the Act. As described in the Interconnection

Analysis, there is a significant volume of interchange of electric power through

 the corridor of major transmission lines running from the Chicago area generally through Indiana, Ohio and the Virginias to southeastern Pennsylvania. The following table gives information regarding transactions over the three-year period ending in 1999:

Year	Total MWh Delivered to PECO
-----	-----
1997	1,552,456
1998	456,623
1999	1,111,613

The decline in 1998 was the result of increased need for power in the ComEd service area.

/96/ 1995 Report at 66, 69.

/97/ 1995 Report at 69.

/98/ Id.

ComEd and PECO have demonstrated through their existing utility operations that it is physically possible and, as importantly, economically possible, for Exelon to conduct its business in a coordinated manner through the use of this available transmission. Although open access transmission is available to all utilities, only those utilities, such as Exelon, which can operate their separate utilities economically and in a coordinated manner within the meaning

of the Act should be considered in the same area or region. While FERC has noted

that "the entire Eastern interconnection is, as the name indicates, interconnected," this refers to electrical, physical interconnection and does not indicate that any two utilities in the Eastern interconnection can be deemed

"integrated" within the meaning of the Act. /99/

The regions created by changes in the operation of the transmission grid brought about by open access transmission through RTOs are larger than those in the electrical regions of the past for a variety of reasons. First, as previously discussed the technological advances and additions to the transmission network that have occurred since 1935 now permit trading to occur over 1,000-mile distances./100/ Second, a large region is necessary to address the inefficiencies and inequities that FERC is seeking to remedy through RTOs.

The developments noted by the Staff in 1995, and enhancements and improvements since that date, are breaking down traditional boundaries and concepts of regions. The Commission has confirmed its support for the Staff's Report, citing, in particular, the Staff's recommendation that the Commission "continue to interpret the 'single area or region' requirement of [the 1935 Act] to take into account technological advances."/101/ The Commission noted as long ago as 1978 that the permissible area or region of a registered holding company was a function of technological realities./102/ Exelon will be able to use open access transmission to achieve the coordinated operations of its system thus demonstrating that it will, in fact, be confined to a "single area or region."

Other factors demonstrate that the Exelon Electric System will satisfy the single area or region requirement. Exelon will operate distribution facilities in only two States -- significantly fewer than many existing or proposed registered holding company systems. The principal generating facilities of Genco are located in those two States./103/ The traditional service areas of the Exelon Electric System, that of ComEd and PECO, are similar and homogeneous./104/ Each

/99/ North American Electric Reliability Council, 87 FERC (P) 61,161 (1999).

The country is divided into three synchronous "interconnections:" Eastern, Western and ERCOT. The Eastern Interconnection, in which ComEd and PECO are located, covers all the area east of the Rocky Mountains, except for most of Texas.

/100/ Chicago, headquarters of ComEd is about 760 miles from Philadelphia, headquarters of PECO.

/101/ NIPSCO, supra; accord, Sempra, supra. While these cases were

determining integration of gas utilities, where the statutory standard is different from electric integration, the principal of taking into account technological advances is fully applicable in this case.

/102/ American Electric Power Company, Inc., Holding Co. Act Release No. 20633

(July 21, 1978)

/103/ PECO has an interest in the Salem nuclear generating station in New Jersey. See note [16] above. Other generating facilities coordinated by Genco will be EWGs whose geographical location is not restricted by the Act

/104/ The nature or characteristics of the service area of utilities has been relevant in the Commission's review of the circumstances leading to a conclusion that a system was integrated within the meaning of the Act. The

serves a major city and surrounding metropolitan and adjacent areas in a relatively compact service area. Illinois and Pennsylvania are very similar -- both States have large populations, with a significant industrial and commercial base. The service characteristics and ratios of residential, industrial and commercial companies of the companies are similar./105/ These many similarities and the trade between the areas shows that Exelon will operate in a single area or region.

The conclusion that the Exelon Electric System will constitute a single area or region is further supported by the logic of the Commission's definition of "region" used for purposes of its size analysis under Section 10(b)(1). In Entergy, supra, the Commission adopted the applicants' definition of the

relevant region for purposes of Section 10(b)(1) to include themselves and those electric utilities directly interconnected with either or both, which, at the time, were their most accessible markets. This region consisting of utilities within "one wheel" of the merging utilities made sense in light of the barrier that rate pancaking presented in trying to access more distant markets. In today's increasingly competitive world, ComEd and PECO do not operate as isolated companies, and their geographic region should be analyzed in terms of their most accessible markets, which include the areas of MISO, Alliance RTO and PJM -- that is the open access transmission path existing between Chicago and Philadelphia.

The Commission's recent decision related to the gas industry in Sempra is

also relevant for a commodity business such as the evolving electricity industry. In that decision, the SEC approved Sempra's acquisition of a 90 percent interest in Frontier Energy LLC of North Carolina and considered the combined system to be an integrated gas system under the Act./106/ In that decision the SEC affirmed the existence of a national natural gas commodity market. The SEC pointed out that, when the Act was drafted in the 1930s, the common source requirement meant the city gate. Now, however, with the changing gas market, it means obtaining gas from the same supply basins. Thus, even though the two systems in Sempra were 3,000 miles apart, the SEC said that its

decision did not undercut the Act because the acquisition did not raise the concerns that prompted its enactment./107/ This conclusion supports the notion that mere distance does not equate to "scatteration" so long as the separate parts of the system can be operated, under normal conditions, in a coordinated manner. Exelon has demonstrated that it meets that test.

similarities among the various parts of an integrated system tends to show that the system is not so large as to impair the benefits of localized management and regulation and is therefore integrated. In a homogeneous system, management is better able to attend to local concerns which are similar throughout the system. See Middle West Corp., 18 SEC

296 (1945); In re West Texas Utilities Co., 21 SEC 566 (1945).

/105/ In 1999, ComEd's electric revenues were derived 52% from industrial and commercial and 33% from residential. PECO's electric revenues were derived 14% from industrial customers, 12% from commercial and 27% from residential customers.

/106/ Sempra Energy, Holding Co. Act Release No. 26890 (June 26, 1998).

/107/ Applicant recognizes that the Sempra case is not directly on point

because the language of Section 2(a)(29)(B) of the Act regarding an integrated gas utility differs from that of Section 2(a)(29)(A) describing an electric system. The recognition in that case of the changing nature of energy markets in the United States is directly relevant, however.

Exelon does not believe that the combination of ComEd and PECO will contravene the policy of the Act against "scatteration" -- the ownership of widely dispersed utility properties that do not lend themselves to efficient operation. As stated in Sempra, supra, "The Act is directed against the growth

and extension of holding companies [that] bears no relation to economy of management and operation or the integration and coordination of related operating properties." The Commission dealt with this concept in American

Electric Power in 1978./108/ This case involved one of the few situations of a

significant expansion of a registered holding company system in "modern" times, i.e. after the period when the break-up of the huge holding company systems of the 1930's was complete. The Commission noted that "the standards in these sections [2(a)(29) and 10(b)] were relatively easy to apply to the huge, complex, and irrational holding company systems at which the Act was primarily aimed." The Commission went on to note that it was more difficult to apply the standards to AEP which, although large and widespread, was efficient and clearly a rational and proper company. Exelon, like AEP in 1978, does not present any of the evils the Act was designed to eliminate. The facts of this case demonstrate that the Exelon Electric System will be economically operated as a single interconnected and coordinated system. It has a sound economic and financial rationale. It will have compact distribution service areas in only two States. Furthermore, as demonstrated in the following sections, the combined system will not have an adverse effect upon localized management, efficient operation or effective regulation.

(E) Size

The final clause of Section 2(a)(29)(A) requires the Commission to look to the size of the combined system (considering the state of the art and the area or region affected) and its effect upon localized management, efficient operation, and the effectiveness of regulation. In the instant matter, these standards are easily met./109/

Localized Management The Commission has found that an acquisition does not impair the advantages of localized management where the new holding company's "management [would be] drawn from the present management" (Centerior, supra), or where the acquired company's management would remain substantially intact (AEP, supra). The Commission has noted that the distance of corporate headquarters from local management was a "less important factor in determining what is in the public interest" given the "present-day ease of communication and transportation." AEP, supra. The Commission also evaluates localized management in terms of whether a merged system will be "responsive to local needs." AEP, supra.

The management of Exelon will be drawn primarily from the existing management of Unicom, ComEd, PECO and their subsidiaries. The corporate headquarters of Exelon will be in Chicago -- the current headquarters of Unicom and ComEd. PECO's distribution and transmission functions will have headquarters in Philadelphia. The management of the combined generating operations of Genco and the marketing activities will be conducted in southeastern Pennsylvania. The electric utility subsidiaries will continue to operate through the regional offices with local service personnel and line crews available to respond to customer's

/108/ American Electric Power Company, Inc., Holding Co. Act Release No. 20633 (July 21, 1978) ("AEP").

/109/ See Item 3.B.2(a) for a discussion of the relative size of the Exelon system

needs. In short, the management structures of ComEd and PECO, which are responsive to local needs, will continue to perform to meet customer needs after the Merger. Accordingly, the advantages of localized management will not be impaired.

Efficient Operation -- As discussed above in the analysis of Section

10(b)(1), the size of Exelon will not impede efficient operation; rather, the Merger will result in significant economies and efficiencies. Operations will be more efficiently performed on a centralized basis because of economies of scale, standardized operating and maintenance practices and closer coordination of system-wide matters.

Effective Regulation -- The Merger will not impair the effectiveness of

regulation at either the State or Federal level. ComEd will continue to be regulated by the Illinois Commission and PECO by the Pennsylvania Commission with respect to retail rates, service and related matters subject to the changing regulation brought about by utility regulatory restructuring laws in both States./110/ On the Federal level, Exelon will be regulated as a single registered holding company as opposed to two exempt holding company systems. The electric utility subsidiaries of Exelon will continue to be regulated by FERC with respect to interstate electric sales for resale and transmission services, by the NRC with respect to the operation of nuclear facilities, and by the FCC with respect to certain communications licenses.

At the State level, the Merger Agreement requires approval of the Pennsylvania Commission. Under the Illinois Customer Choice and Rate Relief Law of 1997, the legislature determined that corporate reorganizations and mergers would foster the move to a more competitive environment and accordingly provided that such transactions, such as the Merger, could be undertaken without an approval process at the Illinois Commission. See 220 ILCS 5/16-111(g). Although

the process is streamlined, the new law -- together with other provisions of the Illinois Public Utility Act, clearly protects the public interest. Under the Customer Choice and Rate Relief Law, ComEd is required to file a notice with the Illinois Commission describing its transaction. That notice was filed on November 22, 1999/111/ and included the following information, as required by statute:

- . A complete statement of the accounting entries to be made to reflect the transaction, a certification that the entries are in accordance with GAAP, and a certification that cost allocations between the utility and its affiliates will be in accord with Illinois Commission approved cost allocation guidelines.
- . A description of the use of proceeds of any sale of facilities (inapplicable to this transaction).
- . A list of regulatory approvals for the transaction.

/110/ Although Genco will be a "public-utility company" for purposes of the Act and will be subject to FERC rate regulation, it will not be subject to utility regulation by Illinois or Pennsylvania consistent with the restructuring legislation in those States.

/111/ An amended notice informs the Illinois Commission of the change to the Merger Agreement.

. An irrevocable commitment by the utility that, as a result of the transaction, it will not impose any stranded cost charges that it might otherwise be allowed to charge retail customers under Federal law or increase the transition charges that it is otherwise entitled to collect under the Illinois utility restructuring law.

The forgoing notice constitutes all action that must be taken for the Merger to proceed under Illinois law.

The public interest is protected by these requirements and by other provisions of the Illinois Public Utility Act that will continue to be applicable to ComEd, most notably the provisions regulating affiliate transactions. Applicant is working closely with regulators (both State and Federal) to obtain the required approvals. The Illinois Commission and the Pennsylvania Commission have adequate jurisdiction to prevent the Merger from an impairment of their regulatory authority.

(F) Conclusion -- Exelon Electric System will be Integrated

A rigid reading of the integration requirement may have been appropriate at a time when ownership or control of the intervening transmission lines was the only way that a utility could move power from its generation assets to its distribution systems. The need for this type of firm physical interconnection has been greatly reduced, if not eliminated, as the distribution systems now routinely contract for power with nonaffiliates and move the purchased commodity power over independently operated or owned transmission lines -- or eliminate the requirement for physical movement of power from the generator to the utility system through use of market swaps, power displacement or similar techniques. Indeed, a narrow reading of the integration standard could force merging parties to a "Hobson's choice," by requiring unnecessary interconnections that could cause a merger to fail to satisfy FERC's standards for approval.

As FERC explained in the RTO NOPR:

the industry has undergone sweeping restructuring activity, including a movement by many states to develop retail competition, the growing divestiture of generation plants by traditional electric utilities, a significant increase in the number of mergers among traditional electric utilities and among electric utilities and gas pipeline companies, large increases in the number of power marketers and independent generation facility developers entering the marketplace, and the establishment of independent system operators (ISOs) as managers of large parts of the transmission system. Trade in bulk power markets has continued to increase significantly and the Nation's transmission grid is being used more heavily and in new ways. As a result, the traditional means of grid management is showing signs of strain and may be inadequate to support the efficient and reliable operation that is

needed for the continued development of competitive electricity markets./112/

The Commission has found, and the courts have agreed, that in circumstances in which the expertise in operating issues is lodged with another regulator, it is appropriate to "watchfully defer" to the work of that regulator./113/ Applicant urges the SEC to apply the doctrine of watchful deference to FERC's stated objective to improve the competitiveness of the electric industry through large RTOs, Orders such as 888 and 889, and through State development of restructuring laws.

The need for the SEC to accommodate the views of FERC in this matter cannot be overstated. Congress enacted the 1935 Act and the FPA as two parts of the same legislation. The legislative history makes clear that the purpose of Section 11 of the 1935 act "is simply to provide a mechanism to create conditions under which effective Federal and State regulation will be possible."/114/ The FERC's administration of the FPA has evolved as that agency has sought to develop fully competitive wholesale markets consistent with changing technology. Administration of the 1935 Act must also evolve if the 1935 Act is to continue to create conditions under which "effective Federal and State regulation" is possible.

In the 1995 Report, the Division recommended that the Commission focus on whether the resulting system will be subject to effective regulation. The Study emphasized that "open access under FERC Order No. 636, wholesale wheeling under the Energy Policy Act [and FERC Order No. 888] and the development of an increasingly competitive and interconnected market for wholesale power have expanded the means for achieving the interconnection and the economic operation and coordination of utilities with non-contiguous service territories." 1995 Report at 73-74. The Study further expressed concern that the Act "not serve as an artificial barrier where other energy regulators have determined that an acquisition will benefit utility consumers." Accordingly, the Study concluded that "[w]hen considering any proposed acquisition, the SEC should consider whether the resulting system will impair the effectiveness of regulation. Where the affected State and local regulators concur, the SEC should interpret the integration standard flexibly to permit non-traditional systems if the standards of the Act are otherwise met." Under this approach, if the affected States approve a proposed transaction (a condition precedent to the instant Merger), the "effectiveness of regulation" standard would be met. A condition of the Merger is the receipt of all requisite State approvals.

The Commission should find that the Exelon Electric System comprises a single, integrated electric utility system within the meaning of the Act.

/112/ RTO NOPR, FERC Stats & Regs at 33,685.

/113/ Northeast Utilities, Holding Co. Act Release No. 25273 (March 15, 1991),

aff'd sub nom. City of Holyoke v. SEC, 972 F.2d 358 (1992). See also

Wisconsin's Environmental Decade v. SEC, 882 F.2d 523 (D.C. Cir. 1989)

("we are not prepared to say that the Commission abdicates its duty in an exemption determination by deciding to rely, watchfully, on the course of state regulation").

/114/ Sen. Rep. No. 621, 74th Cong., 1st Sess. (1935).

(iv) Retention of Exelon Gas System

Because the Commission has interpreted the term "integrated public-utility system" to mean a system that is either gas or electric, but not both, it is necessary to qualify the gas operations of PECO (the "Exelon Gas System") under the "A-B-C" clauses of Section 11(b)(1). Under those provisions, a registered holding company can own "one or more" additional integrated systems if certain conditions are met. Specifically, the Commission must find that (A) the additional system "cannot be operated as an independent system without the loss of substantial economies which can be secured by the retention of control by such holding company of such system," (B) the additional system is located in one State or adjoining states, and (C) the combination of systems under the control of a single holding company is not so large . . . as to impair the advantages of localized management, efficient operation, or the effectiveness of regulation."

As shown below the Exelon Gas System currently is, and will continue to be, a single, integrated public-utility system. This case presents a less complicated determination of the A-B-C Clause test than other cases presented to the Commission in recent years because only PECO has gas distribution facilities. There is no need, as has been the situation with other cases to analyze whether two previously separate gas systems can constitute a single integrated system. Further, the PECO gas system has been operating as a single, integrated system for many years.

Section 2(a)(29)(B) defines an "integrated public-utility system" as applied to gas utility companies as:

a system consisting of one or more gas utility companies which are so located and related that substantial economies may be effectuated by being operated as a single coordinated system confined in its operation to a single area or region, in one or more States, not so large as to impair (considering the state of the art and the area or region affected) the advantages of localized management, efficient operation, and the effectiveness of regulation: Provided, that gas utility companies deriving natural gas from a common source of supply may be deemed to be included in a single area or region.

PECO's current gas operations satisfy this definition. There will be no change to the PECO gas operations caused by the Merger that would affect this conclusion.

PECO's gas operations serve all or a portion of five counties surrounding the City of Philadelphia. This "single area or region" is located wholly within the Commonwealth of Pennsylvania. PECO's facilities comprise a physically interconnected network of gas transmission and distribution facilities that derive all of their natural gas from common sources of supply. The management of PECO's gas operations will continue to reside with PECO Energy, which will be headquartered in the City of Philadelphia (indeed, the electric and gas distribution companies will continue to share employees and common facilities so long as the Commission does not order divestiture). Management will, accordingly, remain close to the gas operations, thereby preserving the advantages of local management. This will remain true even after the Merger and various plans of reorganization and restructuring have been implemented. PECO's gas distribution operations are, and will continue to be, regulated by the Pennsylvania

Commission. The effectiveness of regulation will not be altered or impaired by PECO's merger with Unicom.

PECO's gas operations overlap the territory served by PECO's electric distribution company ("EDC"). This overlap of service territories permits PECO to achieve significant synergies in serving both its electric and gas customers which are passed along to those customers in the form of lower rates and better service. The synergies achieved due to PECO's combined gas and electric operations are identified in Exhibit J-1 hereto, which identifies the additional costs PECO's gas utility would incur if PECO were not permitted to retain the system and were instead forced to operate as a stand-alone gas utility.

The Pennsylvania Legislature recently passed the Natural Gas Competition Act ("Gas Competition Act"). 66 Pa.C.S.A. (S)(S) 2201 et. seq. (1999). The Pennsylvania Gas Competition Act will require PECO to provide competitors access into PECO's gas distribution network. While PECO is presently one of the lowest cost gas utility suppliers in the Commonwealth of Pennsylvania, if PECO were required to divest its gas utility, the conservative projections included in Exhibit J-1 indicate that the price PECO's gas utility would have to charge retail customers located in its present service territory would make it one of the most expensive retail gas suppliers in the State (with an estimated post-divestiture rate increase of \$292 per customer per year, an increase of 30.28%)./115/

Because most of the increased costs would be charged to operations that will remain regulated under the Gas Competition Act, such as gas distribution, maintenance of gas mains, meter reading, billing and customer service, it will not be possible for PECO's distribution customers to escape the high cost of a new stand-alone operation by choosing an alternate gas supplier. See Exhibit J-1 at 5. Thus, if the Commission were to require PECO to divest its gas operations to "New Gas Co", New Gas Co's gas distribution customers would suffer the most.

PECO's gas system not only satisfies the integration requirements of Section 2(A)(29)(B), the retention of this system is also appropriate under the A-B-C clauses of (S) 11(b)(1) of the Act, as shown below.

(A) Loss of economies if operated as an independent system

In its 1995 Report, the SEC Staff noted that, in a competitive utility environment, any loss of economies threatens a utility's competitive position and even a "small" loss of economies could render a utility vulnerable to significant erosion of its competitive position. Adopting this line of reasoning, the Commission, in its order approving the merger of Public Service Colorado and Southwestern Public Service, moved away from earlier cases that required, in effect, a showing that the additional system could not survive on a stand-alone basis. In this case the Commission found that "[t]he gas and electric industries are converging, and, in these circumstances, separation of gas and electric businesses may cause the separated entities to be weaker competitors than they would be together. This factor adds to the quantifiable loss of

/115/ Under the Gas Competition Act the non-gas cost portion of PECO's rates are capped until January 1, 2001.

economies caused by increased costs." /116/ The potential of divestiture injuring PECO's ability to compete is heightened in this case because PECO is already subject to retail electric competition in the Commonwealth of Pennsylvania and will soon be subject to retail gas competition as well.

Historically, the Commission has given consideration to four ratios, which measure the projected loss of economies as a percentage of: (1) total utility operating revenues; (2) total utility expense or "operating revenue deductions"; (3) gross utility income; and (4) net utility operating income. Although the Commission has declined to draw a bright-line numerical test under Section 11(b)(1)(A), it has indicated that cost increases resulting in a 6.78% loss of operating revenues, a 9.72% increase in operating revenue deductions, a 25.44% loss of gross gas income and a 42.46% loss of net income would afford an "impressive basis for finding a loss of substantial economies." Engineers

Public Service Co., Holding Co. Act Release No. 3796 (Sept. 17, 1942).

Direct Loss of Economies. PECO has prepared a study of its gas utility

operations that analyzes the lost economies that its gas utility operations would suffer upon divestiture when compared to their retention pursuant to the Merger. The study is attached to this Application as Exhibit J-1 (the "Gas Study").

The Gas Study shows that if New Gas Co were operated on a stand-alone basis, lost economies from the need to replicate services, the loss of economies of scale, the costs of reorganization, and other factors would be immediate and substantial. In the absence of rate relief, those lost economies would substantially injure the shareholders of PECO and Unicom upon the divestiture of those gas operations. As the Gas Study further shows, if rate relief were granted with respect to the lost economies, then consumers would bear the majority of those substantial costs over what they would have to pay if the properties were retained as contemplated by the Merger. This is because a substantial portion of the synergies achieved by combined operations occur in operational areas that will remain subject to rate regulation even after full retail competition for retail gas and electric customers is implemented in Pennsylvania.

As set forth in the Gas Study, divestiture of the gas operations of PECO into New Gas Co would result in lost economies of over \$72.8 million (exclusive of income tax effects). The table below shows PECO's 1998 gas operating revenues, gas operating revenue deductions, gas gross income and net income from gas operations on both a pre- and post-divestiture basis. The post-divestiture gas operating revenues number is the revenue requirement in order for NewGasCo to make up for the lost economies.

/116/ New Century Energies, supra. See also Dominion Resources, Inc., Holding Company Act Release No. 27113 (December 15, 1999); WPL Holdings, supra.

Timing	Gas Operating Revenues	Gas Operating Revenue Deductions	Gas Gross Income	Gas Net Income
(Dollars in Thousands)				
Pre-Divestiture (actual)	\$399,642	\$323,265	\$76, 377	\$58,506
Post-Divestiture (est., see Exh. J-1)	\$520,640	\$396,143	\$ 3,499	\$19,214
Difference	\$120,998	\$ 72,878	\$ 72,878	\$39,292
(Increased revenue require- ment; Economies Lost as Result of Divestiture)				

On a percentage basis, the lost economies amount to 124.5% of 1998 gas net income--far in excess of the 30% loss of net income in New England Electric System that the Commission has described as the highest loss of net income in any past order requiring divestiture./117/ As a percentage of 1998 gas operating revenues, these lost economies described in the Gas Study amount to 18.24% -- greater than the losses identified in several past orders that permitted merger applicants to retain the additional systems in question./118/ As a percentage of 1998 expenses or operating revenue deductions, the lost economies described in the Gas Study would amount to 22.54%. Again, the losses identified in the Gas Study exceed the losses as a percentage of operating revenue deductions identified in past orders permitting retention of the additional systems, including Ameren (17.6%) and Conectiv (17.4%). As a percentage of 1998 gross income, the lost economies described in the Gas Study amounts to 95.42%, far in excess of the 25.44% figure the Commission relied upon in identifying a loss of substantial economies in its Engineers Public Service Co. decision. See supra.

/117/ See UNITIL Corp., Holding Co. Act Release No. 25524 (April 24, 1992)

("The Commission has required divestment where the anticipated loss of income of the stand-alone company was approximately 30% . . ." or "29.9% of net income before taxes"), citing SEC v. New England Electric System, 390 U.S. 207, 214 n. 11 (1968).

/118/ See, e.g., Conectiv, Inc., Holding Co. Act Release No. 26832 (February

25, 1998) (loss of 14.07% of gas operating revenues in case permitting retention of additional gas system); UNITIL Corp., supra (loss of

slightly less than 14% of operating revenues). The highest loss of operating revenues in any case ordering divestiture is commonly said to be 6.58%. ("[o]f cases in which the Commission has required divestment, the highest estimated loss of operating revenues of a stand-alone company was 6.58% . . .") Id.

In order to recover these estimated lost economies, New Gas Co stand-alone gas operations would need to increase rate revenue by \$123 million or about 30%. This increase in rate revenues would have an immediate negative impact on the rates charged to customers for gas services (to the extent that they apply to regulated operations) and would adversely impact New Gas Co's ability to compete in the emerging retail gas market in Pennsylvania (to the extent they apply to operations which will soon be competitive). In addition, the customers of PECO's gas businesses who are also electric customers will experience a doubling of their postage costs to pay two separate bills. The total estimated increase in incremental costs associated with forced divestiture would be \$292 per customer per year, or 30.3% over the average customer's current annual payments.

Other Lost Economies. Divestiture of the PECO gas property would also

result in the loss to consumers of the cost-saving benefits of the economies offered by the "energy services" approach of PECO and Unicom to the utility business. While the losses cannot now be fully quantified, they are substantial. At the center of the energy services company concept is the idea that providing gas and electric services and products is only the start of the utility's job. In addition, the company must provide enhanced service to the consumer by providing an entire package of both energy products and services. In this area, PECO and Unicom's efforts are part of a trend by companies to organize themselves as energy service providers; that is, as providers of a total package of energy services rather than merely utility suppliers of gas and electric products. The goal of an energy service company is to retain its current customers and obtain new customers in an increasingly competitive environment by meeting customers' needs better than the competition. An energy service company can provide the customer with a low cost energy (i.e. gas, electricity or conservation) option without inefficient subsidies. This trend towards, and the need for, convergence of the former separate electric utility function and gas utility function into one energy service company was recognized by the Commission in Consolidated Natural Gas Company, Holding Co. Act Release No.

26512 (April 30, 1996) (hereinafter, the "CNG Order"), where the Commission

stated: "It appears that the restructuring of the electric industry now underway will dramatically affect all United States energy markets as a result of the growing interdependence of natural gas transmission and electric generation, and the interchangeability of different forms of energy, particularly gas and electricity." See also New Century Energies, Holding Co.

Act Release No. 26748 (August 1, 1997); UNITIL Corp., Holding Co. Act Release

No. 26527 (May 31, 1996) and SEI Holdings, Inc., Holding Co. Act Release No.

26581 (Sept. 26, 1996).

It is the intent of Applicant that PECO's gas property continue to be integrated and operated as a single economic system in conjunction with Applicant's combined electric system in order to better provide competitive comprehensive energy services to Applicant's customers. PECO's potential competitors, including Conectiv, Baltimore Gas & Electric, Public Service Electric and Gas, UGI Utilities, Inc., PPL Corporation and others are themselves potential suppliers of comprehensive energy services. The lost economies Applicant shows in Exhibit J-1 are substantial in an industry in which there are already many companies competing with Applicant for the provision of comprehensive energy services in Applicant's service territories. In areas of PECO's business that will remain regulated, lost economies will result in increased

retail rates for PECO's gas and electric customers. For the deregulated portions of PECO's business, competition between energy suppliers can only benefit consumers.

As the Commission recognized in WPL Holdings, TUC Holdings and New Century
Energies, there are significant economies and competitive advantages inherent in

a combined gas and electric utility as contrasted to a utility offering only electricity or gas. Besides the loss of these inherent economies, other substantial economies would be lost by the separation of the electric systems from the gas system. These lost economies would include decreased efficiencies from separate meter reading, meter testing and billing operations, the need for duplicative customer service operations, plus a loss of savings due to failure to exploit synergies in areas such as facilities maintenance, emergency work coordination, and other administrative operations.

A final consideration, raised by the Commission in the 1997 New Century Energies Order, is that PECO's gas and electric properties have long been under PECO's control, and approval of the Merger will not alter the status quo with respect to these operations.

It is Applicant's view that the standards of Clause A of Section 11(b)(1) of the Act are satisfied in light of the increased expenses and the potential loss of competitive advantages that could result from the divestiture of PECO's gas system. Applicant requests that the Commission find the standards of Clause A are satisfied for the reasons set forth above.

(B) Same State or Adjoining States

The Merger does not raise any issue under Section 11(b)(1)(B) of the Act. The Commission has paraphrased Clause B as follows: "All of such additional systems are located in a State in which the single integrated public-utility system operates, or in states adjoining such a State, or in a foreign country contiguous thereto." Engineers Public Service Company, Holding Co. Act Release

No. 2897 (July 24, 1941), rev'd on other grounds, 138 F.2d 936 (D.C. Cir. 1943),
vacated as moot, 332 U.S. 788 (1947). The PECO Gas System is located in the
same State and region as the PECO Electric System. Indeed, the two service territories overlap. Thus, the requirement that each additional system be located in one State or adjoining States is satisfied.

It is Applicant's view that the standards of Clause B of Section 11(b)(1) of the Act are satisfied due to the proximate location of PECO's gas and electric properties. Applicant requests that the Commission find the standards of Clause B are satisfied for the reasons set forth above.

(C) Size --Localized Management; Efficient Operation; Effective Regulation

Retention of PECO's gas operations as an additional integrated system raises no issue under Section 11(b)(1)(C) of the Act. PECO's mid-sized gas system is "not so large . . . as to impair the advantages of localized management, efficient operation, or the effectiveness of regulation." In any event, as the Commission has recognized elsewhere, the determinative consideration is not size alone or size in an absolute sense, either big or small, but size in relation to its effect, if any, on localized management, efficient operation and effective regulation. From these perspectives, it is clear that PECO's gas operations are not too large.

PECO's gas utility operations with 419,738 gas customers combined in five adjoining Pennsylvania counties, are relatively minor when compared to Houston Industries (the parent of Minnegasco) which, through subsidiaries, has 2.7 million gas customers located in multiple States, 630,000 in Minnesota alone.

Based on data through December 31, 1999, and giving effect to the Merger, the net gas utility property, plant and equipment will represent only 2.8% of the total assets of Exelon, whereas the net electric utility property, plant and equipment will represent 45.3%; operating revenues for the gas operations will be 3.9% of total company revenues as compared with 94.5% for the electric operations; and customers of the gas operations will constitute 8% of all Exelon customers (all of which are also located in PECO's electric distribution service territory), while electric operations will represent 92%.

With respect to localized management, this issue is discussed for the Merger as a whole under Item 3.B.3(a)(iii)(D) below. Applied solely to the gas operations, the PECO gas system will continue to be run from PECO Energy's Philadelphia headquarters. Management will therefore remain geographically close to the gas operations, thereby preserving the advantages of localized management. No reduction in customer service or support crews is expected.

From the standpoint of regulatory effectiveness, PECO has operated its combined gas and electric utility in Pennsylvania for many years. The historical joint gas and electric utility operations of PECO have not raised regulatory concerns in Pennsylvania and Applicant does not believe the Merger will introduce any new concerns in this area.

With respect to efficient operation, as described above, as part of the Applicant's combined system, PECO's gas operations are expected to provide cost synergies in combined operations worth approximately \$84.4 million over the ten-year period from 2001-2010, which may enable PECO to reduce costs for its regulated gas distribution customers and compete more efficiently for retail gas customers in Pennsylvania's newly deregulated retail gas market. Effective competition in the Pennsylvania retail gas market is absolutely necessary if the fledgling market is to provide benefits to retail customers. Far from impairing the advantages of efficient operation, the continued combination of the gas operations will facilitate and enhance the efficiency of both Exelon's gas and electric operations.

It is Applicant's view that the standards of Clause C of Section 11(b)(1) of the Act are satisfied because the Merger will not give rise to any of the abuses, such as ownership of scattered utilities properties, inefficient operations, lack of local management or evasion of State regulation, that Clause C and the Act generally were intended to prohibit. Applicant requests that the Commission find the standards of Clause C are satisfied for the reasons set forth above.

(v) Retention of Other Businesses

Exhibits E-3 and E-4 list and describe those non-utility businesses conducted by Unicom and PECO. As a result of the Merger, the non-utility businesses and interests of Unicom and PECO described in Item 1.C. above and in those Exhibits will become businesses and interests of Exelon. These non-utility interests are fully retainable by Exelon under the Act. Corporate charts

showing the subsidiaries, including non-utility subsidiaries of Unicom and PECO, are filed as Exhibits E-3 and E-4. A corporate chart showing the projected arrangement of these subsidiaries under Exelon is filed as Exhibit E-5.

Section 11(b)(1) permits a registered holding company to retain "such other businesses as are reasonably incidental, or economically necessary or appropriate, to the operations of [an] integrated public-utility system." The Commission has historically interpreted this provision to require an operating or "functional" relationship between the non-utility activity and the system's core non-utility business. /119/ The Commission modified this historical position and "has sought to respond to developments in the industry by expanding its concept of a functional relationship." /120/ This shift culminated in the adoption of Rule 58. The Commission added "that various considerations, including developments in the industry, the Commission's familiarity with the particular non-utility activities at issue, the absence of significant risks inherent in the particular venture, the specific protections provided for consumers and the absence of objections by the relevant State regulators, made it unnecessary to adhere rigidly to the types of administrative measures" used in the past. /121/ Furthermore, in the 1995 Report, the SEC Staff recommended that the Commission replace the use of bright-line limitations with a more flexible standard that would take into account the risks inherent in the particular venture and the specific protections provided for consumers. /122/ As set forth more fully in Exhibits I-1 and I-2, the non-utility business interests that Exelon will hold directly or indirectly all meet the Commission's standards for retention.

In the past, the Commission has approved the acquisition or retention of non-utility businesses in a merger where one or both companies were either not subject to the Act or were exempt from registration. See WPL Holdings, Inc.,

supra. See also New Century Energies, supra. Applicant submits that the

statutory requirements for ownership of all non-utility businesses identified in Exhibits E-3 and E-4 are satisfied.

In New Century Energies and WPL Holdings, the Commission also excluded the

non-utility businesses applicants sought to retain from the limitation upon investment in energy-related companies under Rule 58, noting that the restrictions of Section 11(b)(1) are applicable to registered holding companies and not to exempt holding companies. Unicom and PECO are both exempt holding companies. Rule 58 provides in section (a)(1)(ii) that investments in non-utility activities that are exempt under Rule 58 cannot exceed 15% of the consolidated capitalization of the registered holding company. In its statement supporting the adoption of the Rule, the Commission stated:

/119/ See, e.g., Michigan Consolidated Gas Co., Holding Co. Act Release No. 16763 (June 22, 1970), aff'd, 444 F.2d 913 (D.C. Cir. 1971); United Light and Railways Co., Holding Co. Act Release No. 12317 (Jan. 22, 1954); CSW Credit, Inc., Holding Co. Act Release No. 25995 (March 2, 1994); and Jersey Central Power and Light Co., Holding Co. Act Release No. 24348 (March 18, 1987).

/120/ Exemption of Acquisition by Registered Public-utility Holding Companies of Securities of Non-utility Companies Engaged in Certain Energy-related and Gas-related Activities, Holding Co. Act Release No. 26667 (Feb. 14, 1997) ("Rule 58 Release").

/121/ Id.

/122/ 1995 Report at 81-87, 91-92.

The Commission believes that all amounts that have actually been invested in energy-related companies pursuant to commission order prior to the date of effectiveness of the Rule should be excluded from the calculation of aggregate investment under Rule 58. The Commission also believes it is appropriate to exclude from the calculation all investments made prior to that date pursuant to available exemptions./123/

Because the non-utility investments of Unicom and PECO, as exempt holding companies, were exempt under the Act, investments made by them prior to the effective date of Rule 58 which will continue as part of Exelon after consummation of the merger, should not count in the calculation of the 15% maximum. See New Century Energies, supra (Commission order granting exclusion

of non-utility energy-related investments of Southwestern Electric Service, an independent utility, and Public Service Colorado, an exempt holding company, from calculations of the 15% maximum investment allowed under Rule 58).

(b) Section 10 (c)(2) -- Economies and Efficiencies

Because the Merger is estimated to result in substantial cost savings and synergies, it will tend toward the economical and efficient development of an integrated public-utility system, thereby serving the public interest, as required by Section 10(c)(2) of the Act.

The Merger will produce economies and efficiencies more than sufficient to satisfy the standards of Section 10(c)(2) of the Act. Although some of the anticipated economies and efficiencies will be fully realizable only in the longer term, they are properly considered in determining whether the standards of Section 10(c)(2) have been met. See AEP, supra. Some potential benefits

cannot be precisely estimated, nevertheless they too are entitled to be considered. "[S]pecific dollar forecasts of future savings are not necessarily required; a demonstrated potential for economies will suffice even when these are not precisely quantifiable." Centerior, supra.

Cost Synergies. Unicom and PECO estimate that the combined company will

achieve regulated and unregulated net annual cost savings of approximately \$100 million in the first year following completion of the merger, increasing to approximately \$180 million by the third year. Approximately 60% of these savings will be attributable to regulated activities and the remainder to unregulated activities. Estimated savings include only those cost savings and cost avoidance items management expects to achieve as a result of the merger. These expected savings are comparable to the anticipated savings in a number of recent acquisitions approved by the Commission./124/

/123/ Holding Co. Act Release No. 26667 at 75.

/124/ See, e.g., NIPSCO Industries, Inc., Holding Co. Act Release No. 26975 (Feb. 10, 1999) (estimated expected savings of \$57.45 million over ten years); Sempra Energy, Holding Co. Act Release No. 26890 (June 26, 1998) (estimated expected savings of \$1.2 billion over ten years); BL Holding Corp., Holding Co. Act Release No. 26875 (May 15, 1998) (estimated expected savings of \$1.1 billion over ten years); LG&E Energy Corp., Holding Co. Act Release No. 26866 (April 30, 1998) (estimated expected savings of \$687.3 million over ten years); WPL Holdings, Holding Co. Act Release No. 26856 (April 14, 1998) (estimated expected savings of

Other Benefits. Unicom and PECO believe that the Merger will provide

substantial strategic and financial benefits to PECO Energy's and Unicom's
shareholders, employees and customers. These benefits are expected to include:

. Expanded Generation Capacity. Exelon is expected to have a portfolio of generation assets with a capacity that will be nearly double that of either PECO Energy or Unicom alone and that can be deployed to expand its power marketing business. Unicom and PECO believe the competitive and strategic value of size and scope will increase future earnings growth rates, creating value for shareholders. With a focus on nuclear operations excellence, Exelon will have the nation's largest nuclear generation fleet. Unicom and PECO expect to achieve synergies in operations and supply management by combining best practices and operating capabilities. The expansion strategy of Exelon will be consistent with PECO Energy's disciplined acquisition programs and will provide a framework for adding value to Unicom's nuclear fleet.

. Expanded Marketing and Trading Business. Based on the expanded generation capacity of Exelon, Unicom and PECO will extend the scale and the scope of the power marketing and trading business by:

- . Capitalizing on the flexibility and geographic diversity of the combined portfolio,
- . broadening the portfolio of customized products offered to customers,
- . enhancing their position as a preferred counterparty, and
- . pursuing additional generation development and contract opportunities.

. Broadened Distribution Platform. Exelon will have approximately 5 million electric customers -- among the largest electric utility customer bases in the nation -- and will use its existing distribution facilities as a platform for regional consolidation based on:

- . an unwavering commitment to top-tier reliability and customer satisfaction,

\$680 million over ten years); Conectiv, Holding Co. Act Release No.

26832 (Feb. 25, 1998) (estimated expected savings of \$500 million over ten years); Ameren Corporation, supra (estimated savings of \$686 million

over ten years); 1997 NCE Order, supra (estimated savings of \$770

million over ten years); TUC Holding Company, supra (estimated savings

of \$505 million over ten years); Northeast Utilities, supra (estimated

savings of \$837 million over eleven years); Entergy Corporation,

Holding Co. Act Release No. 25952 (Dec. 17, 1993) (expected savings of \$1.67 billion over ten years); Northeast Utilities, Holding Co. Act

Release No. 25221 (Dec. 21, 1990) (estimated savings of \$837 million over eleven years); Kansas Power and Light Co., Holding Co. Act Release

No. 25465 (Feb. 5, 1992) (expected savings of \$140 million over five years); IE Industries, Holding Co. Act Release No. 25325 (June 3, 1991)

(expected savings of \$91 million over ten years); Midwest Resources,

Holding Co. Act Release No. 25159 (Sept. 26, 1990) (estimated savings of \$25 million over five years); CINergy Corp., Holding Co. Act Release No.

26146 (Oct. 21, 1994) (estimated savings of approximately \$1.5 billion over ten years).

- . sharing of best practices and systems while also respecting each company's commitment to its local community and service territory,
- . capturing synergies and economies of scale,
- . growth through market extension and strategic acquisitions, and
- . the benefits of more diversified economic, weather and market conditions.

. Strategic Fit and Compatibility. PECO Energy, with its generation focus and substantial number of distribution customers, and Unicom, with its distribution focus and substantial generation capacity, have complementary strategies and compatible corporate cultures and visions of the future of the energy business. The companies have a shared commitment to supporting and participating in competitive electric markets, are already competing in deregulated markets in their respective service territories and are prepared for industry restructuring.

. Foundation for Future Growth. The Merger is expected to provide the critical mass, and the development and operating infrastructure, to expand the broad and complementary unregulated businesses of PECO Energy and Unicom, with a focus on EWG development, energy-related infrastructure services, energy solutions and telecommunications. The merger is expected to enhance the flexibility of the companies to take advantage of new opportunities for unregulated businesses, including by:

- . leveraging of infrastructure services over a broader customer base,
- . capitalizing on opportunities in the telecommunications business, and,
- . exploiting cross-selling opportunities in the unregulated energy solutions business.

. Cost Savings. Unicom and PECO believe that the merger will produce cost savings through the elimination of duplication in corporate and administrative programs, generation consolidation, greater efficiencies in the power marketing and trading business, unregulated ventures integration, improved purchasing power (non-fuel), and the combination of portions of the two workforces. Unicom and PECO estimate that the combined company will achieve regulated and unregulated net annual cost savings of approximately \$100 million in the first year following completion of the merger, increasing to approximately \$180 million by the third year. Approximately 60% of these savings will be attributable to regulated activities and the remainder to unregulated activities. Estimated savings include only those cost savings and cost avoidance items management expects to achieve as a result of the merger.

Nuclear Coordination. The potential benefits associated with the

integration of the nuclear operations of ComEd and PECO will be particularly significant. As the licensed owner

and operator of the nuclear power plants currently owned and operated by ComEd and PEC, Genco will be subject to pervasive regulatory oversight by the NRC under the Atomic Energy Act of 1954, as amended, ("AEA") with respect to virtually every aspect of the operation, maintenance, and eventual decommissioning of these plants. As described in the license transfer applications submitted to the NRC in connection with the Merger, the qualifications of Genco to carry out its licensed responsibilities will meet or exceed the existing qualifications of ComEd and PECO and enhance the safety of nuclear operations throughout the Exelon system./125/ The Merger will combine two of the nation's most experienced nuclear management teams and nuclear operating organizations, currently consisting of over 9,600 personnel responsible for the operation of 14 nuclear plants with a total generating capacity in excess of about 14,000 MW, with demonstrated experience in achieving and sustaining safe and reliable nuclear plant operations, into a single nuclear operating group in Genco.

In accordance with the requirements imposed under the AEA and NRC regulations, this integrated nuclear group will be led by an experienced and dedicated nuclear management team that establishes and enforces high standards and clear accountability, focuses on effective nuclear support, assures the sharing and implementation of best practices, and effectively exercises oversight of licensed activities. The Genco nuclear group will function as a single cohesive entity, with a common vision, a shared mandate for regulatory compliance and performance excellence, and consistent standards, programs, practices, and management controls designated to sustain and enhance the safety of nuclear operations. Additional personnel, resources, and nuclear operating experience will become available to all of ComEd's and PECO's existing nuclear plants through the nuclear group.

Thus, the establishment of the Genco nuclear group in connection with the merger will not only improve the efficiency of economy of nuclear power plant operations throughout the Exelon system, it will also further the public interest by enhancing the safety of nuclear operations throughout the system.

(c) Section 10(f) -- Compliance with State Law

Section 10(f) provides that:

The Commission shall not approve any acquisition as to which an application is made under this section unless it appears to the satisfaction of the Commission that such State laws as may apply in respect of such acquisition have been

/125/ The NRC recently adopted new procedures to streamline its license transfer proceedings and facilitate the transfer of NRC licenses to technically and financially qualified licensees as the restructuring of the electric utility industry unfolds. See Streamlined Hearing Process for NRC Approval of License

Transfers, 63 Fed. Reg. 66723 (Dec. 3, 1998). As Commissioner Merrifield of

the NRC observed in a speech several weeks after the merger between Unicom and PECO was announced: "As I have said on several occasions, I view the consolidation in the nuclear industry as a tremendous opportunity to further improve the operational performance and safety of these plants. In most of the transactions, I expect that the buyers will be large nuclear generating companies that own and operate a substantial number of nuclear units. These buyers have economies of scale and resources that are simply not available to companies that own and operate only one nuclear unit. I am also truly encouraged by the fact that most of the license transfers will likely involve buyers with excellent performance records." See Statement of NRC Commissioner

Jeffrey S. Merrifield, 27/th/ Water Reactor Safety Information Meeting (Oct. 25, 1999).

complied with, except where the Commission finds that compliance with such State laws would be detrimental to the carrying out of the provisions of section 11.

As described below under Item 4. "Regulatory Approvals," and as evidenced by the filings before the Illinois Commission and the Pennsylvania Commission, ComEd and PECO intend to comply with all applicable State laws related to the Merger.

C. Intra-system Transactions

The Exelon system companies will engage in a variety of affiliate transactions for the provision of goods, services, and construction. Certain of these transactions are elaborated upon below. The provision of goods, services, and construction by Exelon system companies to other Exelon system companies will be carried out in accordance with the requirements and provisions of Rules 87, 90, and 91 unless otherwise authorized by the Commission by order or by rule.

1. Exelon Services, Inc.

Rule 88(b) provides that "[a] finding by the Commission that a subsidiary company of a registered holding company. . . is so organized and conducted, or to be so conducted, as to meet the requirements of Section 13(b) of the Act with respect to reasonable assurance of efficient and economical performance of services or construction or sale of goods for the benefit of associate companies, at cost fairly and equitably allocated among them (or as permitted by [Rule] 90), will be made only pursuant to a declaration filed with the Commission on Form U-13-1, as specified in the instructions for that form, by such company or the persons proposing to organize it." Notwithstanding the foregoing language, the Commission in recent cases has made findings under Section 13(b) based on information set forth in an Application-Declaration on Form U- 1, without requiring the formal filing of a Form U-13-1./126/ In this Application-Declaration, Applicant is submitting substantially the application information as would have been submitted in a Form U-13-1. Accordingly, it is submitted that it is appropriate to find that Exelon Services will be so organized and shall be so conducted as to meet the requirements of Section 13(b), and that the filing of a Form U-13-1 is unnecessary, or, alternatively, that this Application-Declaration should be deemed to constitute a filing on Form U-13-1 for purposes of Rule 88.

Exelon Services/127/ will be the service company subsidiary for the Exelon system and will provide Exelon, ComEd, PECO, Genco and non-utility subsidiaries with one or more of the following: administrative, management and support services, including services relating to support of electric and gas plant operations (i.e., energy supply management of the bulk power and natural gas supply, procurement of fuels, coordination of electric and natural gas distribution systems, maintenance, construction and engineering work); customer bills, and related matters; materials management; facilities; real estate; rights of way; human resources; finance; accounting; internal auditing; information systems; corporate planning and research; public

/126/ New Century Energies; Ameren; CINergy Corp.; UNITIL Corp., supra.

/127/ As noted above, Exelon may have one or more specialized service companies in addition to Exelon Services. Exelon will provide information regarding any other service company by amendment hereto.

affairs; corporate communications; legal; environmental matters; executive services and the other services listed on Schedule 2 to the General Service Agreement./128/

In accordance with the General Service Agreement, services provided by Exelon Services will be directly assigned, distributed or allocated by activity, project, program, work order or other appropriate basis. To accomplish this, employees of Exelon Services will record their labor and expenses to bill the appropriate subsidiary company. Costs of Exelon Services will be accumulated in accounts of the service company and be directly assigned, distributed, or allocated to the appropriate client company in accordance with the guidelines set forth in the General Services Agreement and the procedures in the "Procedures Manual" which has been provided to the Staff. There will be an internal audit group which, among other things, will audit the assignment of service company charges to client companies. Exelon Services' accounting and cost allocation methods and procedures are structured so as to comply with the Commission's standards for service companies in registered holding company systems.

Exelon Services will be staffed primarily by existing personnel and by transferring personnel from the current employee rosters of Unicom, PECO and their subsidiaries. It is expected that Exelon Services will conduct substantial operations in Chicago and Philadelphia. Merger transition teams are presently considering where specific operations of the combined company will be headquartered.

As compensation for services, the General Service Agreement provides that "Client Companies listed in Attachment A hereto, as amended from time to time, shall pay to Service Company [i.e., Exelon Services] all costs which reasonably

can be identified and related to particular services provided by Service Company for or on Client Company's behalf (except as may otherwise be permitted by the SEC)."

Companies listed on Attachment A will be ComEd, PECO, Genco and any other company which is a "public utility company" within the meaning of the Act and which operates within the United States (the "Operating Companies") as well as any subsidiary that is involved in directly providing goods, construction or services to the Operating Companies (together with the Operating Companies, the "Utility Subsidiaries").

The General Services Agreement also provides that "Client Companies listed on Attachment B hereto, as amended from time to time, shall pay to Service Company charges for services that are to be no less than cost (except as may otherwise be permitted by the SEC), insofar as costs can reasonably be identified and related by Service Company to its performance of particular services for or on behalf of Client Company."

/128/ Applicants may also establish a GenServCo subsidiary to house the employees who will operate and maintain the GenCo generating facilities and perform other activities for GenCo. The GenServCo will pay the salaries of its employees and be responsible for the administration of all employee benefit plans. GenCo will reimburse GenServCo for its expenses on a full cost basis in accordance with the requirements imposed by Section 13 of the Act and the Commission Rules promulgated thereunder. If Applicants decide to create a separate GenServCo they will file an amendment to this Application which will include a services agreement in a form that is substantively similar to the General Services Agreement included as Exhibit B-2 to this Application. Applicants are not now requesting approval of the proposed GenServCo.

The companies listed on Attachment B will be subsidiaries that Exelon is authorized to hold, other than the Utility Subsidiaries, such as EWGs, FUCOs, Exempt Telecommunications Companies ("ETCs"), and Energy Related Companies ("ERCs") permitted under Rule 58 or by Commission order, certain intermediate companies/129/ and other entities which are not involved in directly providing goods, construction or services to Utility Subsidiaries (collectively, the "Non-utility Subsidiaries").

Where more than one company is involved in or has received benefits from a service performed, the General Service Agreement will provide that the such costs "shall be fairly and equitably allocated using the ratios set forth" in the General Service Agreement. Thus, charges for all services provided by Exelon Services to affiliated utility companies will be as determined under Rules 90 and 91 of the Act. Except for the requested exceptions discussed below, services provided by Exelon Services to Non-Utility Subsidiaries pursuant to the General Services Agreement will also be charged as determined under Rules 90 and 91 of the Act. In the event that any changes to the General Service Agreement or allocations are needed to more accurately allocate costs to ComEd, PECO, Genco or other affiliates, Applicant will propose such changes to the Commission as they become known.

The General Services Agreement provides that no change in the organization of Exelon Services, the type and character of the companies to be serviced, the factors for allocating costs to associate companies, or in the broad categories of services to be rendered subject to Section 13 of the Act, or any rule, regulation or order thereunder, shall be made unless and until Exelon Services shall first have given the Commission written notice of the proposed change not less than 60 days prior to the proposed effectiveness of any such change. If, upon the receipt of any such notice, the Commission shall notify Exelon Services within the 60-day period that a question exists as to whether the proposed change is consistent with the provisions of Section 13 of the Act, or of any rule, regulation or order thereunder, then the proposed change shall not become effective unless and until Exelon Services shall have filed with the Commission an appropriate declaration regarding such proposed change and the Commission shall have permitted such declaration to become effective.

Applicant believes that the General Services Agreement is structured so as to comply with Section 13 of the Act and the Commission's rules and regulations thereunder.

2. Services, Goods, and Assets Involving the Utility Operating Companies

ComEd, PECO and Genco may provide to one another and other associate companies services incidental to their utility businesses, including but not limited to, infrastructure services maintenance, storm outage emergency repairs, and services of personnel with specialized expertise related to the operation of the utility. These services will be provided in accordance

/129/ Exelon will file a separate Application-Declaration seeking authority to establish certain Non-utility subsidiaries that will be authorized to engage in permitted activities under Rule 58 and otherwise which will include a request that "intermediate companies" also be allowed for organizational, tax, limitation of liability, international considerations and other proper business purposes. See, e.g., Interstate Energy Corporation, Holding Company Act Release No. 35-27069 (Aug. 26, 1999); Ameren Corporation, Holding Company Act Release No. 35-27053 (July 23, 1999); Entergy Corporation, Holding Company Act Release No. 27039 (June 22, 1999); New Century Energies, Inc., Holding Company Act Release No. 35-27000 (Apr. 7, 1999).

with Rules 87, 90, and 91. Moreover, in accordance with Rules 87, 90, and 91, certain goods may be provided through a leasing arrangement or otherwise by one Utility Subsidiary to one or more associate companies, and certain assets may be used by one Utility Subsidiary for the benefit of one or more other associate companies.

3. Non-utility Subsidiary Transactions

The Applicant requests authorization for Exelon Services and the Non-utility Subsidiaries to enter into agreements to provide construction, goods or services to certain associate companies enumerated below at fair market prices determined without regard to cost and therefore requests an exemption (to the extent that Rule 90(d) of the Act does not apply/130/) under Section 13(b) from the cost standards of Rules 90 and 91 as applicable to the following transactions, if the client company is:

- 1) a FUCO or an EWG that derives no part of its income, directly or indirectly, from the generation, transmission, or distribution of electric energy for sale within the United States;
- 2) an EWG that sells electricity at market-based rates which have been approved by the FERC or other appropriate State public utility commission, provided that the purchaser of the EWG's electricity is not an affiliated public utility or an affiliate that re-sells such power to an affiliated public utility;
- 3) a qualifying facility ("QF ") under the Public Utility Regulatory Policies Act of 1978 ("PURPA") that sells electricity exclusively at rates negotiated at arm's length to one or more industrial or commercial customers purchasing such electricity for their own use and not for resale, or to an electric utility company other than an affiliated electric utility at the purchaser's "avoided cost" determined under PURPA;
- 4) an EWG or a QF that sells electricity at rates based upon its costs of service, as approved by FERC or any State public utility commission having jurisdiction, provided that the purchaser of the electricity is not an affiliated public utility; or
- 5) an ETC, an ERC under Rule 58 or any other Non-utility Subsidiary that (a) is partially owned, provided that the ultimate purchaser of goods or services is not a Utility Subsidiary, (b) is engaged solely in the business of developing, owning, operating and/or providing services or goods to Non-utility Companies described in (1) through (4) above, or (c) does not derive, directly or indirectly, any part of its

/130/ Under Rule 90(d)(1), the price of services, construction or goods is not

limited to cost if neither the buyer nor the seller of such services, construction or goods is (i) a public-utility holding company, (ii) an investment or similar company as defined in the Rule, (iii) a company in the business of selling goods to associate companies or performing services or construction (i.e., a "service company") or (iv) any company controlling an entity described in (i), (ii) or (iii). In general, therefore, goods, services or construction provided from one Non-utility Subsidiary to other Non-utility Subsidiaries (other than any service company) are not subject to the cost restrictions and may be priced at market, which may be above or below cost. A Non-utility Subsidiary would generally be permitted to make such sales of goods, services or construction to another Non-utility Subsidiary under Rule 87(b).

income from sources within the United States and is not a public-utility company operating within the United States.

The Commission has granted requests for exemption from the Commission's "at cost" requirements for proposed transactions that are substantively similar to the Applicant's proposal above.^{/131/} Like the proposals previously approved, Applicant's proposal will protect its Utility Subsidiaries and their customers from the possibility that an abuse of the affiliate relationships between or among the Exelon companies could result in excessive charges to a public utility, or be passed on to the utility's customers.

4. Existing and Anticipated Affiliate Arrangements and Requests for Exemption.

ComEd currently provides to or receives services from affiliates in accordance with an Affiliated Interests Agreement ("AIA") approved by the Illinois Commission. PECO has filed a form of Mutual Services Agreement with the Pennsylvania Commission seeking approval for it to provide and receive services from affiliates. Each of these contracts (including the parties) is described in Exhibit B-3.

Under the Illinois AIA, ComEd may provide services to affiliates, and affiliates may provide services to ComEd, at the "prevailing price," which, as defined in the AIA, is substantially a market price,^{/132/} or if there is no prevailing price, then at fully distributed cost, which is substantially the same as "cost" as defined under the Act.

Under the AIA ComEd has a contract with Unicom Energy Services ("UES") under which it acquires services at the prevailing price. Under this contract, UES provides service to ComEd in connection with a contracts that ComEd has with certain U.S. governmental agencies to provide energy management, demand side management and energy conservation and efficiency services. These services include energy audits, feasibility analyses, engineering and design and implementation. All services required to be provided by ComEd to the governmental entities are provided to ComEd by UES at a prevailing price. To the extent required, Exelon seeks an exemption or waiver from applicable provisions of the Act for ComEd to continue this arrangement.

Under Illinois law regulated distribution utilities such as ComEd are authorized to provide certain competitive services to affiliates and unaffiliated parties. These services include any service "declared to be competitive" by the Illinois Commission, "contract service" for the provision of electric power and energy or other services provided by mutual agreement between

^{/131/} Interstate Energy Corporation, Holding Company Act Release No. 35-27069 (Aug. 26, 1999); Ameren Corporation, Holding Company Act Release No. 35-27053 (July 23, 1999); Entergy Corporation, Holding Company Act Release No. 27039 (June 22, 1999); Entergy Corporation, Holding Company Act Release No. 27040 (June 22, 1999); New Century Energies, Inc., Holding Company Act Release No. 35-27000 (Apr. 7, 1999).

^{/132/} Under the AIA, "prevailing price" means, for the utility, the tarrified rate or other pricing mechanism approved by the Illinois Commission, and for ComEd's Unicom affiliates, the price charged to nonaffiliates if such transactions with nonaffiliate constitute a substantial portion of the affiliate's total revenues from such transactions.

an electric utility and a retail customer, and "services, other than tariffed services, that are related to but not necessary for, the provision of electric power and energy or delivery services." ("Competitive Services")./133/ The price at which Competitive Services may be sold by the utility is not limited to cost.

Competitive Services are accounted for on a so-called "below the line" basis, that is, the costs associated with such services may not be included in the utility's calculation of cost for rate making purposes. Any profit or loss on these activities would be disregarded for utility rate making purposes. In effect, these activities are conducted as if they were conducted by a separate nonregulated "subsidiary" except that the corporate entity of the utility company is the actual party to the transactions. Accordingly, under Illinois law customers are fully protected from the possibility that an abuse of the affiliate relationships between or among ComEd and any of the other Exelon companies could result in excessive charges to ComEd, or be passed on to its customers.

Applicant requests authorization for ComEd to enter into agreements with affiliates to provide Competitive Services and to acquire goods or services from affiliates related to Competitive Services at fair market prices determined without regard to cost and therefore requests an exemption under Section 13(b) from the cost standards of Rules 90 and 91 as applicable.

PECO Government contracts. PECO seeks a waiver similar to ComEd's prevailing price standard in order to permit PECO or its subsidiaries to provide energy services to U.S. governmental agencies at rates approved by the Pennsylvania Commission.

PECO Sales and Purchases To and From Retail Marketing Affiliates. Under the ----- proposed Pennsylvania Mutual Service Agreement, most transactions between affiliates will be made at cost, in accordance with the Pennsylvania Commission's regulations. However, transactions involving non-power goods and services between the regulated electric distribution company (PECO) and its retail marketing affiliate(s) protect the regulated utility by requiring PECO to sell non-power goods and services to its affiliated retail marketing entities at the greater of cost or market and requiring PECO to purchase non-power goods and services from those entities at prices no higher than market in order to prevent anti-competitive cross subsidies. This standard is required by Appendix H (Interim Code of Conduct) of PECO's Pennsylvania Commission approved restructuring settlement in Docket Nos. R-00973953 and P-00971265.

Applicant does not believe that there will ordinarily be any conflict between the Commission's cost rules and the Pennsylvania Commission approved inter-affiliate cost allocation rules. To address the rare circumstances in which the Commission's cost rule and the Mutual Services Agreement (reflecting the terms of PECO's Pennsylvania restructuring settlement) may conflict, PECO proposes to implement a practice that will mitigate any such conflict. Under the proposed procedure PECO will only sell non-power goods or services to its retail marketing affiliate when its cost is substantially equal to the market price for the services or goods in question./134/ PECO will only purchase non-power goods and services from its retail marketing affiliate when the at-cost price offered by that affiliate is at or below the market price for the same goods or services. The proposed procedure will protect customers who receive

/133/ 220 ILCS 16-102

/134/ If the utility's cost is below market, it would not be permitted to sell at cost under Pennsylvania rules, but would be prohibited from selling at market by the Commission's rules.

service from PECO's regulated entity from any potential for abuse of the affiliate relationship and ensure that regulated services are not used to subsidize competitive activities. PECO requests that, in its Order, the Commission find the proposed measures comply with its "at cost" rules (Rules 90 and 91), or grant a limited waiver therefrom, as appropriate.

Public Interest. The Illinois Commission has found, and the Pennsylvania

Commission is expected to find in connection with its review of the Merger, that the AIA and the Mutual Services Agreement are reasonable and are in the public interest. The Commission's principal concern under Section 13 of the Act is to protect utility companies in a holding company system from abusive cross-subsidization transactions between associate companies. Since Applicant and its affiliates will not be able to engage in transactions under State law until the Illinois Commission or the Pennsylvania Commission will have found that all the aforementioned contracts are reasonable and are in the public interest, cross-subsidization issues will not arise under these agreements, and each should be permitted to continue./135/ Applicant emphasizes that the bundled rate distribution customers of ComEd and PECO are protected from increases in rates for proscribed periods because of the rate cap or rate freeze in effect in those States as described elsewhere in this Application-Declaration.

Item. 4. Regulatory Approvals

Set forth below is a summary of the regulatory approvals that Applicant expects to obtain in connection with the Merger. It is a condition to the consummation of the Merger that final orders relating to the Merger be obtained from the Commission under the Act and from the various Federal and State commissions described below and that those orders not impose terms or conditions which, individually or in the aggregate, could reasonably be expected to have a material adverse affect on Exelon and its prospective subsidiaries taken as a whole or which would be materially inconsistent with the agreements of the parties to the Merger Agreement.

/135/ The Commission is authorized to grant exemptions or waiver of the at cost rules that involve special or unusual circumstances or are not in the ordinary course of business." Section 13(b)(2) of the Act. See Dominion

Resources, Inc., Holding Company Act Release No. 35-27113 (Dec. 15,

1999). See also, In Entergy Corporation, Holding Co. Release No. 27040

(June 22, 1999), the Commission addressed its flexibility in administering Section 13 in the context of Entergy's Settlement Agreement with several regulators. The Commission allowed Entergy's regulated utilities to provide services to non-utility businesses at cost of service plus five percent. In reaching its decision, the Commission recognized that the Act's statutory provisions afforded the Commission the "necessary flexibility to deal with changing circumstances." The Commission has used this flexibility several times. See, e.g., New

England Electric System, Holding Co. Release No. 22309 (Dec. 9, 1981)

(authorizing the price or charter rental of a good or service to be 90% of a market rate); Blackhawk Coal Co., Holding Co. Release No. 23834

(Sept. 20, 1985) (authorizing market-based cap on prices paid for coal purchased from coal mining affiliate); Columbus Southern Power Co.,

Holding Co. Release No. 25326 (June 5, 1991) (authorizing sale of spare parts at replacement cost); EUA Cogenex Corp., Holding Co. Release No.

26373 (Sept. 14, 1995) (authorizing sale of goods or services at prices not to exceed market prices); and EUA Cogenex Corp., Holding Co. Release No. 26469 (Feb. 6, 1996) (authorizing provision of goods or services at prices not to exceed market prices). The Commission should again exercise its flexibility to approve Applicants' waiver request in order to comply with applicable Illinois and Pennsylvania commission orders.

A. Antitrust

The HSR Act and the rules and regulations thereunder prohibit certain transactions (including the Merger) until certain information has been submitted to the Antitrust Division of the Department of Justice ("DOJ") and Federal Trade Commission ("FTC") and the specified HSR Act waiting period requirements have been satisfied. Unicom and PECO submitted the Notification and Report Forms and all required information to the DOJ and FTC in January 2000.

The expiration or earlier termination of the HSR Act waiting period does not preclude the DOJ or the FTC from challenging the Merger on antitrust grounds. Applicant believes that the Merger will not violate Federal antitrust laws.

B. Federal Power Act

Section 203 of the Federal Power Act provides that no public utility shall sell or otherwise dispose of its jurisdictional facilities or directly or indirectly merge or consolidate such facilities with those of any other person or acquire any security of any other public utility, without first having obtained authorization from FERC. Under Section 203 of the Federal Power Act, FERC will approve a merger if it finds that merger "consistent with the public interest." In reviewing a merger, FERC evaluates three factors: (i) whether the merger will adversely affect competition, (ii) whether the merger will adversely affect cost based power or transmission rates, and (iii) whether the merger will impair the effectiveness of regulation. On November 22, 1999, ComEd and PECO filed a combined application with FERC requesting FERC to approve the Merger under Section 203 of the Federal Power Act.

On December 16 and December 22, 1999, PECO and ComEd, respectively, filed separate applications with FERC requesting FERC to authorize the transfer of jurisdictional assets associated with the companies' Restructurings. The Restructurings include plans to establish Genco and to separate generation and marketing from transmission and distribution businesses. FERC was informed that the transfers are expected to occur about the time the Merger becomes effective. ComEd and PECO anticipate that they will receive the requested authorizations in advance of the Merger's effective date. In addition, the Conowingo Companies hold certain hydroelectric project licenses under the FPA. The transfer of the utility assets and liabilities of the Conowingo Companies will constitute transfers of the hydroelectric project licenses, requiring approval of FERC.

C. Atomic Energy Act

ComEd, PECO and AmerGen hold NRC operating licenses in connection with their ownership and/or operation of various nuclear generating facilities. The operating licenses authorize the holder to own and operate the facilities. The AEA provides that a license or any rights thereunder may not be transferred or in any manner disposed of, directly or indirectly, to any person through transfer of control unless the NRC finds that such transfer is in accordance with the AEA and consents to the transfer. Pursuant to the AEA, ComEd and PECO have applied for approval from the NRC to reflect the fact that after the Merger, Genco will be the owner and operator of the facilities and Exelon will be the parent company of Genco. AmerGen

has also applied for NRC approval in connection with the Transfer of PECO's interest in AmerGen to Genco.

D. State Public Utility Regulation

ComEd is currently subject to the jurisdiction of the Illinois Commission. PECO is subject to the jurisdiction of the Pennsylvania Commission. Genco, although a "public-utility company" under the Act will not be a public utility subject to jurisdiction by either the Illinois Commission or the Pennsylvania Commission. PECO has filed an application for approval of the Merger and related matters with the Pennsylvania Commission. ComEd made its required notice filing with the Illinois Commission outlining the terms of the Merger on November 22, 1999.

Further filings have been or will be made with the Illinois Commission and the Pennsylvania Commission regarding the Restructurings.

E. Other

ComEd and PECO possess municipal franchises and environmental permits and licenses that they may need to assign or replace as a result of the Merger. ComEd and PECO do not anticipate any difficulties obtaining such assignments, renewals and replacements. Except as set forth above, no other State or local regulatory body or agency and no other Federal commission or agency has jurisdiction over the transactions proposed herein.

Finally, pursuant to Rule 24 under the Act, the Applicant represents that the transactions proposed in this filing shall be carried out in accordance with the terms and conditions of, and for the purposes stated in, the declaration-application no later than August 1, 2000.

Item. 5. Procedure

The Commission is respectfully requested to publish, not later than April 15, 2000, the requisite notice under Rule 23 with respect to the filing of this Application-Declaration, such notice to specify a date not later than May 15, 2000, by which comments must have been entered and a date on or after June 1, 2000, as the date when an order of the Commission granting and permitting this Application-Declaration to become effective may be entered by the Commission.

It is submitted that a recommended decision by a hearing or other responsible officer of the Commission is not needed for approval of the Merger. The SEC Staff may assist in the preparation of the Commission's decision. There should be no waiting period between the issuance of the Commission's order and the date on which it is to become effective.

Item. 6. Exhibits and Financial Statements

A. Exhibits

Exhibit No.	Description of Document	Method of Filing
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A-1	Restated Articles of Incorporation of Exelon	Incorporated by reference to S-4 Registration Statement, Exhibit C-1
A-2	Restated Articles of Incorporation of ComEd effective February 20, 1985, including Statements of Resolution Establishing Series, relating to the establishment of three new series of ComEd preference stock known as the "\$9.00 Cumulative Preference Stock," the "\$6.875 Cumulative Preference Stock" and the "\$2.425 Cumulative Preference Stock."	Incorporated by reference; File No. 1-1839, Unicom Form 10-K for the year ended December 31, 1994, Exhibit (3)-2.
A-3	Restated Articles of Incorporation of PECO	Incorporated by reference; File No. 1-1401, PECO 1993 Form 10-K, Exhibit 3-1
B-1	Amended and Restated Agreement and Plan of Exchange and Merger (Merger Agreement)	Incorporated by reference; Annex 1 to Exhibit C-1
B-2	Form of General Services Agreement	Filed herewith
B-3	Description of existing agreements under State approved affiliated interest agreements	Filed by amendment
C-1	Registration Statement of Exelon on Form S-4	Incorporated by reference; Registration Statement No. 333-_____. (To be filed under the Securities Act mid-April, 2000)
C-2	Joint Proxy Statement and Prospectus of Unicom and PECO	Incorporated by reference; included in Exhibit C-1
D-1.1	Joint Application of ComEd and PECO to FERC re Merger (excluding exhibits and testimony which Applicant will supply upon request of the Commission)	Filed herewith
D-1.2	Direct Testimony of Dr. William H. Heironymous (Exhibit No. APP-300 to FERC Joint Application).	Filed herewith
D-1.3	Order of FERC approving the Merger	Filed by amendment
D-1.4	Application of ComEd to FERC for Authority to Transfer Jurisdictional Assets ("Restructuring Filing")	Filed herewith

	(excluding exhibits and testimony which Applicant will supply upon request of the Commission)	
D-1.5	Application of PECO to FERC for Authority to Transfer Jurisdictional Assets ("Restructuring Filing") (excluding exhibits and testimony which Applicant will supply upon request of the Commission)	Filed herewith
D-2.1	Application of PECO before the Pennsylvania Commission regarding the Merger (excluding exhibits and testimony which Applicant will supply upon request of the Commission)	Filed herewith
D-2.2	Order of the Pennsylvania Commission approving the Merger	Filed by amendment
D-2.3	Application of PECO before Pennsylvania Commission regarding Restructuring. (excluding exhibits and testimony which Applicant will supply upon request of the Commission)	Filed herewith; included in Exhibit D-2.1
D-3.1	Notice of ComEd to the Illinois Commission regarding the Merger (excluding exhibits and attachments which Applicant will supply upon request of the Commission)	Filed herewith
D-3.2	Application of ComEd to the Illinois Commission regarding Restructuring (excluding exhibits and testimony which Applicant will supply upon request of the Commission)	Filed by amendment
D-4.1	Application of PECO, ComEd and AmerGen to the NRC regarding transfer of nuclear generating operating licenses	Filed herewith
D-4.2	Order of the NRC finding that the transfer of certain operating licenses in connection with the Merger is in compliance with The Atomic Energy Act and consenting to such transfers	Filed by amendment
E-1	Maps of service area and transmission system of ComEd	Filed in paper under Form SE

E-2	Maps electric and gas service areas and transmission system of PECO	Filed in paper under Form SE
E-3	Unicom corporate chart	Filed in paper under Form SE
E-4	PECO corporate chart	Filed in paper under Form SE
E-5	Exelon Company corporate chart	Filed by amendment
F-1	Preliminary opinion of counsel to Exelon	Filed by amendment
F-2	Past-tense opinion of counsel to Exelon	Filed by amendment
G-1	Opinion of Wasserstein Perella & Co.	Incorporated by reference; Annex 4 to S-4 Registration Statement, Exhibit C-1
G-2	Opinion of Salomon Smith Barney Inc.	Incorporated by reference; Annex 3 to S-4 Registration Statement, Exhibit C-1
G-3	Opinion of Morgan Stanley & Co.	Incorporated by reference; Annex 2 to S-4 Registration Statement, Exhibit C-1
H-1	Annual Report of Unicom on Form 10-K for the year ended December 31, 1998	Incorporated by reference, File No. 1-11375
H-2	Annual Report of PECO on Form 10-K for the year ended December 31, 1998	Incorporated by reference, File No. 1-1401
H-3	Quarterly Reports of Unicom on Form 10-Q for the quarters ended March 31, 1999, June 30, 1999 and September 30, 1999	Incorporated by reference, File No. 1-11375
H-4	Quarterly Reports of PECO on Form 10-Q for the quarters ended March 31, 1999, June 30, 1999 and September 30, 1999	Incorporated by reference, File No. 1-1401
I-1	List and Description of Subsidiaries and Investments Of Unicom Corporation (Other than "Public-Utility" Companies)	Filed herewith
I-2	List and Description of Subsidiaries and Investments Of PECO Energy (Other than "Public-Utility" Companies)	Filed herewith
J-1	Analysis of the Economic Impact of a Divestiture of the Gas Operations of PECO Energy Company	Filed herewith
K-1	Analysis of How the Interconnection Requirement of PUHCA is Satisfied by OATTs and OASIS ("Interconnection	Filed herewith

Analysis")

L-1 Form of Notice of filing

B. Financial Statements

Statement No.	Description	Method of Filing
FS-1	Historical consolidated financial statements of Unicom	Incorporated by reference to Annual Reports on Form 10-K for the years ended 1999,1998 and 1997
FS-2	Historical consolidated financial statements of PECO	Incorporated by reference to Annual Reports on Form 10-K for the years ended 1999,1998 and 1997
FS-3	Unaudited Pro Forma Financial Statements of Exelon, giving effect to the Merger	Incorporated by reference; S-4 Registration Statement, Exhibit C-1

Item. 7. Information as to Environmental Effects

The Merger neither involves "major federal actions" nor "significantly [affects] the quality of the human environment" as those terms are used in Section (2)(C) of the National Environmental Policy Act, 42 U.S.C. Sec. 4332. The only Federal actions related to the Merger pertain to the Commission's declaration of the effectiveness of the Joint Registration Statement, the approvals and actions described under Item 4 and Commission approval of this Application-Declaration. Consummation of the Merger will not result in changes in the operations of Unicom, ComEd or PECO that would have any impact on the environment. No Federal agency is preparing an environmental impact statement with respect to this matter.

SIGNATURE

Pursuant to the requirements of the Public Utility Holding Company Act of 1935, the undersigned company has duly caused this Application-Declaration to be signed on its behalf by the undersigned thereunto duly authorized.

By: /s/ Pamela B. Strobel

Date: March 16, 2000

GENERAL SERVICES AGREEMENT
BETWEEN
_____ SERVICES COMPANY
AND

EXELON CORPORATION, COMMONWEALTH EDISON COMPANY AND ITS SUBSIDIARIES, UNICOM ENTERPRISES AND ITS SUBSIDIARIES, UNICOM RESOURCES AND ITS SUBSIDIARIES, PECO ENERGY COMPANY AND ITS SUBSIDIARIES, AND [A GENERATION COMPANY TO BE NAMED AT A LATER DATE]

THIS AGREEMENT, made and entered into this __ day of _____, 2000, by and between the following Parties: _____ SERVICES COMPANY (hereinafter sometimes referred to as "Service Company"), a _____ corporation; EXELON CORPORATION, a Pennsylvania corporation; COMMONWEALTH EDISON COMPANY and its subsidiaries, UNICOM ENTERPRISES and its subsidiaries, UNICOM RESOURCES and its subsidiaries, PECO ENERGY COMPANY and its subsidiaries, and [A GENERATION COMPANY TO BE NAMED AT A LATER DATE], (hereinafter sometimes referred to collectively as "Client Companies");

WITNESSETH:

WHEREAS, Client Companies, including EXELON CORPORATION, which has filed for registration under the terms of the Public Utility Holding Company Act of 1935 (the "Act") and its other subsidiaries, desire to enter into this agreement providing for the performance by Service Company for the Client Companies of certain services as more particularly set forth herein;

WHEREAS, Service Company is organized, staffed and equipped and has filed with the Securities and Exchange Commission (the "SEC") to be a subsidiary service company under Section 13 of the Act to render to EXELON CORPORATION, and other subsidiaries of EXELON CORPORATION, certain services as herein provided; and

WHEREAS, to maximize efficiency, and to achieve merger related savings, the Client Companies desire to avail themselves of the advisory, professional, technical and other services of persons employed or to be retained by Service Company, and to compensate Service Company appropriately for such services;

NOW, THEREFORE, in consideration of these premises and of the mutual agreements set forth herein, the Parties agree as follows:

Section 1. Agreement to Provide Services

Service Company agrees to provide to Client Companies and their subsidiaries, if any, upon the terms and conditions set forth herein, the services hereinafter referred to and described in Section 2, at such times, for such period and in such manner as Client Companies may from time to time request. Service Company will keep itself and its personnel available and competent to provide to Client Companies such services so long as it is authorized to do so by the appropriate federal and state regulatory agencies. In providing such services, Service

Company may arrange, where it deems appropriate, for the services of such experts, consultants, advisers and other persons with necessary qualifications as are required for or pertinent to the provision of such services.

Section 2. Services to be Provided

The services expected to be provided by Service Company hereunder may, upon request by a Client Company, include the services as set out in Schedule 2, attached hereto and made a part hereof. In addition to those identified in Schedule 2, Service Company shall provide such additional general or special services, whether or not now contemplated, as Client Companies may request from time to time and Service Company determines it is able to provide.

Notwithstanding the foregoing paragraph, no change in the organization of the Service Company, the type and character of the companies to be serviced, the factors for allocating costs to associate companies, or in the broad general categories of services to be rendered subject to Section 13 of the Act, or any rule, regulation or order thereunder, shall be made unless and until the Service Company shall first have given the SEC written notice of the proposed change not less than 60 days prior to the proposed effectiveness of any such change. If, upon the receipt of any such notice, the SEC shall notify the Service Company within the 60-day period that a question exists as to whether the proposed change is consistent with the provisions of Section 13 of the Act, or of any rule, regulation or order thereunder, then the proposed change shall not become effective unless and until the Service Company shall have filed with the SEC an appropriate declaration regarding such proposed change and the SEC shall have permitted such declaration to become effective.

Section 3. New Subsidiaries

New direct or indirect subsidiaries of EXELON CORPORATION, which may come into existence after the effective date of this Service Agreement, may become additional client companies of Service Company and subject to this General Services Agreement with Service Company. The parties hereto shall make such changes in the scope and character of the services to be provided and the method of assigning, distributing or allocating costs of such services as may become necessary to achieve a fair and equitable assignment, distribution, or allocation of Service Company costs among associate companies including the new subsidiaries.

Section 4. Compensation of Service Company

As compensation for the services to be rendered hereunder, Client Companies listed in Attachment A hereto, as amended from time to time, shall pay to Service Company all costs which reasonably can be identified and related to particular services provided by Service Company for or on Client Company's behalf (except as may otherwise be permitted by the SEC). Client Companies listed in Attachment B hereto, as amended from time to time, shall pay to Service Company charges for services that are to be no less than cost (except as may otherwise be permitted by the SEC), insofar as costs can reasonably be identified and related by Service Company to its performance of particular services for or on behalf of Client Company.

The factors for assigning or allocating Service Company costs to Client Company, as well as to other associate companies, are set forth in Schedules 1 and 2 attached hereto. Attachments A and B and Schedules 1 and 2 are each expressly incorporated herein and made a part hereof.

Section 5. Securities and Exchange Commission Rules

It is the intent of the Parties that the determination of the costs as used in this Agreement shall be consistent with, and in compliance with, the rules and regulations of the SEC, as they now read or hereafter may be modified by the Commission.

Section 6. Service Requests

The services described herein or contemplated to be provided hereunder shall be directly assigned, distributed or allocated by activity, project, program, work order or other appropriate basis.

Section 7. Payment

Payment shall be by making remittance of the amount billed or by making appropriate accounting entries on the books of the companies involved. Invoices shall be prepared on a monthly basis for services provided hereunder.

Section 8. EXELON CORPORATION

Except as authorized by rule, regulation, or order of the SEC, nothing in this Agreement shall be read to permit EXELON CORPORATION, or any person employed by or acting for EXELON CORPORATION, to provide services for other Parties, or any companies associated with said Parties.

Section 9. Effective Date and Termination

This Agreement is executed subject to the consent and approval of all applicable regulatory agencies, and if so approved in its entirety, shall become effective as of the date the merger between PECO ENERGY COMPANY and UNICOM CORPORATION is consummated, and shall remain in effect from said date unless terminated by mutual agreement or by any Party giving at least 60 days' written notice to the other Parties prior to the beginning of any calendar year, each Party fully reserving the right to so terminate this Agreement.

This Agreement may also be terminated or modified to the extent that performance may conflict with any rule, regulation or order of the SEC adopted before or after the making of this Agreement.

Section 10. Access to Records

For the seven years following a transaction under this Agreement, the Client Company may request access to and inspect the accounts and records of the Service Company, provided that the scope of access and inspection is limited to accounts and records that are related to such transaction.

Section 11. Assignment

This Agreement and the rights hereunder may not be assigned without the mutual written consent of all Parties hereto.

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be executed and attested by their authorized officers as of the day and year first above written.

_____ SERVICES COMPANY

By _____

Title _____

ATTEST:

By _____

Title _____

EXELON CORPORATION

By _____

Title _____

ATTEST:

By _____

Title _____

[INSERT NAMES OF AND SIGNATURE BLOCKS FOR COMMONWEALTH EDISON COMPANY AND ITS SUBSIDIARIES, UNICOM ENTERPRISES AND ITS SUBSIDIARIES, UNICOM RESOURCES AND ITS SUBSIDIARIES, PECO ENERGY COMPANY AND ITS SUBSIDIARIES, AND A GENERATION COMPANY TO BE NAMED AT A LATER DATE]

Service Agreement Schedule 1

Allocation Ratios:

- - - - -

General:

Direct charges shall be made so far as costs can be identified and related to the particular transactions involved without excessive effort or expense. Other elements of cost, including taxes, interest, other overhead, and compensation for the use of capital procured by the issuance of capital stock, shall be fairly and equitably allocated using the ratios set forth below.

Revenue Related Ratios:

Revenues
Sales - Units sold and/or transported
Number of Customers

Expenditure Related Ratios:

Total Expenditures
Operations and Maintenance Expenditures
Construction Expenditures

Labor/Payroll Related Ratios:

Labor/Payroll
Number of Employees

Units Related Ratios:

Usage (for example: CPU's, square feet, number of vendor invoice payments)
Consumption (for example: tons of coal, gallons of oil, MMBTU's)
Capacity (for example: nameplate generating capacity, peak load, gas throughput)
Other units related

Assets Related Ratios:

Total Assets
Current Assets
Gross Plant

Composite Ratios:

Total Average Assets and 12 months ended Gross Payroll
Other composite ratios

Service Agreement Schedule 2

Services Including But Not Limited To:

General:

Direct charges shall be made so far as costs can be identified and related to the particular transactions involved without excessive effort or expense. Other elements of cost, including taxes, interest, other overhead, and compensation for the use of capital procured by the issuance of capital stock, shall be fairly and equitably allocated using the ratios set forth in Schedule 1.

Administrative & management services including but not limited to:

- accounting
 - bookkeeping
 - billing
 - accounts receivable
 - accounts payable
 - financial reporting
- audit
- executive
- finance
- insurance
- information systems services
- investment advisory services
- legal
- library
- record keeping
- secretarial & other general office support
- real estate management
- security holder services
- tax
- treasury
- other administration & management services

Expected allocation ratios: Revenue Related, Expenditure Related, Labor/Payroll Related, Units Related, Assets Related, Composite

Personnel services including but not limited to:

- recruiting
- training & evaluation services
- payroll processing
- employee benefits administration & processing
- labor negotiations & management
- other personnel services

Expected allocation ratios: Labor/Payroll Related, Units Related, Composite

Machinery management services including but not limited to:
equipment
tools
parts & supplies

Expected allocation ratios: Expenditure Related, Labor/Payroll Related, Units Related, Composite

Vehicle management services including but not limited to:
automobiles
trucks
vans
trailers
railcars
marine vessels
aircraft
transport equipment
material handling equipment
construction equipment

Expected allocation ratios: Expenditure Related, Labor/Payroll Related, Units Related, Composite

Operational services including but not limited to:
drafting & technical specification, development & evaluation
consulting
engineering
environmental
nuclear
construction
design
resource planning
economic & strategic analysis
research
testing
training
customer solicitation
support & other marketing related services
public & governmental relations
other operational services

Expected allocation ratios: Revenue Related, Expenditure Related, Labor/Payroll Related, Units Related, Assets Related, Composite

Purchasing services including but not limited to:
preparation & analysis of product specifications
requests for proposals & similar solicitations
vendor & vendor-product evaluations
purchase order processing
receipt, handling, warehousing and disbursement of purchased items
contract negotiation & administration
inventory management & disbursement
other purchasing services

Expected allocation ratios: Expenditure Related, Labor/Payroll Related, Units Related, Assets Related, Composite

Facilities management services including but not limited to:
office space
warehouse & storage space
transportation facilities (including dock & port, rail sidings and truck facilities)
repair facilities
manufacturing & production facilities
fixtures, office furniture & equipment

Expected allocation ratios: Expenditure Related, Labor/Payroll Related, Units Related, Composite

Computer services including but not limited to:
computer equipment & networks
peripheral devices
storage media
software

Expected allocation ratios: Expenditure Related, Labor/Payroll Related, Units Related, Assets Related, Composite

Communications services including but not limited to:
communications equipment
audio & video equipment
radio equipment
telecommunications equipment & networks
transmission & switching capability

Expected allocation ratios: Expenditure Related, Labor/Payroll Related, Units Related, Assets Related, Composite

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Commonwealth Edison Company,)
on behalf of itself and its)
public utility affiliates)
)
and)
)
PECO Energy Company,)
on behalf of itself and its)
public utility affiliates)

Docket No. EC00- -000

JOINT APPLICATION OF
COMMONWEALTH EDISON COMPANY
ON BEHALF OF ITSELF AND ITS PUBLIC UTILITY AFFILIATES AND
PECO ENERGY COMPANY
ON BEHALF OF ITSELF AND ITS PUBLIC UTILITY AFFILIATES
FOR APPROVAL OF MERGER

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UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Commonwealth Edison Company,)
 on behalf of itself and its)
 public utility affiliates)
)
and) Docket No. EC00- -000
)
PECO Energy Company,)
 on behalf of itself and its)
 public utility affiliates)

JOINT APPLICATION OF
COMMONWEALTH EDISON COMPANY
ON BEHALF OF ITSELF AND ITS PUBLIC UTILITY AFFILIATES AND
PECO ENERGY COMPANY
ON BEHALF OF ITSELF AND ITS PUBLIC UTILITY AFFILIATES
FOR APPROVAL OF MERGER

Pursuant to Section 203 of the Federal Power Act ("Act"), 16 U.S.C. (S) 824b (1994), and Part 33 of the Federal Energy Regulatory Commission's ("Commission") regulations, 18 C.F.R. Part 33 (1999), Commonwealth Edison Company ("ComEd") and PECO Energy Company ("PECO"), on behalf of themselves and their public utility affiliates/1/ (collectively referred to herein as "Applicants"), request the Commission to authorize the Applicants to undertake a merger as described herein (the "Merger").

I. REQUEST FOR EXPEDITED CONSIDERATION AND NO HEARING

The Applicants request that the Commission issue a final order approving this Application, without an evidentiary hearing, as expeditiously as feasible. The Applicants plan to close on the proposed Merger by September 2000. In Applicants' view, the Application contains

/1/ ComEd's public utility affiliates are Commonwealth Edison Company of Indiana, Inc. and Unicom Power Marketing, Inc. ("UPM"). PECO's public utility affiliates are (1) AmerGen Energy Company, L.L.C. ("AmerGen"), (2) Horizon Energy, d/b/a Exelon Energy, (3) PECO Energy Power Company, (4) Susquehanna Electric Company, and (5) Susquehanna Power Company.

more than sufficient information to allow the Commission to find that the Merger will have no adverse impact on competition, ratepayers, or regulation. In addition, the Application contains information on a number of restructuring initiatives the Applicants have recently completed, have underway, or will soon initiate, plus a proposed sequence of filings related to these initiatives. Based on this information, the Applicants believe the Commission will be able to visualize the post-merger configuration that the Applicants plan to implement. In the event, however, that the Commission requires additional information, the Applicants will comply with the Commission's requests on a highly expedited basis.

Further, if the Commission cannot approve the Merger as proposed, the Applicants request the Commission to identify specifically any measures or conditions that, if taken or agreed to by the Applicants, would render an evidentiary hearing unnecessary. This procedure was employed in Ohio Edison Co., Pennsylvania Power Co., Cleveland Elec. Illuminating Co. and Toledo Edison Co., 80 FERC (P) 61,039 at 61,107-08 (1997). See also Allegheny Energy, Inc., and DQE, Inc., 84 FERC (P) 61,223 at 62,073 (1998).^{2/}

II. OVERVIEW, TESTIMONY, AND MITIGATION COMMITMENTS

A. Overview

The proposed Merger is one step in a comprehensive pro-competitive restructuring and realignment of generation and transmission resources by the Applicants, who are leaders in restructuring wholesale and retail electric markets. The Merger should be promptly approved to recognize the pro-competitive nature of this restructuring and realignment and to encourage similar actions by other public utilities that are behind the Applicants. The Merger easily

^{2/} If the Commission convenes an evidentiary hearing, the Applicants request the Commission to establish expedited hearing procedures, including the setting of a due date for an Initial Decision, to ensure that the hearing will not unreasonably delay the consummation of the proposed Merger.

satisfies the Commission's Merger Policy Statement./3/ The Merger will not harm competition or enhance market power; it will not hurt ratepayers; and it will not impair the Commission's or the states' ability to regulate the Applicants.

With respect to competition, the Application includes a conservative Appendix A-type screen analysis. The proposed Merger passes the required economic capacity screen analysis except for a relatively minor failure in one destination market in certain time periods. While Applicants request that no mitigation be required to offset this screen failure, they propose a mitigation measure that eliminates the source of the screen failure, which they will implement if the Commission deems mitigation necessary. Seen in a very conservative light, the proposed Merger, without mitigation, does not result in analytical screen failures "across a range of relevant markets, load/price levels and capacity measures," as have proposed mergers the Commission set for evidentiary hearing./4/

Looking beyond the numerical content of the screen analysis and other quantitative analyses, a broader, qualitative review of the proposed Merger and the other restructuring efforts by Applicants supports their conviction that the Merger should be approved with little or no mitigation. The restructuring initiatives of ComEd and PECO already are dramatically and significantly improving the electric marketplace, both horizontally and vertically. Horizontally, ComEd is giving up ownership of nearly half of its generation in northern Illinois, which addresses ComEd's position in its own highly concentrated market. As a result, although PECO owns substantial generation in its own right, after the Merger is closed the newly merged system

/3/ Inquiry Concerning the Commission's Merger Policy Under the Federal Power Act: Policy Statement, Order No. 592 III FERC Stats. & Regs. (P) 31,044 (1996) (codified at 18 C.F.R. (S) 2.26) (hereinafter, the "Merger Policy Statement").

/4/ Western Resources, Inc. and Kansas City Power & Light Co., 86 FERC (P) 61,312 at 62,119 (1999).

will own a portfolio of generation of approximately the same size but dispersed over a much larger region. In the competitive generation market in which they operate, the Applicants will have little ability or incentive to raise market prices through this ownership of this dispersed generation, which will be primarily low-cost baseload plants. Even now, ComEd brings to the proposed Merger little capacity that can be withdrawn from the market. Indeed, at the very high load times when prices and profit margins are naturally at their highest, ComEd is short of capacity; and at all other times, ComEd controls little capacity that can be withheld.

Further, within a relatively short time-frame, both of the Applicants' transmission operation and control area functions will be turned over to independent regional organizations that meet the Commission's standards (PECO's

already have been). Thus, vertically, neither of the Applicants, nor their affiliates, will operate a control area (see ComEd's ITC proposal) or have the ability to manipulate the transmission grid. In the short run, moreover, the existing configuration of transmission systems and generation resources controlled by the Applicants prevents them from using their ownership of generation to preferentially manage the availability of transmission.

Last but not least, at the retail level, both the Applicants operate in states that have already initiated phased-in retail access programs enabling retail customers to choose their own power suppliers. Under these programs, all of Applicants' existing customers will have such right in 2002. Finally, the new system will be the premier operator of nuclear generation in the country, and ratepayers throughout the eastern half of the United States will thereby benefit from the safe, reliable, and low-cost power provided by it.

B. Testimony

An overview of the Applicants, their wholesale and retail restructuring efforts, and their reasons for merging is provided by Kenneth G. Lawrence, President of PECO Energy

Distribution (Exhibit No. APP-100), and Robert K. McDonald, Strategic Planning Vice President of ComEd (Exhibit No. APP-200). Further description of ComEd's transmission system, and of its inability to manipulate the transmission system, is provided by Steven T. Naumann, Transmission Services Vice President of ComEd (Exhibit No. APP-400). A description of the Applicants' wholesale customers, and the Applicants' proposed ratepayer protection mechanisms, is provided by Robert N. Spencer of PECO (Exhibit No. APP-500) and Arlene Juracek of ComEd (Exhibit No. APP-600). William H. Hieronymus, Senior Vice President of PHB Hagler Bailly, Inc. provides testimony on the competitive effects of the proposed Merger (Exhibit No. APP-300).

On the generation side, the witnesses describe a pro-competitive divestiture undertaken by ComEd, in which more than 9,000 MW of generation is being sold to Edison Mission Energy, Inc. ("Mission"). While ComEd will contractually retain for a limited period specified recall rights to the output of these generating facilities so that it can meet its public utility obligations, the Mission divestiture will relatively soon dramatically reduce ComEd's concentration of generation ownership in northern Illinois, and in the Midwest generally. The merged system, accordingly, will own generation roughly equal in capacity to the generation formerly owned just by ComEd, but the generation will be spread over dispersed areas, centered on Chicago and Philadelphia, which are 700 miles apart. The existence of numerous utility systems between the ComEd and PECO systems will prevent the merged system from dominating any one region.

On the transmission side, the witnesses describe (a) PECO's membership in the ISO operated by PJM Interconnection, LLC ("PJM"), the nation's most advanced regional, independent transmission operation system, and (b) ComEd's commitment to transfer its transmission facilities to the Midwest Independent Transmission System Operator, Inc. ("MISO"), which is expected to begin operation in mid-2001. ComEd is known for its

commitment to the success of the MISO and for endeavoring to improve the MISO so that the Commission has no reservations concerning its effectiveness. ComEd has contributed personnel to the MISO, and ComEd's parent company, Unicom, has guaranteed \$50 million in loans on behalf of the MISO. The witnesses also discuss ComEd's pro-competitive commitment to file, perhaps as soon as December 10, 1999, a proposal to turn over its transmission system and control area operations to an Independent Transmission Company ("ITC") that will be a member of and subject to the oversight of MISO. As the witnesses make clear, the Applicants are committed to a restructured configuration in which neither ComEd nor PECO will be able to exercise any control over the transmission grid in the eastern half of the United States or over control area functions. Moreover, Mr. Naumann demonstrates that the merged system will not be in a position to dispatch generation in a way that would indirectly influence transmission availability so as to favor its generation or enable it to raise market prices. Exhibit No. APP-400 at 38-41.

C. Mitigation And Commitments

Mr. Naumann describes three significant commitments, set forth in paragraphs (1) through (3) below (one temporarily under confidential seal), that the Applicants make, conditioned on Merger approval, to ensure that the proposed Merger will not affect or impede transmission access or enable the Applicants to use generation control to manipulate transmission. Additionally, the Applicants are willing to accept the mitigation set forth in paragraph (4) if necessary to avoid an evidentiary hearing. Finally, paragraph (5) includes two other commitments related to the effect of the proposed Merger on rates and regulation.

(1) ComEd has underway several reinforcement or expansion projects designed to increase available transmission capacity ("ATC") into Wisconsin markets. For example, in March of this year, ComEd began constructing two new 345 kV lines that will significantly

increase ATC into northern Illinois and Wisconsin. ComEd has decided to accelerate the construction schedule for these lines in an attempt to place the lines in service by the summer of 2000. Thus, ComEd expects that the lines will be in operation by or shortly after the consummation of the Merger. If this

project is not completed prior to consummation of the Merger, ComEd commits that

it, and its affiliates, will forgo any new off-system sales that would use ATC

on that interface, except for emergency sales requested by other utilities,

until the lines are constructed. Exhibit No. APP-400 at 25-26.

(2) Mr. Naumann explains that ComEd has no realistic ability to create transmission congestion through its control of generation. In order to eliminate any doubts on this issue, ComEd proposes a mitigation measure, temporarily under confidential seal, that will ensure that Applicants will not be able to limit transmission access through its control over generation. Exhibit No. APP-411.

(3) ComEd will file its ITC proposal by approximately December 10, 1999. It is ComEd's view that the ITC, with the oversight of the MISO, will meet all of the minimum requirements that the Commission will establish for a Regional Transmission Organization ("RTO"). ComEd commits that if the Commission

concludes that the ITC/MISO proposal is insufficient to meet the minimum RTO

requirements, ComEd will endeavor to modify the proposal as necessary in order

to meet those requirements. Exhibit No. APP-400 at 19.

(4) Dr. William Hieronymus conducts a market power study in accordance with the Commission's Merger Policy Statement. The study is a conservative and realistic measurement of the potential market power effects of the Merger. Dr. Hieronymus' economic capacity analysis shows that screen failures occur only in a single market -- the ComEd destination market -- and are traceable to the conservative treatment of a ten-year 300 MW sales agreement, which began in 1996, between ComEd and PECO. Exhibit No. APP-408. Although the sales

agreement provides for the delivery of the power into the American Electric Power (AEP) or Ameren destination markets, where no screen failures occur or would occur if this treatment were reversed, Dr. Hieronymus treats the capacity associated with the agreement as generation added by the Merger to the ComEd destination market, thus precipitating a screen failure. Exhibit No. APP-300 at 29, 36.

Given the absence of any other economic capacity screen violations and the existence of the Applicants' numerous pro-competitive projects and commitments, the Applicants believe the Commission should approve the proposed Merger without requiring the Applicants to divest the ComEd/PECO sales agreement. However, the Applicants appreciate that the Commission may be concerned with the Applicants' near-term market concentration in the ComEd destination market. (The ComEd/PECO sales agreement expires in 2005 and ComEd's rights to purchase power from the generating units ComEd is selling to Mission terminate in 2004). Accordingly, the Applicants hereby state their willingness to sell the ComEd/PECO sales agreement if the Commission could then approve the Merger without setting market power issues for hearing. Specifically, if deemed necessary to eliminate the

need for an evidentiary hearing, the Applicants agree that they will divest the

300 MW sales agreement by selling it to an unaffiliated buyer as promptly as

possible after the Merger is consummated and that they will take all possible

steps prior to consummation of the Merger to complete the divestiture before the

succeeding summer season. If implemented, this proposal would fully mitigate

the economic capacity screen failure detected in Dr. Hieronymus' study. Exhibit
No. APP-300 at 38-40.

(5) The Applicants commit that they will hold their requirements and transmission customers harmless from any Merger-related costs to the extent that those costs are not offset by Merger-related savings. Exhibit No. APP-500 at 12-13, 16; Exhibit No. APP-600 at 6-10.

Finally, the Applicants will waive all "Ohio Power" immunity from Commission regulation of non-power affiliated rates. Exhibit No. APP-200 at 15.

III. THE APPLICANTS

A. ComEd

ComEd is a corporation organized and existing under the laws of the State of Illinois, with its principal office in Chicago, Illinois. ComEd is a majority-owned subsidiary (greater than 95%) of Unicom Corporation ("Unicom"). ComEd is engaged in generating, transmitting and distributing electric energy to the public in northern Illinois and is a "public utility" under Section 201 of the FPA. ComEd and UPM have the authority to sell power at market-based rates.^{/5/}

ComEd, after completing two sales of fossil-fueled generation totaling approximately 1,500 MW, currently retains 19,139 MW of generating capacity, all of which is located in Illinois.^{/6/} More recently, ComEd has entered into a major asset sales agreement with Mission, under which ComEd will sell all of its remaining 9,772 MW of non-nuclear generating facilities. In order to secure regulatory approval for this plainly pro-competitive sale, ComEd has entered into a series of power purchase agreements intended to maintain ComEd's ability to reliably serve its load during the beginning years of Illinois' transition to full retail access. These

^{/5/} See Commonwealth Edison Co., 82 FERC (P) 61,317 (1998), and Unicom Power Marketing, Inc., 81 FERC (P) 61,048 (1997). UPM has not sold power under its market-based rate tariff.

^{/6/} ComEd previously disposed of its 1,108 MW Kincaid coal-fired facilities to Kincaid Generation, L.L.C., an indirect subsidiary of Dominion Resources, Inc. Kincaid Generation, L.L.C., 78 FERC (P) 62,060 (1997). Commonwealth Edison Company of Indiana, Inc. previously sold its 490 MW State Line coal-fired generating facilities to State Line Energy, L.L.C., an indirect subsidiary of The Southern Company. State Line Energy, L.L.C., 78 FERC (P) 62,037 (1997). ComEd has rights to capacity and energy from Kincaid and State Line pursuant to power purchase agreements that extend through 2013.

agreements provide ComEd with the right to dispatch and receive electric energy from the generating facilities being sold to Mission through the summer of 2004. By an order issued on November 8, 1999, the Commission approved ComEd's disposition of jurisdictional assets associated with the generating units to be sold to Mission. Commonwealth Edison Co., et al., 89 FERC (P) 62,105 (1999).⁷⁷ ComEd expects to complete the sale of its generating facilities to Mission by December 31, 1999. Upon consummation of the sale of those facilities to Mission, ComEd will retain ownership of only 9,214 MW, all nuclear generating capacity.

ComEd serves approximately 3.4 million retail customers in Illinois. The Illinois legislature has enacted a retail access program in Illinois. Starting on October 1, 1999, (a) customers with peak loads of four MW or greater, (b) a percentage of commercial customers with ten or more locations with peak load of 9.5 MW or greater, and (c) a percentage of other non-residential customers became eligible for direct access. The balance of ComEd's non-residential customers will become eligible for direct access by December 31, 2000, and all of its residential customers by May 1, 2002. ComEd provides unbundled retail transmission service in Illinois under the rates, terms and conditions of ComEd's open-access transmission service tariff ("OATT") on file with the Commission. The Commission has accepted changes to the OATT to implement retail transmission access. Commonwealth Edison Co., 88 FERC (P) 61,296 (1999). As a part of the Illinois retail access program, ComEd's retail rates are capped through 2005.

B. COMED'S ITC PLAN

ComEd has committed to transfer control of its transmission facilities to the MISO, which is expected to commence operation by June 1, 2001. In addition, approximately by

⁷⁷ By order issued on August 3, 1999, the Illinois Commerce Commission found that ComEd's sale of its fossil fuel assets to Mission "will not render ComEd unable to provide its tariffed services in a safe and reliable manner." Commonwealth Edison Co., ICC Docket No. 99-0273 and 99-0282, Ordering (P) 5.

December 10, 1999, ComEd and other interested parties will file a request for an order with the Commission declaring that an ITC, coupled with oversight by the MISO, will satisfy the minimum characteristics and functions of an RTO as proposed in the Commission's May 13, 1999, Notice of Proposed Rulemaking ("NOPR") on Regional Transmission Organizations in Docket No. RM99-2-000 (or as adopted in any final rule issued by the Commission during the pendency of the declaratory order proceeding). ComEd hopes that the declaratory order request will induce more transmission owners in the Midwest (a) to voluntarily commit to the separation of their transmission and generation assets, and (b) to support efficient operation of the regional grid under MISO oversight.

The ComEd-designed ITC would mitigate many of the concerns that have been raised regarding the MISO, including concerns regarding market organization and congestion management in the Midwest. The ITC would be independent of any market participant and would operate under MISO oversight. Mr. Naumann's testimony describes the ITC plan in more detail. Exhibit No. APP-400 at 15-19. If the Commission concludes that the ITC/MISO combination does not meet its minimum RTO requirements, ComEd commits as a condition of the Merger that ComEd will endeavor to modify its proposal in order to meet those requirements. Exhibit No. APP-400 at 19.

C. PECO And Amergen

PECO is a corporation organized and existing under the laws of the Commonwealth of Pennsylvania, with its principal office in Philadelphia, Pennsylvania. PECO is engaged in generating and distributing electric energy and natural gas to the public in Pennsylvania. PECO is a "public utility" under Section 201 of the FPA and has market-based rate authority./8/

/8/ Letter Order issued to PECO Energy Company in Docket No. ER95-770-000 on May 15, 1995; Letter Order issued to PECO Energy Company in Docket No. ER97-316-000 on

(continued...)

PECO currently owns approximately 9,200 MW of generating capacity. PECO also owns the Muddy Run Pumped Storage Project, and PECO Energy Power Company, Susquehanna Power Company, and Susquehanna Electric Company, subsidiaries of PECO, own and operate the Conowingo Hydroelectric Project. All generation owned by PECO and its affiliates is located in PJM. No other PECO affiliates own generation assets. PECO also owns transmission facilities that are controlled by PJM.

PECO is affiliated with AmerGen, a limited liability company, formed by PECO and British Energy, Inc. PECO holds a 50 percent interest in AmerGen. AmerGen was formed to operate nuclear and other generating assets in the United States/9/ and already has entered into agreements to own and operate several nuclear generating stations in the United States. With respect to the market power analysis included in this Application, AmerGen's most important acquisition agreement is related to the purchase of the 930 MW Clinton nuclear generating station from Illinois Power Company. Under that agreement, AmerGen will sell 75 percent of the output of the Clinton station to Illinois Power through 2004./10/ By order dated November 8, 1999, the Commission granted Illinois Power's request to transfer jurisdictional assets associated with the Clinton station to AmerGen. Illinois Power Co., 89 FERC (P) 62,104 (1999).

/8/ (continued...)

February 14, 1997; Letter Order issued to PECO Energy Company in Docket No. ER97-316-001 on March 18, 1999.

/9/ British Energy, Inc. is a Delaware corporation and a wholly-owned subsidiary of British Energy plc. British Energy plc. is headquartered in Edinburgh, Scotland, and it owns eight nuclear generating stations in Great Britain with a total capacity of 12,000 MW. Other than through its joint venture with PECO, British Energy owns no electric generation or transmission assets anywhere in the United States.

/10/ AmerGen also has entered into agreements to acquire the following nuclear stations: Three Mile Island Unit No. 1; Nine Mile Point Unit Nos. 1 and 2; Oyster Creek; and Vermont Yankee. PECO itself is purchasing an additional interest in the Peach Bottom nuclear station to augment its existing interest.

PECO serves approximately 1.5 million electricity customers and provides natural gas service to more than 400,000 customers in Pennsylvania. Pursuant to the Electricity Generation Customer Choice and Competition Act and as a part of a Pennsylvania Public Utilities Commission ("PaPUC") approved settlement, PECO has implemented a retail access program. Under the program, PECO is phasing-in full retail access over two years. As of the date of this Application, two-thirds of the retail loads in PECO's service territory are free to choose their electric service provider. By January 1, 2000, all retail customers in PECO's territory will have that freedom. PECO remains the provider of electric distribution services in its service territory. As part of the restructuring of the Pennsylvania utility market, retail ratepayers received a rate decrease in 1999 and 2000, PECO's distribution charges are capped through June 30, 2005 and total charges to customers generally cannot exceed PECO's rates that were on file as of December 31, 1996.

The Commonwealth of Pennsylvania recently enacted legislation under which retail gas customers will also be entitled to purchase their gas supply requirements from alternative suppliers. Upon the implementation of the legislation, PECO will not hold any exclusive franchises to sell gas to retail customers, although it expects it will serve as provider of last resort to its existing retail gas customers and continue to provide distribution services to those "provider of last resort" customers.

IV. THE MERGER, INTERCONNECTION, AND OPEN-ACCESS

A. The Merger

The Merger will occur in accordance with the Agreement and Plan of Exchange and Merger, dated September 22, 1999 ("Merger Plan") (Exhibit H). Under the Merger Plan, PECO

will enter into a mandatory share exchange with a newly-established PECO subsidiary, NewCo./11/ Each outstanding share of PECO common stock will be exchanged, at the election of the holder, for either one share of NewCo common stock or \$45.00 in cash. Immediately thereafter, Unicom, ComEd's parent, will merge with and into NewCo. Each outstanding share of Unicom common stock will be exchanged, at the election of the holder, for either 0.95 shares of NewCo common stock or \$42.75 in cash. The result will make ComEd and the existing utility and non-utility subsidiaries of Unicom, including UPM, subsidiaries of NewCo./12/ The holders of PECO and Unicom common stock will together own all of the outstanding shares of NewCo common stock. Each share of each other class of capital stock of PECO and Unicom shall be unaffected and will remain outstanding

The Applicants and their associated companies will form a public utility holding company system subject to regulation and registration under the Public Utility Holding Company Act of 1935, 15 U.S.C. (S)79a, et seq. ("PUHCA"). To

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ensure compliance with the interconnection standards of PUHCA, the Applicants will inform the Securities and Exchange Commission ("SEC") that they are prepared, if necessary, to commit to reserve a 100 MW firm point-to-point transmission path from ComEd to PJM during the first three years following the Merger's closing. The Applicants' market power analysis reflects this commitment. Exhibit No. APP-300 at 36-38.

Corporate offices will be in Chicago, Illinois. However, ComEd and PECO will continue to operate as separate operating companies and will maintain offices in Chicago and

/11/ The name of the surviving public utility holding company, NewCo, has not yet been determined.

/12/ The jurisdictional assets of UPM that are covered by this Application and are to be transferred to NewCo are its market-based rate tariff (Rate Schedule FERC No. 1) and all of its other jurisdictional filings, books and records.

Philadelphia, respectively. The restructured generation and wholesale power marketing businesses will be located in southeastern Pennsylvania. A services company, through which ComEd and PECO will share certain overhead costs such as costs for accounting, financial, legal and human resources services, will be formed.

B. The Interconnection

ComEd and PECO will operate as an interconnected utility system within the meaning of PUHCA. Although the Applicants' systems are not contiguous, they are effectively interconnected by means of transmission services taken from intervening third-party transmission systems. The Applicants expect those services to be readily available between ComEd and PJM, thus enabling the Applicants to sell power to each other when it is economical to do so.

At the time of the filing of this Application, the Applicants do not know with certainty whether the SEC will find that the Applicants are currently "interconnected" or "capable of interconnection," as those terms are defined in PUHCA. Therefore, if necessary to avoid delay in obtaining SEC authorization, the Applicants will offer to commit to acquire a firm transmission path between ComEd and PJM for three years following the Merger's effective date. This path would be capable of delivering 100 megawatts of energy from west to east on a continuous basis. Accordingly, Dr. Hieronymus' study models two interconnection scenarios: one assuming that the Applicants are interconnected "as is," and a second, assuming the establishment of the 100 MW ComEd to PJM transmission path. Exhibit No. APP-300 at 37-38.

C. Open-Access Transmission

Both ComEd and PECO (indirectly via PJM) now provide open-access transmission services. Due to the atypical circumstances surrounding this proposed Merger, however, the Applicants cannot file a combined-system open-access transmission tariff. PECO already has transferred control of its transmission system to PJM, and ComEd has committed to transfer

control of its transmission facilities to the MISO. Additionally, ComEd will endeavor to establish an ITC to which ComEd's transmission facilities would be transferred. This ITC would remain a member of the MISO and would be under its oversight. Therefore, while it is infeasible for the Applicants to file a single-system tariff, this infeasibility reflects existing pro-competitive conditions and does not raise any issues. Exhibit No. APP-400 at 44-45.

V. APPLICANTS' RESTRUCTURING PLANS

At or about the time the Merger closes, both of the Applicants will undergo internal reorganizations. The Applicants briefly describe below how their restructured companies will operate and be integrated after the Merger is consummated.

Currently, PECO has functionally divided its operations within its existing corporate structure into three parts: (a) the regulated transmission and distribution function, (b) the generation function, and (c) unregulated ventures. PECO's restructuring plan will formalize this functional separation into separate corporate entities within a holding company structure. After restructuring, the existing PECO Energy Company, which will continue in existence as a subsidiary of the holding company, will continue to own and operate all distribution assets. It also will own PECO's transmission facilities, but PJM will continue to operate such facilities. PECO Energy Company will fulfill the "provider of last resort" functions mandated by Pennsylvania law and will remain regulated by the PaPUC.

PECO's generation assets and operations will be transferred to a new subsidiary, referred to herein as GenCo. GenCo will own PECO's existing fossil and nuclear generating plants. A nuclear service company will hold the NRC license to operate those plants. Also, PECO's power marketing functions, currently pursued through a division of PECO known as the Power Team, will become a part of the GenCo. To the extent necessary, PECO Energy Company will enter

into power purchase agreements with GenCo, as well as other generators, to obtain power supplies.

PECO's unregulated ventures, including PECO's unregulated retail electric and gas marketing operations, which currently operate through Horizon Energy, d/b/a/ Exelon Energy, will report to the unregulated enterprises portion of the combined system, Unicom Enterprises. Exelon Energy may legally reside as a subsidiary of Unicom Enterprises, or it may be a part of GenCo, even though reporting to Unicom Enterprises. In the event that Exelon becomes a part of GenCo for corporate organizational purposes, its operations as an Electric Generation Supplier in PECO's service territory in Southeast Pennsylvania will continue to be operated through a separate corporation, as required by PECO's settlement of its retail restructuring case before the PaPUC. Finally, PECO and Unicom will establish a separate service company subsidiary that will perform certain administrative and support functions.

In addition to its ITC initiative, ComEd also plans to restructure its operations. ComEd will transfer control of the output of its generation facilities to the same GenCo that PECO will create. The means of this transfer of control has not yet been determined. It could take the form of an asset transfer, a lease, or a sale of all output to GenCo. Regardless, after restructuring, the existing ComEd will be a distribution company. ComEd will then obtain generation supplies necessary to serve its customers in accordance with power purchase agreements with the GenCo, through at least 2004. ComEd will also assign its rights under various power purchase agreements, including those with Mission, to GenCo.

Both ComEd and PECO anticipate filing their applications with the Commission for authorization to accomplish these restructuring objectives by approximately December 15, 1999. Since these plans are internal reorganizations and do not present the kinds of considerations that

this Application does, the Applicants expect Commission authorization to be obtained for them before the Commission has time to approve this Application.

VI. MERGER ANALYSIS

A. Standard Of Review

The Merger is subject to approval under Section 203 of the FPA, which provides:

No public utility shall sell, lease, or otherwise dispose of the whole of its facilities subject to the jurisdiction of the Commission, or any part thereof of a value in excess of \$50,000, or by any means whatsoever, directly or indirectly, merge or consolidate such facilities or any part thereof with those of any other person, or purchase, acquire, or take any security of any other public utility, without first having secured an order of the Commission authorizing it to do so.

16 U.S.C. (S) 824b(a) (1994).

The Commission's approval of a merger under Section 203 requires a finding that the proposed merger will be "consistent with the public interest." See, e.g., Duke Power Co., 79 FERC (P) 61,236 (1997).

The Commission considers three factors in determining whether a proposed merger is consistent with the public interest: its effect on (1) competition, (2) rates, and (3) regulation. The Applicants' believe the proposed Merger should be approved after a careful review of these factors.

B. Effect On Competition

In the Merger Policy Statement, the Commission requires applicants to perform quantitative studies of market concentration changes resulting from the proposed merger, employing the delivered price screen analysis described in Appendix A to the Merger Policy Statement. If the screen analysis is passed, or if any failures are adequately mitigated, there is generally no need for further analysis. Merger Policy Statement at 30,119-120. Consistent with

the Merger Policy Statement, Dr. Hieronymus performs such a quantitative analysis. He concludes that the proposed Merger, when combined with the sale to an unaffiliated purchaser of the 300 MW ComEd/PECO sales agreement (Exhibit No. APP-408), which the Applicants are willing to do in order to alleviate any concern the Commission may have, will not adversely affect competition in any relevant market or enable the Applicants to raise prices above the levels they would be able to charge if they do not merge. Exhibit No. APP-300 at 38-40.

Further, it is important to understand that an Appendix A-type screen analysis will not capture the pro-competitive effects of the Applicants' initiatives. For instance, the Applicants will soon complete the sale of over 9,000 MW of generating capacity to Mission. This sale will dramatically reduce the concentration of generation ownership in the Midwest. While ComEd's remaining generation will be consolidated with PECO's, this generation (with the exception of AmerGen's Clinton unit) is located seven hundred miles and two reliability councils away from each other. Therefore, the Merger will not restore ComEd's pre-divestiture market concentrations in northern Illinois.

In the screen analysis, however, the Applicants receive no credit for ComEd's pro-competitive divestiture. The divested generation, instead, is deemed to be still owned by ComEd because ComEd will retain, for a relatively short period of time, certain rights to the output of the units in order to meet its native load obligations. Nor do the market concentration quantifications included in the screen analysis, considered in isolation, recognize that the Applicants are unable to exercise market power through price increases; that during the periods of time when demands for power are highest, ComEd is currently short of capacity, or that during all other periods of time, it has little ability to attempt to artificially inflate prices by withholding capacity.

Properly conducted as is Dr. Hieronymus' analysis, an Appendix A-type analysis, moreover, does not give ComEd and PECO credit for their service areas already being open to retail access. Nor are they given credit for PECO membership in a fully functional PJM ISO, which prevents PECO from exercising market power. (The ISO restricts PECO's access to the transmission facilities PECO owns and also conducts control area operation). Likewise, a horizontal analysis gives no credit for ComEd's membership in MISO, or for ComEd's leadership in promoting the separation of generating and transmission assets, including the transfer of ownership of transmission and control area functions to an ITC under the overview of the MISO. The Commission, the Applicants respectfully submit, should not rely entirely on a screen analysis, conservatively applied, which cannot capture the ongoing transformation of the Applicants into full-fledged competitors in rapidly opening markets.

In other words, since the ultimate purpose of the Commission's Merger Policy Statement is to test whether the Applicants will be able to raise market prices to a level higher than they would have been absent the proposed Merger, other important factors, qualitative though they may be, should be given great weight. In part, because of these factors, this Merger will not give the Applicants the ability to increase market prices. Further, the profit-maximizing incentives for the Applicants post-merger is the strategy that is also best for ratepayers. The merged system will seek to maximize the efficiency of their units, consistent with safety and reliability, so that they can produce and sell electricity at the lowest possible prices. Meanwhile, the Applicants will not have the ability to control transmission in order to favor their own sales over that of their competitors.

Because the Merger will not give the Applicants the ability to raise market prices, the Commission should approve the Merger promptly and should not require the Applicants to sell the 300 MW ComEd/PECO sales agreement (Exhibit No. APP-408). That being said, Dr.

Hieronimus performs a comprehensive study, including quantitative analyses, of the competitive effects of the Merger, including a forward-looking analysis using transmission flow data and considering a variety of possible scenarios as required by the Merger Policy Statement. He concludes that the proposed Merger will not adversely affect competition.

Dr. Hieronimus' analysis focuses on the market for electric energy, specifically non-firm energy, measured as Economic Capacity in the Appendix A analysis.^{/13/} Dr. Hieronimus analyzes the relevant product markets in eleven time periods in 42 destination markets. Exhibit No. APP-300 at 22-24. Since the Applicants may be required by the SEC to reserve a 100 MW firm path west to east for three years, Dr. Hieronimus analyzes the effects of this commitment on his analysis and adjusts available transmission capacity to take it into account, based on the load flow effects of the resultant changes in dispatch. When he does so, the results do not change materially. Exhibit No. APP-300 at 37-38. Finally, Dr. Hieronimus conducts several sensitivity studies to test his conclusions. For example, he assumes zero transmission rates as a limiting case showing the effects of market enlargement on the competitive effects of the Merger. These sensitivity studies support his conclusions. Exhibit No. APP-300 at 40.

Dr. Hieronimus' analyses confirm that, although the Applicants both participate in the destination markets located between them, the overlap in their shares of such markets is so small that the screen is readily passed except in the ComEd market. Exhibit No. APP-300 at 33-35. In the ComEd market, the economic capacity screen is failed due to the treatment accorded to the ComEd/PECO sales agreement. The point of delivery of this power is in the AEP and/or Ameren control areas. For purposes of his analysis, however, Dr. Hieronimus conservatively

^{/13/} Dr. Hieronimus determines that no barriers exist to entry for long-term firm capacity and, therefore, did not consider that product as a relevant product market in his analysis. See Atlantic City Electric Co. and Delmarva Power & Light Co., 80 FERC (P) 61,126 at 61,405 (1997).

assumes that PECO controls the 300 MW in ComEd's control area, rather than counting the 300 MW in the AEP or the Ameren control areas. Had Dr. Hieronymus counted the power in AEP's or Ameren's control area, no screen failure would have occurred. Exhibit No. APP-300 at 36. (There are failures in the available economic capacity screen. However the Applicants, for the reasons explained in Dr. Hieronymus' testimony, do not believe that the available economic capacity screen, although required by the Merger Policy Statement, should be given weight in the Commission's consideration of the proposed Merger. Exhibit No. APP-300 at 41-44.)

C. Effect On Rates

Under the Merger Policy Statement, the Commission evaluates whether a proposed merger results in an increase in the merging utilities' cost-based power or transmission rates./14/ Merger Policy Statement at 30,123-124. The proposed Merger will not harm any ratepayers.

PECO's only cost-based rates are for transmission services./15/ ComEd provides services under cost-based transmission and power sales rates. The terms of the Applicants' existing agreements ensure that requirement sales and transmission ratepayers will not be adversely affected by the Merger. However, to ensure this result, the Applicants hereby commit that they will hold their

requirements and transmission customers harmless from any Merger-related costs

to the extent that those costs are not offset by Merger-related savings. Ms.

Juracek's testimony (Exhibit No. APP-600 at 6-10) and Mr. Spencer's testimony (Exhibit No. APP-500 at 12-13, 16) describe the Applicants' ratepayer protection proposal in more detail. The Applicants have met with their affected wholesale customers and discussed this commitment.

/14/ Although Applicants and their affiliates have market-based rate authority, the Commission has made clear that its ratepayer protection concerns do not apply to customers paying market-based rates. Enron Corp., et al., 78 FERC (P) 61,179 (1997).

/15/ PECO's last remaining cost-based power sales agreement has been terminated. The notice of termination will be tendered for filing with the Commission.

D. Effect On Regulation

In order to avoid a hearing on the effects of a merger on regulation, the Applicants must demonstrate that the proposed Merger will not affect regulation of the Applicants. Merger Policy Statement at 30,125. The Applicants, accordingly, will waive Ohio Power immunity from Commission regulation of non-power affiliate sales./16/ Exhibit No. APP-200 at 15. In addition, the Applicants agree for ratemaking purposes to follow the Commission's policy regarding the treatment of costs and revenues of affiliate non-power transactions. Further, neither the Merger, nor implementation of the Applicants' restructuring plans, will adversely affect state regulation. ComEd and PECO will remain subject to state regulation following completion of the Merger.

VII. AFFILIATED SALES

Consistent with Commission policy, ComEd and PECO have committed not to sell power to each other, unless the Commission authorizes such sales. Further, ComEd and PECO have agreed that they will not sell non-power goods and services to each other except under conditions the Commission has regularly imposed on such transactions between utilities and their affiliated power marketers. Those additional commitments are pending Commission review in Docket Nos. ER99-1872-001 (PECO) and ER98-1734-001 and ER97-3954-010 (ComEd).

The Applicants historically have sold power to each other under their respective market-based rate tariffs. ComEd and PECO have filed amended service agreements under which ComEd and PECO will continue to sell power to each other at market-based rates, but subject to an independent, verifiable rate cap. ComEd filed its amended service agreement in Docket No. ER00-182-000, and PECO filed its amended agreement in Docket No. ER00-194-000. Those filings are pending before the Commission. The Applicants believe that the independent rate cap

/16/ Merger Policy Statement at 30,124-125; Ohio Power Co. v. FERC, 954 F.2d 779, 782-86 (D.C. Cir.), cert. denied, 498 U.S. 73 (1992).

eliminates any contention that their sales to each other are a result of preferential dealing between ComEd and PECO./17/

VIII. ACCOUNTING

In the Merger Policy Statement, the Commission stated that it would no longer consider the proposed accounting treatment as a separate factor but instead ruled that "proper accounting treatment is simply a requirement for all mergers." Merger Policy Statement at 30,126. The Merger will be accounted for under the purchase method in accordance with generally accepted accounting principles. Exhibit No. APP-200 at 16.

IX. ATTACHMENTS, OTHER FERC FILINGS, AND CONFIDENTIAL TREATMENT

A. Application

The following information is included in the Application:

. Direct Testimony of Kenneth G. Lawrence (Exhibit No. APP-100) and associated exhibits, which provide an overview of the Merger from PECO's perspective and a description of the benefits of the Merger;

. Direct Testimony of Robert K. McDonald (Exhibit No. APP-200), which provide an overview of the Merger from ComEd's perspective, a description of the benefits of the Merger and how the new system will be integrated;

. Direct Testimony of Dr. William Hieronymus (Exhibit No. APP-300) and associated exhibits, which set forth the Appendix A analysis required by the Merger Policy Statement and analyze the competitive impact of the Merger;

. Direct Testimony of Steven T. Naumann (Exhibit No. APP-400) and associated exhibits, which describes ComEd's transmission system and, among other

/17/ See Ameren Services Co., et al., 86 FERC 61,212 (P) (1999).

matters, explains why ComEd, prior to the effectiveness of the ITC/MISO initiatives, lacks vertical market power;

. Direct Testimony of Robert N. Spencer (Exhibit No. APP-500), which describes PECO's wholesale requirements and transmission system and the ratepayer protection mechanisms proposed for PECO's transmission customers; and

. Direct Testimony of Arlene Juracek (Exhibit No. APP-600), which explains the ratepayer protection mechanisms proposed for ComEd's wholesale requirements and transmission customers.

Also attached are the Exhibits A through I as required by Section 33.3 of the Commission's regulations.

B. Other FERC Filings

Market-Based Rates Codes Of Conduct. The Applicants have committed to

adhere to the rules that the Commission imposes on trades of non-power goods and services between wholesale power marketing affiliates and public utilities that serve franchised service territories. See Section VII of this Application.

Order No. 889 Standards Of Conduct. The Applicants hereby commit that,

effective as of the date of this filing, they will, for purposes of Order No. 889, treat each other as if they were already affiliated companies. Therefore, ComEd's transmission function personnel will treat PECO's merchant function personnel in the same manner that ComEd's transmission function personnel treats ComEd's merchant function personnel. PECO's transmission function personnel will treat ComEd's merchant function personnel in the same manner. Upon consummation of the Merger, Applicants will file a combined Order No. 889 Standards of Conduct.

C. Confidential Treatment Of Information

Certain agreements providing for the sale of power to ComEd in the ComEd market are referred to in Dr. Hieronymus' testimony. Some of these agreements are included in Volume III of this Application. However, several of the agreements involve transactions that have not yet commenced and will not commence for another several months. Therefore, these agreements have not been filed with Commission. In addition, although the power purchase agreements with Mission have been filed with the Commission, they were filed under approved confidential seal./18/ Further, Exhibit No. APP-411 also describes the Mission agreements. With respect to all such agreements that are not already in the public domain, and Exhibit No. APP-411, the Applicants request confidential treatment pursuant to 18 C.F. R. (S) 388.112 (1999). The agreements were negotiated at arms-length and the disclosure of their rates, terms, and conditions at this time would unnecessarily harm ComEd. The Applicants have included copies of the confidential agreements (as Dr. Hieronymus' workpapers) and Exhibit No. APP-411 in the original copy of this Application in sealed envelopes stamped with the legend: "Contains Privileged Information -- Do Not Release." All other copies of the Application filed with the Commission (and served on interested parties) contain a statement that the confidential agreements and Exhibit No. APP-411 have been removed for privileged treatment./19/ ComEd anticipates that it will be able to lift all requested confidential treatment of the Mission power purchase agreements in the very near future.

/18/ Commonwealth Edison Co., et al., 89 FERC (P) 62,105 (1999).

/19/ The computer model underlying Dr. Hieronymus' study also is being submitted on a confidential basis pursuant to 18 C.F.R. (S) 388.112 (1999). The model is proprietary to PHB and was developed at great cost to PHB. The disclosure of the model to the public without limit will adversely impact PHB. One copy of the model is included with the original copy of the Application in a sealed envelope. All other copies of the Application contain a statement that the information has been removed. However, parties may obtain a copy of Dr. Hieronymus' model after executing a Confidentiality Agreement with PHB-Hagler Bailly. Arrangements for a copy of the model must be made by contacting Ms. Julie Solomon at 202-828-8769.

Additionally, the original copy of the Application includes certain of Dr. Hieronymus workpapers on CD ROM, which contains certain output information (market share data for market participants) that will be necessary to evaluate Dr. Hieronymus' market analysis. This CD ROM includes identification of several sellers of power who have not authorized the Applicants to publicly disclose their names. Accordingly, pursuant to 18 C.F.R. (S) 388.112, the Applicants also request confidential treatment of the CD ROM included in the original copy of the Application. The Applicants will provide copies of the CD ROM with sellers' identification withheld to all persons on whom this Application is served within a few days after the date of filing, if not sooner, and to all intervenors upon request. The names of these sellers are not needed to analyze Dr. Hieronymus' analysis or his conclusions. In any event, the CD ROM containing the identification of the sellers will be provided to any participant in the proceeding under the protection of an executed confidentiality agreement. Pursuant to 18 C.F.R. (S) 388.112(b)(iv), any communications regarding the confidential information should be addressed to the following:

Robert S. Waters, Esq.
Jones, Day, Reavis & Pogue
51 Louisiana Avenue, N.W.
Washington, D.C. 20001
(202) 879-3687 - voice
(202) 626-1700 - fax

X. INFORMATION REQUIRED BY SECTION 33.2 OF THE COMMISSION'S REGULATIONS

A. Names and Addresses of Principal Business Offices

Commonwealth Edison Company
10 South Dearborn Street, P.O. Box 767
Chicago, IL 60690

PECO Energy Company
2301 Market Street
Philadelphia, PA 19103

B. Names And Addresses Of Persons Authorized To Receive Notices And Communications With Respect To The Application

For ComEd

Rebecca Lauer, Esq.
Peter J. Thornton, Esq.
Commonwealth Edison Company
125 South Clark Street
Room 1500
Chicago, Illinois 60603
312-394-3517 - voice
312-394-3950 - fax

Robert S. Waters, Esq.
Jones, Day, Reavis & Pogue
51 Louisiana Avenue, N.W.
Washington, D.C. 20001
202-879-3687 - voice
202-626-1700 - fax

Stan Berman, Esq.
Heller, Ehrman, White & McAuliffe
6100 Bank of America Tower
701 Fifth Avenue
Seattle, Washington 98104
202-389-4276 - voice
206-447-0849 - fax

For PECO

Paul Bonney, Esq.
PECO Energy Company
2301 Market Street
S23-1
Philadelphia, PA 19103
215-841-4252 - voice
215-568-3389 - fax

Floyd L. Norton, IV, Esq.
Morgan, Lewis & Bockius LLP
1800 M Street, N.W.
Washington, D.C. 20036
202-467-7620 - voice
202-467-7176 - fax

C. Designation of Territories Served, by Counties And States

ComEd provides electric service in northern Illinois, in all or portions of the following 25 counties: Boone, Bureau, Carroll, Cook, DeKalb, DuPage, Ford, Grundy, Henry, Jo Daviess, Kane, Kankakee, Kendall, LaSalle, Lake, Lee, Livingston, Marshall, McHenry, Ogle, Stephenson, Whiteside, Will, Winnebago, and Woodford. ComEd also provides wholesale service for the requirements of the following municipalities: Batavia, Naperville, and St. Charles, Illinois; and Dowagiac, Michigan.

PECO provides retail electric and natural gas service in Pennsylvania, in all or portions of the following counties: Bucks, Lancaster, Montgomery, Chester, York, and Delaware. PECO also serves customers in the City of Philadelphia.

D. Description Of Facilities Owned Or Operated For Transmission Of Electric Energy Or The Sale Of Electric Energy At Wholesale In Interstate Commerce

As of December 31, 1998, ComEd owned approximately 5,400 circuit miles of high voltage lines that are 138 kV and above. As of December 31, 1998, PECO owned approximately 1,121 circuit miles of high voltage lines that are controlled by PJM. See Section III of this Application for a description of the Applicants' generation facilities.

E. Description Of Transaction And Statement As To Consideration

The Merger is described in Section IV of this Application. The consideration for the Merger is inherent in the exchange of shares at closing as negotiated at arms-length between the parties and is described in the Agreement and Plan of Exchange and Merger attached hereto as Exhibit H. The terms of the Merger have been approved by each Applicant's Board of Directors, including outside directors. The Applicants were assisted by their own outside investment bankers in the negotiation process. The proposed Merger is voluntary and must be approved by voting shareholders.

F. Description Of Facilities Involved In The Transaction

The jurisdictional facilities of ComEd, PECO and their affiliated public utilities are described herein.

G. Statement Of The Cost Of The Facilities Involved In The Transaction

See Exhibit C.

H. Statement As To The Effect Of The Transaction Upon Any Contract For The Purchase, Sale, Or Disposition, Or Interchange Of Electric Energy

The Merger will not have a material effect on any contract for the purchase, sale, or interchange of electric energy. The Applicants' commitment to ratepayers is described in Section VI. C. of this Application.

I. Statement As To Other Required Regulatory Approvals

The Applicants must file a Notice of Reorganization with the Illinois Commerce Commission. The Pennsylvania Public Utility Commission must approve the Merger. A notification of the Merger will be filed with the Federal Trade Commission and the U.S. Department of Justice pursuant to the Hart-Scott-Rodino Act. The Nuclear Regulatory Commission must approve the Merger with respect to the financial commitments relative to nuclear generating stations owned by ComEd and PECO. The Securities and Exchange Commission must approve the Merger with respect to the creation of a registered public utility holding company and compliance with the Public Utility Holding Company Act of 1935. The Federal Communications Commission must approve the Merger with respect to the Applicants' telecommunications subsidiaries.

J. Facts Showing That The Merger Is Consistent With The Public Interest

The facts relied upon to show that the proposed Merger is consistent with the public interest are set forth in this Application. The Merger will enhance competition in both the wholesale and retail markets and will enhance the ability of ComEd and PECO, already recognized leaders in the industry for their pro-competitive initiatives, to promote further

competitive developments. Both companies have embraced and implemented pro-competitive retail access and restructuring in their respective states. Likewise, ComEd and PECO are strong supporters of the Commission's independent transmission system initiatives, and the Applicants will continue to provide leadership for the development of an RTO and other competition enhancing initiatives while this Application is under review and after the Merger is closed.

The proposed Merger will combine two families of companies with similar business and strategic goals into a financially stronger national energy system more suited to operate in the evolving energy markets. The combined system will have the resources, experience and talent to provide its customers with high quality and cost-efficient services, all of course subject to regulation intended to protect the public interest. Both ComEd and PECO are respected and experienced operators of nuclear power plants, and the combination and continued development of a joint nuclear fleet will ensure safe, reliable, low-cost, and clean electricity supplies for consumers.

The Applicants recognize that, in order to compete in the evolving electricity market, they must expand the geographic scope of their activities. However, ComEd also recognizes that, in order to receive the regulatory approvals necessary to expand the geographic scope of the system in which it operates, it should reduce its transitional concentration of generation control in the State of Illinois. ComEd accomplished the first step in becoming a fully competitive utility in the new market by selling, or agreeing to sell, all of its non-nuclear generating units. ComEd's second step on the path to becoming a competitive utility in the emerging electric marketplace is the proposed Merger with PECO. Although the merged system will own approximately 22,000 MW of generation, that generation is spread over a much larger geographic area than ComEd's existing area (approximately 700 miles from east to west) and is not concentrated in a single market. (Moreover, PECO's generation lies within the PJM area,

which contains a highly efficient, centralized and liquid energy trading market.) At the same time, upon acquisition of ComEd's generating units, Mission will become a formidable new competitor in the Midwest power market. Thus, by the combination of pre-merger sales of generating units in ComEd's local market and as a consequence of this Merger, ComEd and PECO will have increased competition in Midwest markets by enabling entry of formidable competitors, while in no way diminishing the intense competition that already exists in PJM. The Commission should seek to encourage restructuring efforts that enhance competition in the evolving utility market.

K. Brief Statement Of Franchises Held

In the City of Chicago, ComEd operates under a nonexclusive franchise ordinance effective until December 31, 2020. Utility operations outside of the City of Chicago are conducted in municipalities under nonexclusive franchises and, where required, under certificates of convenience and necessity granted by the ICC. ComEd holds nonexclusive franchises and/or certificates of convenience and necessity in 395 municipalities outside the City of Chicago. The following summarizes the expiration dates of ComEd's franchises:

Franchise Expiration Period -----	Number of Municipalities -----
1999-2006	2
2007-2017	10
2018-2028	3
2029-2039	1
2040 and subsequent years	376
No stated time limit	3

As of January 1, 2000, PECO will not hold any franchises to serve retail electric customers. In accordance with the terms of a settlement approved by the Pennsylvania Public Utility Commission consistent with the Pennsylvania Electricity Generation Customer Choice and Competition Act, all of PECO's retail electric customers will be entitled to purchase their electric generation supply requirements from alternative electric generation suppliers. PECO

will serve as provider of last resort to retail electric customers in the City of Philadelphia, Pennsylvania, and Bucks, Montgomery, Chester, York, and Delaware counties, Pennsylvania. PECO also provides distribution service to those "provider of last resort" customers.

PECO holds franchises to provide retail gas service in Bucks, Montgomery, Chester, Delaware, and Lancaster counties, Pennsylvania. The Commonwealth of Pennsylvania recently enacted legislation under which retail gas customers will also be entitled to purchase their gas supply requirements from alternative suppliers. Upon the implementation of the legislation, PECO will not hold any exclusive franchises to sell gas to retail customers, although it expects it will serve as provider of last resort to its existing retail gas customers and continue to provide distribution service to those "provider of last resort" customers.

L. Form Of Notice

The Applicants have included a form of notice, in both hard copy and on diskette, suitable for publication in the Federal Register.

XI. CONCLUSION

For the reasons set forth herein, including the accompanying testimony and exhibits, the Applicants request that the Commission:

1. find that the Merger will not have an adverse effect on competition, rates or regulation, and that this filing satisfies all applicable requirements for authorization of the Merger under Section 203 of the FPA and Part 33 of the Commission's regulations;
2. approve the Merger and grant any and all other authorizations or approvals incidental thereto that may be required;
3. expeditiously issue such approvals and related authorizations without an evidentiary hearing based on the information set forth in this Application and accompanying exhibits; or indicate any conditions that, if agreeable to the Applicants, would result in conditional approval of the Merger without an evidentiary hearing; and

4. waive any filing requirements or other regulations as the Commission may find necessary or appropriate to allow this Application to be accepted for filing and granted.

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Dated: November 22, 1999

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Commonwealth Edison Company)
on behalf of itself and its)
public utility affiliates) Docket No. EC00-____-000
)
and)
)
PECO Energy Company)
on behalf of itself and its)
public utility affiliates)

JOINT APPLICATION OF
COMMONWEALTH EDISON COMPANY
AND ITS PUBLIC UTILITY AFFILIATES AND
PECO ENERGY COMPANY
AND ITS PUBLIC UTILITY AFFILIATES
FOR APPROVAL OF MERGER

PREPARED DIRECT TESTIMONY AND EXHIBITS OF
WILLIAM H. HIERONYMUS
ON BEHALF OF APPLICANTS

DIRECT TESTIMONY OF
WILLIAM H. HIERONYMUS

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I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is William H. Hieronymus. My business address is PHB Hagler Bailly, Inc. ("PHB Hagler Bailly"), One Memorial Drive, Cambridge, Massachusetts 02142.

Q. BY WHOM ARE YOU EMPLOYED?

A. I am Senior Vice President of PHB Hagler Bailly, Inc., the commercial consulting subsidiary of Hagler Bailly. Hagler Bailly is a worldwide provider of consulting, research and other professional services to corporations and governments on energy, telecommunications, transportation and the environment.

Q. WHAT IS YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE?

A. I received my Bachelor's degree from the University of Iowa in 1965, my Master's degree in economics in 1967 and a Doctoral degree in economics in 1969 from the University of Michigan, where I was a Woodrow Wilson Fellow and National Science Foundation Fellow. After serving in the U.S. Army, I began my consulting career. In 1973, I joined Charles River Associates Inc. as a specialist in antitrust economics. By the mid-1970s my focus was principally on the economics of energy and network industries. In 1978, I joined Putnam Hayes & Bartlett, Inc., where my consulting practice has focused almost exclusively on network industries, particularly electric utilities. Putnam, Hayes & Bartlett, Inc. merged with Hagler Bailly, Inc. in 1998.

During the past 25 years, I have completed numerous assignments for electric utilities; state and federal government agencies and regulatory bodies; energy and equipment companies; research organizations and trade associations; independent power producers and investors; international aid and lending agencies; and foreign governments. While I have worked on most economics-related aspects of the utility sector, a major theme has been public policies and their relation to the operation of utility companies.

Since about 1988, the main focus of my consulting has been on electric utility industry restructuring, regulatory innovation and privatization. In that year, I began work on the

restructuring and privatization of the electric utility industry of the United Kingdom, an assignment on which I worked nearly full time through the completion of the restructuring in 1990. I also led a major study of the reorganization of the New Zealand electricity sector, focusing mainly on competition issues in the generating sector. Following privatization of the U.K. industry, I continued to work in the United Kingdom for electricity clients based there and I was also involved in restructuring studies concerning the former Soviet Union, Eastern Europe, the European Union and specific European countries.

Late in 1993, I returned to the United States, where I have worked on restructuring, regulatory reform and, increasingly, the competitive future of the U.S. electricity industry. In this context, I have testified before FERC and state commissions on market power issues concerned with several electric utility mergers (including convergence mergers), power pool tariff filings, sales and purchases of jurisdictional assets and market rate applications. More generally, I have testified before state and federal regulatory commissions, federal and state courts and legislatures on numerous matters concerning the electric utility and other network industries. My resume is included as Exhibit No. APP-301.

II. PURPOSE, SUMMARY OF ANALYSIS AND CONCLUSIONS

Purpose

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I have been asked by Commonwealth Edison Company ("ComEd") and PECO Energy Company ("PECO") (collectively, the "Applicants") to determine the potential competitive impact of their proposed merger on electricity markets. I performed the Competitive Analysis Screen described in Appendix A to the Commission's Merger Policy Statement ("Order No. 592"),^{/1/} which in turn is intended to comport with the Department of Justice and Federal Trade Commission ("DOJ/FTC") Horizontal Merger

^{/1/} Order No. 592, Inquiry Concerning the Commission's Merger Policy Under the Federal Power Act: Policy Statement, FERC Stats. & Regs. (Regulations Preambles) (P) 31,044 (1996), on reconsideration, Order No. 592-A, 79 FERC (P) 61,321 (1997).

Guidelines ("Guidelines"). As appropriate, my testimony also takes into consideration the Commission's Notice of Proposed Rulemaking ("Merger NOPR").^{2/} The primary focus of my testimony is potential horizontal market power effects (i.e., those arising from the combination of electric generating assets) that potentially could result in creating or enhancing the ability to increase prices in the electricity market. I also address vertical effects concerning barriers to entry that might undercut the presumption that long-run generation markets are competitive. I have reviewed the testimony of the Applicants' witnesses, Steven T. Naumann and Robert N. Spencer, who explain why the Applicants do not have any realistic ability to exert vertical market power in the Midwest as a result of their control over transmission facilities during the period before such control is transferred to independent entities.

Summary of Analysis and Conclusions

Q. DOES YOUR ANALYSIS INDICATE THAT APPLICANTS WILL BE ABLE TO RAISE THE PRICES OF ELECTRICITY ABOVE THE LEVELS THEY COULD HAVE CHARGED ABSENT THE MERGER?

A. No, quite the contrary. The Applicants' merger, when combined with the generation-based mitigation measures to which they will agree as a condition of merger approval, if the Commission is persuaded that such mitigation is necessary, will not lead to material increases in concentration or in Applicants' market share in any relevant market. My analysis provides strong support for the conclusion that the merger will not adversely impact competition in any relevant market or enable Applicants to raise prices above the levels they would have been able to charge if there had been no merger. Thus, I recommend that the Commission find that the merger will not adversely affect competition and, insofar as market power is the critical issue, should approve the merger.

I have performed the Appendix A screen analysis to assess whether the merger should raise any competitive concerns. In accordance with Appendix A and the Commission's regulations, I performed screen analyses of two different measures: Economic Capacity

^{2/} Revised Filing Requirements Under Part 33 of the Commission's Regulations ("Merger NOPR"), 83 FERC (P)61,027 (1998), 63 Fed. Reg. 20340 (April 24, 1998).

and Available Economic Capacity. As will be explained below, I rely, and encourage the Commission to rely, solely on the analysis of Economic Capacity. The Available Economic Capacity numbers are too unreliable to be useful and do not inform merger policy under the evolving competitive conditions relevant to this merger.

My analysis of Economic Capacity shows that screen failures occur only in the ComEd market and are largely traceable to the small amount of generation rights that PECO has in the ComEd market pre-merger, namely a 300 MW pre-merger long term power sale from ComEd to PECO. Additionally, PECO controls approximately 30 to 63 MW of energy from its uncommitted 233 MW share of the Clinton nuclear plant that is presumed to be imported into the ComEd market (based on the prorated expected share of ATC into ComEd). Little energy from PECO's other generation, located primarily in eastern and central Pennsylvania, reaches the ComEd market. In simple terms, the screen failure arises because PECO would have been a minor competitor of ComEd in the ComEd destination market pre-merger. Post-merger, that minor competitor will be consolidated with ComEd, so that (in the absence of mitigation) there will be a slight lessening of competition in the region.

The screen failure in the ComEd market is linked to the 300 MW sale. Once the 300 MW sale expires, there will no longer be a screen failure. While the lessening of competition in the intervening period would be minimal, Applicants are nonetheless prepared to mitigate it in a way that will eliminate the screen failure and ensure that competition is preserved at its pre-merger level if the Commission is not persuaded that such mitigation is unnecessary. As described in the Application, Applicants are willing to sell PECO's rights under the 300 MW contract to an unaffiliated entity. Because of the sale to an unaffiliated third party, the level of competition pre-merger will be preserved. My analysis demonstrates that this mitigation is fully effective. While the mitigation might be considered "interim", the period that it covers: a) extends to the termination of the PECO contract that is the principal cause of the screen failure; b) extends beyond the last date on which ComEd has option or contract rights to the capacity that it is divesting to Edison Mission; and c) extends far enough into the future to allow economic entry of substantial amounts of new capacity.

Apart from these pre-mitigation screen failures in the ComEd market, there are no significant adverse effects of the merger. As discussed below, the analysis demonstrates little overlap in markets between Applicants and little participation by ComEd in the PJM markets where the bulk of PECO's generation is located. This conclusion is supported by Applicants' historic sales patterns which show a quite similar lack of significant overlap.

Applicants are prepared, if required by the SEC, to contract for a 100 MW firm path from ComEd to PECO. This path will be used only when it is economic to transfer power from the ComEd to PECO areas, having taken alternative uses of the power into account. As is shown in the testimony of Mr. Naumann, the principal effect of this path on transmission, when it is used, is to reduce west-to-east ATCs from northern Illinois to eastern PJM by approximately 100 MW. Applicants' analysis of the power flow effects of the path, which is incorporated into my market power study, shows that loop flows are not very different from the contract path effects. Use of the 100 MW path reduces concentration in the ComEd market wherein the screen is failed. The path, and resulting changes in loop flows when the path is used, creates no screen failures in any other market.

In performing the Appendix A analysis, I resolved uncertainties about which assumptions to use by making conservative assumptions; that is, I made the assumptions that were most likely to detect an increase in market concentration in the relevant destination markets.^{/3/} In fact, actual increases in market concentration will likely be much less than calculated using the Appendix A screen. Most importantly, the screen assumes that ComEd continues to control all of the 9,300 MW of generation that it is the process of divesting. A more forward-looking perspective would recognize that the restructuring of generation asset ownership undertaken by ComEd in the past several years will result in ultimately relinquishing control over this generation. This restructuring, coupled with the participation by both of the Applicants in regional transmission organizations, is

^{/3/} For example, as discussed infra, the only significant screen violations arise from PECO's long term purchase from ComEd. The power associated with that contract is deliverable in the American Electric Power ("AEP") or Ameren markets, not in ComEd. However, in my analysis I assumed that PECO could sell power from that contract in the ComEd market without having to acquire transmission into the ComEd market. The screen failures in my analysis are directly traceable to that assumption. Had I assumed that the PECO power was located at the point of contract delivery, these screen failures would not have occurred.

unquestionably pro-competitive and will broadly benefit electric markets in the affected regions.

The conclusions from my analysis are consistent with and supported by the basic facts surrounding the merger. ComEd is located in the Mid-America Interconnected Network, Inc. ("MAIN"), with its generation and distribution system located primarily in Chicago and Northern Illinois, and PECO is located in the Mid-Atlantic Area Council ("MAAC") (which consists of a single control area, PJM Interconnection, L.L.C. ("PJM")). PECO's generation and distribution system is located primarily in Philadelphia and Eastern Pennsylvania. The distance between Chicago and Philadelphia is almost 700 miles. Electrically, utilities in East Central Area Reliability Coordination Agreement ("ECAR") and Southeastern Electric Reliability Council ("SERC") are located between ComEd and PECO. There are at least two intervening utilities on all paths between ComEd and PJM.

As is shown in sales data contained in my workpapers, Applicants had overlapping sales to a number of utilities in 1997 and 1998. However, the amounts sold by at least one of the Applicants were small in virtually all cases. If overlap markets are defined as those in which each Applicant sold at least 100,000 MWhs (equivalent to only 11.4 MW on a year-round basis), there were only six such overlap markets in 1997 and 1998 (excluding ComEd's own market). In only one market, Michigan Electric Coordinating Council ("MECS"), did each Applicant sell more than 500,000 MWh./4/

More generally, PECO sells only small amounts in Mid-Continent Area Power Pool ("MAPP") and MAIN. Its 1998, total sales to utilities in these reliability councils were about 2 million MWh, less than the amount purchased under its 300 MW contract with ComEd; about 60 percent of that total was sold back to ComEd, mostly out of its 300 MW contract. Conversely, other than the contract with PECO, ComEd sells only trace amounts (43,000 MWh in 1998) to utilities in PJM, NYPP and NEPOOL. Neither

/4/ Sales information is based on sales contracts reported in FERC Form 1s. The 1997 markets were AEP, Cinergy, Illinois Power (IP), Tennessee Valley Authority (TVA), Virginia Electric Power (VP) and Wisconsin Energy Company (WEP). The 1998 markets were Allegheny Energy (APS), AEP, Cinergy, IP, MECS and TVA. Because data for Applicants' power marketing operations are not segregated from utility sales from their owned and controlled resources, these data may overstate the amount of overlap. As discussed infra, PECO, in particular, is a highly active power marketer and its Form 1 reports sales all over the country, including sales to utilities located thousands of miles away from any PECO generation (e.g., in southern California and Washington state).

Applicant is among the most significant sellers in the remaining overlap areas, ECAR and VACAR. The fact that Applicants, in general, do not overlap is highly significant to the analysis. It means that the merger will not materially reduce the level of competition. That is, in areas where they do not overlap at all, the merger will have no effect on the structure of competition in the region, and would thus be expected to have no effect on prices in the region. In the areas where they do overlap, the market share of at least one Applicant is so small that there would be no appreciable effect on the level of competition, and the merger would not give the Applicants the ability to injure the overlapping markets or raise prices.

Other factors, not taken into account in the Appendix A analysis, support the conclusion that the merger does not create a market power issue. At its core, the market power issue is whether the merger creates or enhances the ability of Applicants to raise prices by profitably withholding capacity or offering it for sale only at anticompetitive prices. In this case, ComEd brings to the merger very little capacity that can be withheld from the market. At the very high load times when prices are most readily and profitably manipulated, ComEd is short of capacity. ComEd controls little capacity that realistically could be withheld at other times. The bulk of the non-nuclear capacity that is "controlled" by ComEd consists of options or contracts for the capacity that it has sold. ComEd is not the plant operator for any of this capacity. If it does not exercise an option, the capacity reverts wholly to the owner. In his testimony, Mr. Naumann explains the limits on ComEd's control of the capacity that is being sold to Edison Mission Energy. The only capacity actually operated by ComEd is its nuclear capacity. For physical, economic and regulatory reasons (i.e., NRC oversight), nuclear capacity is exceptionally hard to withhold, either strategically or tactically. Both ComEd and PECO have a high percentage of nuclear and other low incremental cost generation in their portfolios, which means that their winning strategy is to sell high volumes of electricity at prices lower than those of their competitors. Given the low levels of participation of each of the Applicants in the other's markets today, the merger does not provide a new strategy that would allow them to manipulate markets in order to raise prices.

The merger creates no material vertical market power issues related to transmission ownership and operation. This lack of ability to exercise vertical market power, and

evidence that ComEd has not done so in the past, is discussed at length by Mr. Naumann. PECO is a member of the PJM Interconnection, an ISO with an associated power exchange. ComEd is a member of the Midwest Independent System Operator ("MISO"), an ISO that has been approved by the FERC and is currently scheduled to begin operations on June 1, 2001. In the interim, ComEd provides open access service under Orders No. 888 and 889. Moreover, as discussed by Mr. Naumann, ComEd will be transferring all control area responsibility to an Independent Transmission Company ("ITC"). PECO has no control area responsibility, as its control area is operated by PJM. As also discussed by Mr. Naumann and Mr. Spencer, neither ComEd nor PECO is a security coordinator with the ability to direct transmission curtailment. Moreover, Mr. Naumann explains that ComEd's ability to withhold capacity from the market will be severely limited.

Neither utility controls significant fuels supplies or fuels delivery systems. PECO operates a gas distribution system in four counties that surround, but do not include, the city of Philadelphia. Its gas service area includes three gas-fired independent power stations, two of which have bypassed the distribution system. The third, which is only 28 MW, has a readily available bypass option and is currently negotiating for a discounted distribution rate. Even if PECO were in a position to exercise vertical market power over the gas-fired generation served by its LDC, that generation is very remote from ComEd and any vertical effects would not redound to ComEd and hence would have no nexus to this merger. Neither utility possesses a monopoly over potential generation sites.

- Q. DID YOUR APPENDIX A ANALYSIS TAKE INTO ACCOUNT NEW GENERATION PLANNED OR BEING BUILT IN THE REGION, OR NEW PLANNED POWER TRANSACTIONS INVOLVING APPLICANTS OR OTHERS IN THE AFFECTED REGIONS?
- A. Yes, but only to a limited extent. Numerous utilities, IPPs and others have responded to the capacity shortages that have affected the Midwest over the past several summers by planning the construction of significant new generation resources. Estimates of the planned generation exceed 20,000 MW, but I included far less than this in my analysis. Among the new generation that I did include in my analysis is a 250 MW affiliated

generation unit being considered in North Chicago (although I am informed that a firm decision to build the unit has not been made). As I discuss later, for all other new generation, I included only that planned generation which has passed sufficient project, regulatory and/or financing hurdles such that its construction is relatively certain. If even a material fraction of the planned additions are built, market concentration will be lower.

It is also my understanding that ComEd, like other utilities in the region, is shopping for new power supplies to complement its power supply portfolio in coming years. This would be accomplished with power purchase contracts of various durations. Such purchases would have been made even if there had been no merger, so they have little impact on the analysis. I am told that ComEd does not at present know the amount or duration of such purchases, but I conservatively assumed a 300 MW ComEd purchase from a planned generating facility in its control area that would not otherwise have been considered to be sufficiently certain to be included in my analysis.

Q. PLEASE PROVIDE AN OVERVIEW OF THE APPENDIX A ANALYSES YOU CONDUCTED USING THE DELIVERED PRICE TEST.

A. I conducted several different analyses of the Economic Capacity supply measure that provide the Commission with a full and comprehensive analysis of the potential impacts of the merger and proposed mitigation by the Applicants. These analyses were structured to illuminate the causes of any changes in destination market HHIs, and to assist the Commission in determining which were, and which were not, due to potentially adverse effects of the merger on competition.

The first analysis of the merger's impact on power markets that I undertook was the effect of combining Applicants' pre-merger market shares. This analysis is generally referred to as the "2AB method." /5/ It is essentially an analysis of a merger where there are no economic changes resulting from a merger - no rate impact, no change in transmission for integration purposes, etc. This analysis properly depicts the effects of the merger when the 100 MW path is not being used by Applicants.

/5/ "2AB" refers to the change in HHI resulting from the merger of company a (with market share A) and Company b (with market share B). This formula is derived from the HHI calculation as follows:

Applicants' pre-merger HHI = $A/2 + B/2$

Applicants' post-merger HHI = $(A+B)/2 = A/2 + B/2 + 2AB$

Thus, the change in HHI resulting from the merger equals 2AB.

transmission for integration purposes, etc. This analysis properly depicts the effects of the merger when the 100 MW path is not being used by Applicants.

- /\ "2AB" refers to the change in HHI resulting from the merger of company a (with market share A) and Company b (with market share B). This formula is derived from the HHI calculation as follows: Applicants' pre-merger $HHI = A^2 + B^2$ Applicants' post-merger $HHI = (A+B)^2 = A^2 + B^2 + 2AB$ Thus, the change in HHI resulting from the merger equals $2AB$.

In addition, I examined a scenario that assumes the 100 MW path is used. In this analysis, Applicants' use of the 100 MW transmission reservation reduces available transmission capacity (ATC) on some interfaces; the analysis takes into consideration the loop flow impact of this interconnection. Relying on data from Applicants (contained in Mr. Naumann's testimony), I adjusted ATCs to take into account the impacts of the planned interconnection and recalculated HHIs.

Next, I took into account Applicants' provisional mitigation plan in order to confirm that it eliminates the screen failures in these analyses of Economic Capacity. Finally, I performed sensitivities that a) assumed that full TTCs were available to interconnect markets and b) assumed zero transmission rates. These are intended as limiting cases to show how the evolution of RTOs might maximize economic power flows over the existing grid and the effects of this expanded market on the extent to which geographically distant utilities would compete in common markets.

These sensitivities support the robustness of my conclusions.

- Q. PLEASE DESCRIBE YOUR DELIVERED PRICE TEST ANALYSIS OF AVAILABLE ECONOMIC CAPACITY.

- A. I performed an analysis for the Available Economic Capacity measure similar to that described above for Economic Capacity. The key difference between these two measures is that Available Economic Capacity considers only that capacity that remains after the utility meets its native load and contractual obligations. In the pre-restructured market, this measure may have provided a useful measure of the capacity that can participate in wholesale power markets. However, for reasons described later in my testimony, this measure is losing its usefulness and, at least in the case of this merger, an analysis of it requires speculative and potentially contentious assumptions concerning, inter alia, the pace of elimination of retail native load obligations for ComEd, PECO, and other utilities throughout the affected regions. In order to satisfy the Commission's rules requiring that merger applicants perform an Available Economic Capacity analysis, I did such an analysis. I based my analysis on 1998 retail loads for Applicants and others, escalating

those loads based on projected growth in electric demands throughout the region. That is, I made no assumption about retail access. In general, although that analysis showed some scattered and non-systematic screen failures, I do not believe that they should be given any meaningful weight since predictions of the amount of Available Economic Capacity controlled by Applicants and other suppliers are neither reliable nor probative of future market conditions.

Organization of Testimony

Q. HOW IS THE REMAINDER OF YOUR TESTIMONY ORGANIZED?

A. In Section III, I outline the Applicants' business operations and the status of deregulation in the states of Illinois and Pennsylvania. Section IV describes the economic framework used in the analysis as set out in the Commission's Order No. 592. A description of the methodology I used in conducting the analysis is included in Section V. My analysis of the merger's impact on competition is included in Section VI. Section VII contains my conclusions.

III. DESCRIPTION OF THE PARTIES

Commonwealth Edison Company

Q. PLEASE DESCRIBE COMED.

A ComEd, a regulated electric utility, is the principal subsidiary of Unicom Corporation. ComEd is engaged principally in the production, purchase, transmission, distribution and sale of electricity. Its service territory is in Northern Illinois, including the Chicago metropolitan area.

ComEd has sold all of its fossil generation;/6/ ComEd's remaining generation assets consist of approximately 9,200 MW of nuclear generation.

/6/ As is described in the Application, the sale of the State Line and Kincaid stations has been completed. The planned sale of the balance of ComEd's non-nuclear plant to Edison Mission Energy has been approved by the Commission in a different docket, and is expected to close in the near future.

Its Kincaid and State Line generating stations were sold to affiliates of Dominion Resources ("DRI") and the Southern Company ("Southern") in February 1998 and December 1997, respectively. Under the terms of the sales, ComEd entered into exclusive 15-year purchase power agreements for the output of the plants (1,598 MW). In essence, these are tolling contracts. ComEd provides the fuel for them and has the right to the output produced in return for fixed payments and the payment of variable O&M costs.

In March 1999, ComEd entered into an agreement to sell the remainder of its fossil generation, totaling approximately 9300 MW, to Edison Mission Energy ("EME"). The sale is expected to be completed in December 1999. As part of the sale, ComEd will enter into three power purchase agreements with terms that will extend for five years or less. Mr. Naumann discusses these agreements in his testimony.

In addition to the 300 MW power sale contract with PECO, it has 1,150 MW of long term firm sales contracts that will be in effect in 2001. These are included in my analysis. It also has long term firm purchase contracts, beyond the repurchase contracts detailed above, of 941 MW.⁷⁷

Q. TO WHICH UTILITIES DOES COMED INTERCONNECT?

A. ComEd is a member of the MAIN regional council. It is directly interconnected to other utilities in MAIN (Illinois Power Company ("IP"), Ameren, Central Illinois Light Company ("CILCO") and Wisconsin Energy (WEP)); utilities to its east in ECAR (AEP and Northern Indiana Public Service Company ("NIPS")); and utilities to its west in the MAPP (MidAmerican Energy Company ("MIDAM") and Alliant).

ComEd is an owner-member of the MISO. On September 16, 1998, the Commission granted approval to form MISO. As a member-owner, ComEd will turn over functional control of its transmission system when the MISO becomes operational (expected to be in June 2001).

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⁷⁷ This does not include a 600 MW contract with Enron, signed in November 1999. This contract is for peaking energy in summer months only. The contract must be nominated on a day-ahead basis and the contract price is the market price in the day-ahead market. Since ComEd can neither withhold the power from this contract, nor benefit with respect to it from higher prices, I do not count the contracted capacity as being under ComEd's control. The 941 MW of purchases used in my analysis includes 300 MW of purchases for which no contract exists as of mid-November, 1999.

Q. DOES COMED HAVE ANY TRANSMISSION DEPENDENT UTILITIES ("TDUS")?

A. ComEd has three full requirements TDUs in its control area: the Cities of Naperville, Batavia and St. Charles, Illinois. Each of these TDUs has requirements contracts with termination dates ending May 31, 2007.

ComEd has one partial requirements TDU, the City of Rochelle, Illinois. In addition, there are three other TDUs who obtain their requirements from alternative suppliers: the City of Geneva, Illinois (supplier is WEP); and the cities of Rock Falls and Winnetka, Illinois (supplier is the Illinois Municipal Electric Agency).

Q. DOES UNICOM HAVE ANY UNREGULATED SUBSIDIARIES IN THE ENERGY BUSINESS?

A. Yes. Unicom Enterprises, Inc. is the holding company for various unregulated Unicom subsidiaries. Unicom Active Energy Management Systems provides an integral line of energy monitoring solutions and related consulting services. Unicom Distributed Energy provides distributed generation systems (through Turbo Generator Power Systems, a joint venture with Allied Signal), complete engineering and feasibility studies, flexible financing and leasing packages. Unicom Energy Solutions provides single-source energy and operational solutions. Unicom Energy, Inc. provides a single source for natural gas, electricity and related services. Unicom Thermal Holdings, Inc. provides retail district energy systems and site specific thermal energy products. Unicom Power Holdings, Inc. provides creative energy solutions that yield significant cost savings and reduced risks associated with the overall energy supply through a customized portfolio. Finally, Midwest Mechanical is a mechanical service provider that designs, installs and services heating, ventilation and air conditioning (HVAC) systems for more than 1,600 commercial and industrial customers in the Chicago area.

PECO Energy Company

Q. PLEASE DESCRIBE PECO.

A. PECO is an electric and gas utility serving electric customers at retail in the six-county Philadelphia, Pennsylvania area and serving retail natural gas customers in five suburban counties. PECO owns approximately 9,500 MW of generation (not including generation purchased by AmerGen), including about 4,300 MW of nuclear generation./8/

PECO is a member of the Pennsylvania-New Jersey-Maryland ("PJM") Interconnection, a power pool which integrates, through central dispatch, the generation and operations of its member companies. PJM consists of over 130 members located in all or part of Pennsylvania, New Jersey, Maryland, Delaware, Virginia and the District of Columbia. There is approximately 56,000 MW of pooled generating capacity within PJM. PJM is directly interconnected to SERC (VP); ECAR (APS and FirstEnergy); and the New York ISO (directly with Niagara Mohawk Company ("NIMO"), New York State Electric & Gas Corporation ("NYSEG") and Consolidated Edison Company ("ConEd")).

On March 31, 1997, the members of PJM converted its organization from an unincorporated association into a limited liability company. In November 1997, the Commission issued an order authorizing PJM to establish an independent system operator ("ISO") and an hourly energy market known as the PJM Power Exchange ("PJM PX"). PJM dispatches generation based on the economic merit order of the generating units. On March 10, 1999, the Commission issued an order granting PJM utilities the authority to charge market-based prices for sales of energy and certain ancillary services into the PJM PX.

Q. DOES PECO HAVE ANY FULL OR NEAR-FULL REQUIREMENTS WHOLESALERS CUSTOMERS?

A. PECO has contracts to supply the following full or near-full requirements customers: Boroughs of Butler, Lavallette, Madison, Pemberton and Seaside Heights, New Jersey and Boroughs of Ephrata and Middletown, Pennsylvania.

Q. PLEASE DESCRIBE PECO'S GAS DISTRIBUTION OPERATIONS.

A. PECO provides retail gas sales and transportation in a five county area surrounding Philadelphia. PECO's retail natural gas sales and transportation activities are regulated by the Pennsylvania Public Utility Commission ("PaPUC"). PECO, through its subsidiary Horizon Energy Company, d/b/a Exelon Energy ("Exelon Energy"), is participating in pilot programs outside its gas service territory to market gas and other services to retail customers. PECO's natural gas supply is acquired under contracts with suppliers with terms up to five years. It has long-term firm transportation contracts to move its gas supply to the market area with Texas Eastern Transmission Corporation ("Texas Eastern") and Transcontinental Gas Pipe Line Corporation ("Transcontinental"). PECO also has acquired underground storage from Texas Eastern, Transcontinental, Equitrans, Inc. and CNG Transmission Corporation.

Q. WHAT OTHER BUSINESS VENTURES DOES PECO HAVE?

A. PECO is a competitive generation supplier offering a variety of unregulated energy and utility infrastructure services, including electric supply, to businesses and residential customers across Pennsylvania. PECO is a wholesale marketer of electricity nationally, and participates in joint ventures which provide telecommunication services in the Philadelphia metropolitan region.

In 1997, PECO and British Energy, plc (Scotland) formed a 50-50 joint venture, AmerGen Energy Company, LLC ("AmerGen"), to acquire and operate nuclear generating stations in the United States. British Energy owns and operates 15 nuclear plants in the United Kingdom. To date, AmerGen has acquired or entered into letters of intent to acquire five nuclear generating stations totaling approximately 4,200 MW. In PJM, AmerGen acquired Three Mile Island (786 MW) and Oyster Creek (619 MW) from GPU; in New York, AmerGen acquired Nine Mile Point No. 1 (618 MW) from NIMO and a portion of Nine Mile Point No. 2 (674 MW) from NIMO and NYSEG; in Illinois, AmerGen acquired Clinton (930 MW) from IP; and in New England, AmerGen acquired

/8/ PECO recently bought half of Conectiv's share of the Peach Bottom nuclear plant, which PECO operates.

Vermont Yankee (540 MW) from the owners of the Vermont Yankee Nuclear Corporation.

Each of AmerGen's asset acquisitions, with the exception of Clinton and Nine Mile Point, have purchase power agreements ("PPAs") with the sellers to buy back the full output from these units. The termination dates for these PPAs range from December 31, 2001 (Three Mile Island) to 12 years after the closing of the agreement (Vermont Yankee). PECO will market any capacity available from these units on behalf of AmerGen. With respect to Nine Mile Point, the PPA covers 95 percent of the output. With respect to Clinton, the PPA covers the re-purchase by IP of 75 percent of the plant's output through 2004. PECO will market the remaining 25 percent share.

Deregulation in Pennsylvania and Illinois

Q. PLEASE DESCRIBE THE STATUS OF ELECTRIC DEREGULATION IN PENNSYLVANIA.

A. The Pennsylvania legislature passed the Electricity Generation, Customer Choice and Competition Act in December 1996, which mandated that electric utilities unbundle electric service into separate generation, transmission and distribution services with open retail competition for the supply of electricity phased-in between January 1, 1999 and January 1, 2000. Pilot programs began in 1997.

Q. WHAT IS THE CURRENT STATUS OF DEREGULATION IN ILLINOIS?

A. At the end of 1997, the Illinois General Assembly passed the Customer Choice Law as part of electric restructuring in the state. Retail competition for large business customers (over 4 MW load) and for a percentage of non-residential customers began October 1, 1999. By December 31, 2000 retail choice will be available to all non-residential customers. Full retail competition (including residential customers) will be effective by May 1, 2002.

Q. ARE THERE ANY PRELIMINARY RESULTS IN ILLINOIS SINCE CUSTOMER CHOICE BECAME AVAILABLE TO BUSINESS CUSTOMERS?

A. Yes, there are some very preliminary numbers. ComEd reports that, as of October 15, 1999, out of 42,000 customers eligible for customer choice, 430 of ComEd's business customers have selected alternative electric providers. Another 2,400 customers have requested usage and billing information, presumably to inform themselves about potential savings from selecting alternative suppliers.

IV. FRAMEWORK FOR THE ANALYSIS

Q. WHAT ARE THE GENERAL MARKET POWER ISSUES RAISED BY MERGER PROPOSALS?

A. Market power analysis of a merger proposal examines whether the merger would cause a material increase in the merging firms' market power or a significant reduction in the competitiveness of relevant markets. Market power is defined as the ability of a firm or group of firms to sustain profitably a significant increase in the price of their products above a competitive level.

In merger analyses, the critical issue is the change in market competitiveness due to the merger. While the pre-merger competitiveness of markets may, as under the DOJ/FTC Guidelines, affect the amount of such change that is acceptable, the focus remains on the change in market competitiveness caused by the merger.

This focus on the effects of the merger means that the merger analysis examines those business areas where the merging firms are competitors. In most instances, the merger will not affect competition in markets in which the merging firms do not compete. Analysis of the effects of a merger on market power in businesses in which the merging firms both participate is sometimes referred to as horizontal market power assessment. In the proposed merger of ComEd and PECO, therefore, the focus is properly on those markets in which both firms are actual or potential competitors. The analysis is intended to measure the adverse impact, if any, of the elimination of a competitor as a result of the combination.

Vertical market effects of the merger relate to the merging firms' ability and incentives to use their market position over a product or service to affect competition in a related business or market. For example, vertical effects could result if the merger of two electric utilities created an opportunity and incentive to operate transmission in a manner that created market power for the generation activity of the merged company that did not exist previously. The Commission has identified market power as also arising from dominant control over potential generation sites or over fuels supplies and delivery systems. These are issues that could undercut the presumption that long-run generation markets are competitive.

Q. WHAT ARE THE MAIN ELEMENTS IN DEVELOPING AN ANALYSIS OF MARKET POWER?

A. Understanding the competitive impact of a merger requires defining the relevant market (or markets) in which the merging firms participate. Participants in a relevant market include all suppliers and, in some instances potential suppliers, who can compete to supply the products produced by the merging parties and whose ability to do so diminishes the ability of the merging parties to increase prices. Hence, determining the scope of a market is fundamentally an analysis of the potential for competitors to respond to an attempted price increase. Typically, markets are defined in two dimensions: geographic and product. Thus, the relevant market is composed of companies that can supply a given product (or its close substitute) to customers in a given geographic area.

Q. HOW HAS THE COMMISSION TYPICALLY EXAMINED PROPOSED MERGERS INVOLVING ELECTRIC UTILITIES?

A. Historically, the Commission examined mergers by focusing on specific product markets and by using a "hub-and-spoke" screening test to evaluate whether a further examination of potential market power was warranted. With the issuance of Order No. 592 in December 1996, the Commission changed its analytic approach and adopted a "delivered price test." Appendix A (the "Competitive Analysis Screen") of Order No. 592 outlines a detailed analytic method that applicants are required to follow in their applications and that the Commission will use in screening the competitive impact of mergers. If a proposed merger raises no market power concerns (i.e., passes the Appendix A screen),

the inquiry is generally complete. If a proposed merger raises potential market power concerns, applicants can propose mitigation measures at the time of application.

Q. WHAT PRODUCTS HAS THE COMMISSION GENERALLY CONSIDERED?

A. The Commission generally has defined the relevant product markets to be long-term capacity, short-term capacity ("Uncommitted Capacity") and non-firm energy ("Available Economic Capacity" and "Economic Capacity"). The Commission has determined that long-term capacity markets are presumed to be competitive, unless special factors exist that limit the ability of new generation to be sited or receive fuel.

The Commission has considered competition in transmission services and has examined whether the combination of ownership of transmission facilities creates the opportunity or incentive for the merging parties to restrict access to transmission.

Q. HOW HAS THE COMMISSION ANALYZED GEOGRAPHIC MARKETS?

A. To examine geographic markets, the Commission traditionally has focused on the utilities that are directly interconnected to the applicant companies. This "destination market" approach was continued in Order No. 592. Each utility that is directly interconnected to the applicants is considered a separate "destination market." Additionally, the Commission has suggested that utilities who historically have been customers of applicants are also potential "destination markets."

The supply alternatives to each destination market are defined using the "delivered price test," which identifies suppliers that can reach a destination market at a cost no more than 5 percent over the pre-merger market price. The supply is considered economic if a supplier's generation can be delivered to a destination market, including delivery costs (which include transmission rates, transmission losses and ancillary services), at a cost that is within 105 percent of the destination market price. Physical transmission constraints also are taken into consideration in determining the potential supply to the destination market. Thus, unlike the "hub-and-spoke" methodology, competing suppliers are no longer defined by bright lines. Competing suppliers are defined as those who have capacity (energy) that is physically and economically deliverable to the destination

market. Their importance in the market (i.e., their market share) is determined by the amount of such capacity.

This test is intended to be a conservative screen to determine whether further analysis of market power is necessary. If the Appendix A analysis shows that a company will not be able to exercise market power in its first-tier destination markets, it generally follows that the applicants will not have market power in more broadly defined and more geographically remote markets. The screen is the first step in determining whether there is a need for further investigation. If the screening test is not passed, leaving open the issue of whether the merger will create market power, the Commission invites applicants to propose mitigation remedies targeted to reduce potential anti-competitive effects to safe harbor levels. In the alternative, the Commission will undertake a proceeding to determine whether unmitigated market power concerns mean that the merger is contrary to the public interest.

Q. WHAT FRAMEWORK DOES THE COMMISSION USE TO DETERMINE WHETHER A MERGER POSES POTENTIAL MARKET POWER CONCERNS?

A. In Order No. 592, the Commission adopted the DOJ/FTC Guidelines for measuring market concentration levels by the HHI. To determine whether a proposed merger will have a significant anti-competitive impact, the DOJ and FTC consider the level of the HHI after the merger (the post-merger HHI) and the change in the HHI that results from the combination of the market shares of the merging entities. Markets with a post-merger HHI of less than 1000 are considered "unconcentrated." The DOJ and FTC generally consider mergers in such markets to have no anti-competitive impact. Markets with post-merger HHIs of 1000 to 1800 are considered "moderately concentrated." In those markets, mergers that result in an HHI change of 100 points or fewer are considered unlikely to have anti-competitive effects. Finally, post-merger HHIs of more than 1800 are considered to indicate "highly concentrated" markets. The Guidelines suggest that in these markets, mergers that increase the HHI by 50 points or fewer are unlikely to have a significant anti-competitive impact, while mergers that increase the HHI by more than 100 points are considered likely to reduce market competitiveness.

V. DESCRIPTION OF METHODOLOGY

Q. PLEASE SUMMARIZE THE METHODOLOGY THAT YOU USED TO ANALYZE THE COMPETITIVE EFFECTS OF THE MERGER.

A. I evaluated the competitive effects of the merger using the methodology described in Appendix A, as summarized above. I used PHB Hagler Bailly's Competitive Analysis Screening model ("CASm"), which implements the delivered price test and other calculations required in Appendix A, to do the required analyses. The source and methodology for the data required to conduct the delivered price test in CASm are described in Exhibit No. APP-302. A technical description of CASm is provided in Exhibit No. APP-303.

Q. WHAT DESTINATION MARKETS DID YOU ANALYZE?

A. I examined 42 destination markets that could potentially be impacted by the merger./9/

I included ComEd and its first-tier utilities: AEP, NIPS, IP, Ameren, CILCO, MIDAM, Alliant-West, Alliant-East and WEP.

I also included PECO's first-tier utilities (specifically, utilities first-tier to PJM): FirstEnergy, APS, VP and the NYISO. In analyzing PJM, I took into consideration the predominant west-to-east energy flow and defined markets by the three high-voltage interfaces within PJM: West, Central and East./10/,/11/

Finally, I included additional destination markets that represent historical customers of Applicants based on a review of 1997 and 1998 sales reported in the FERC Form 1:/12/

/9/ Exhibit No. APP-304 includes a list of utilities (and corresponding abbreviations used in other exhibits), including destination markets.

/10/ The PJM regions and related transmission limits are discussed in the Commission's Order in Docket No. ER97-3729-000, issued March 10, 1999. 86 FERC (P) 61,248.

/11/ Both the ECAR-to-PJM and SERC-to-PJM interconnections occur in Western PJM (APS's in the far West and VP's in the West). I examined four PJM destination markets: PJM West-Central-East (PJM_W+C+E), PJM Central-East (PJM_C+E), PJM East (PJM_East) and an overall PJM market (PJM_All).

/12/ I excluded certain categories of customers as destination markets. First, I excluded power marketers, for the obvious reason that they do not comprise control areas. Similarly, I excluded municipals, cooperatives and TDUs which do not comprise a control area; instead, utility control areas that are destination markets are proxies for the competitive alternatives faced by these customers. Additionally, I excluded utilities which,

Associated Electric Coop; Carolina Power & Light; Cinergy; City Water, Light and Power; Cleco; Dayton Power & Light; Hoosier Energy Rural Electric Coop; Duke; Duquesne; East Kentucky Power Coop; Entergy; LG&E Energy; Madison Gas & Electric; MECS; Missouri Public Service Co.; NEPOOL; Northern States Power; South Carolina Electric & Gas Co.; South Carolina Public Service Authority; Southern Company; Tennessee Valley Authority; Upper Peninsula Power; Western Resources; and Wisconsin Public Service Corp.

These destination markets include potentially impacted markets in accordance with the Commission's guidance in Appendix A, defined to include each first tier utility to the Applicants as well as their historical trading partners. Included in these destination markets are the full range of "intermediate" markets, i.e., those control areas between ComEd and PECO.

- Q. DID YOU ANALYZE A DESTINATION MARKET FOR APPLICANTS' TDU CUSTOMERS?
- A. Yes. The relevant PJM markets I analyzed are reasonable proxies for any of PECO's remaining TDU customers. Similarly, the ComEd destination market is a reasonable proxy for the competitive alternatives available to its TDU customers.
- Q. WHAT TIME PERIODS DID YOU ANALYZE?
- A. For each destination market, I examined eleven time periods for both the Economic Capacity and Available Economic Capacity measures, selected to reflect a broad range of system conditions. I describe this in more detail in Exhibit No. APP-302. Broadly, I evaluated hourly load data to aggregate similar hours. I defined periods within three seasons (Summer, Winter and Shoulder) to reflect the differences in unit availability and transmission capacity as well as base flows on the network. Previously, I generally have considered nine time periods: three seasons times three periods (Peak, Off-Peak and Shoulder). In view of interest in market conditions when prices have "spiked" during

while customers, were not likely to be receiving physical delivery of Applicants' generation; this category primarily includes utilities in the Western States Coordinating

high load hours in the summer, I expanded this to eleven time periods by expanding the number of summer (high-priced) time periods evaluated to reflect different summer conditions and ensure that I covered the range of plausible market conditions in each of the destination markets.

The periods evaluated (and the designations used to refer to these periods in exhibits) are:

SUMMER (June-July-August)

Super Peak 1 (S_SP1):	Top 25 load hours
Super Peak 2 (S_SP2):	Next 125 load hours
Super Peak 3 (S_SP3):	Next 350 load hours
Peak (S_P):	Remaining peak hours
Off-peak (S_OP):	All off-peak hours

WINTER (December-January-February)

Super Peak (W_SP):	Top 150 load hours
Peak (W_P):	Remaining peak hours
Off-peak (W_OP):	All off-peak hours

SHOULDER (March-April-May-September-October-November).

Super Peak (SH-SP):	Top 150 load hours
Peak (SH_P):	Remaining peak hours
Off-peak (SH_OP):	All off-peak hours

Q. WHAT "COMPETITIVE" PRICE LEVELS DID YOU ANALYZE?

- A. For each destination market, I evaluated conditions assuming destination market prices ranging from \$15/MWh in the Winter and Shoulder Off-Peak periods (W_OP and SH_OP) to \$100/MWh in the Summer Highest Peak period (S_SP1). This broad range of prices, in combination with the time periods, should be reflective of a sufficient range of system conditions such that a full picture of the merger's effects is captured.

Council and Florida Regional Coordinating Council. Finally, I excluded three customers whose purchases in 1997 and 1998 were de minimis (less than \$100,000 for this purpose): Minnesota Power, Central and SouthWest and Oklahoma Gas & Electric.

Q. DID YOU TAKE SYSTEM LAMBDA INTO CONSIDERATION IN CHOOSING THE PRICE LEVELS TO ANALYZE?

A. Broadly yes. As I discuss in Exhibit No. APP-302, I reviewed system lambda data for several markets and believe the data are (i) not necessarily reflective of competitive prices in those markets; and (ii) do not provide as comprehensive a range of system conditions as do my assumptions. For example, a number of utilities report a constant system lambda on a year-round basis, while other utilities in the region show significant differences depending on season. There are a number of well known limitations to using system lambdas as a basis for competitive prices: utilities do not necessarily apply the same methodology to calculate system lambdas, there are frequently reporting errors, and neighboring utilities can report varying system lambdas. However, I did take the system lambda data into account in selecting the prices to analyze, particularly to identify the lower range of price to be analyzed.

I also considered using market price data reported in industry trade publications such as Power Markets Week. There are limitations with these data as well: they represent a fairly limited number of trades in relevant regions; they are not necessarily consistent with all the underlying data used in the Appendix A analysis (e.g., in Appendix A transmission rates are assumed to be the maximum filed-rates, while the market prices would reflect actual transmission costs incurred); and there are far fewer pricing "hubs" for reported market data than there are destination markets.

Ultimately, I concluded that a range of prices from \$15 per MWh in off-peak periods to \$100 in the summer super peak was sufficient to fully explore possible differences in expected competitive conditions throughout the year. The \$15 price is the lowest typical price that can be anticipated on a non-transitory basis. While transactions data (and some occasional system lambda data) demonstrate that prices can sometimes exceed \$100 per MWh, modeling higher prices would not change my results. At \$100 per MWh, essentially all of the capacity of all of the market participants in all of the relevant markets is economic (the incremental costs even of inefficient peaking units is less than \$105/MWh), so the supply of economic energy would not be different at higher prices.

Q. PLEASE DESCRIBE THE BASIC MODEL ARCHITECTURE YOU USED IN ANALYZING THIS MERGER.

A. Briefly, CASm is a linear programming model developed specifically to perform the calculations required in undertaking the delivered price test. The model includes each potential supplier as a distinct "node" or area that is connected via a transportation (or "pipes") representation of the transmission network. Each link in the network has its own non-simultaneous limit and cost. Potential suppliers are allowed to use all economically and physically feasible links or paths to reach the destination market. In instances where more generation meets the economic facet of the delivered price test than can actually be delivered on the transmission network, scarce transmission capacity is allocated based on the relative amount of economic generation that each party controls at a constrained interface.

I represented simultaneous imports into a destination market based on a "common limiting element" approach consistent with the Commission's approach outlined in FirstEnergy./13/

Q. WHAT REPRESENTATIVE YEAR DID YOUR ANALYSIS COVER?

A. Order No. 592 requires that the analysis be forward looking. I intend my analysis to approximate conditions in 2001 as a representative near-term future year. I used control area to control area limits (ATCs and TTCs) from current (i.e., third quarter 1999) OASIS postings to represent the transfer capacity between each area in the model. These are the most recently available data. (The analysis is conducted in \$1999.)

Where appropriate, I adjusted other relevant data to approximate 2001 conditions. As described in Exhibit No. APP-303, this includes load, generation costs and confirmed new construction.

/13/ Ohio Edison, et al., 80 FERC (P) 61,039 at 61,107.

Q. DID YOU MAKE ANY CHANGES IN THE ATC DATA POSTED ON OASIS IN CONDUCTING THE DELIVERED PRICE TEST?

A. Yes, but only with respect to imports into the ComEd market. First, I adjusted ATCs between ComEd and its directly interconnected utilities to reflect the impact of the completion of pending transmission upgrades in the ComEd system, which are described in Mr. Naumann's testimony. These transmission upgrades include the construction of two new 345 kV lines between ComEd's Lockport and Lombard transmission substations. Second, I applied a simultaneous available import capability into the ComEd market of 4,500 MW, based on an analysis conducted by ComEd also described in Mr. Naumann's testimony.

Q. HOW DOES YOUR MODEL ACCOUNT FOR THE UNITS THAT COMED HAS DIVESTED TO SOUTHERN, DOMINION RESOURCES, AND EME?

A. As discussed above, ComEd sold the units, but arranged for a buyback of the capacity of the State Line and Kincaid units, in Power Purchase Agreements that last 15 years. My general methodology for dealing with long term power arrangements is to treat the capacity as belonging to the purchaser. I employed that methodology here, assuming that the entire output of the State Line and Kincaid units was available to ComEd when economic.

The divestitures to EME employed a more complicated buyback arrangement, in which ComEd contracted for the capacity in decreasing amounts over time and retained options to purchase the uncontracted capacity to give it flexibility in meeting uncertain load obligations under its retail access program. As described by Mr. Naumann, EME will have rights to market energy from the units if not used by ComEd.

For purposes of my market screen analysis, I assumed that ComEd contracts for the full capacity of the units. This is a worst-case scenario that tends to maximize the appearance of concentration in the markets and maximize any market power problem relating to the merger.

For purposes of my analysis, I treated ComEd's cost of each contract as the variable cost payment that ComEd must make when it nominates energy under the contract. Hence,

the EME capacity is treated as controlled by ComEd whenever the variable payment is below 105 percent of the market price. At some price levels and for some contracts, my projected dispatch cost of the units is below ComEd's cost under the contract. Under these circumstances (a market price that is lower than ComEd's contract cost but above the dispatch cost of the units), ComEd would not nominate the output under the contracts and EME would be able to sell the output to other purchasers. In these limited circumstances, I treated the output of the units as controlled by EME.

Q. ARE EXISTING TRANSACTIONS BETWEEN COMED AND PECO IMPORTANT IN YOUR ANALYSES OF THIS MERGER?

A. Yes. As discussed above, a prime concern in merger analysis is that the merger would reduce the number of competitors in a region, allowing the remaining competitors to raise prices above the level that would otherwise have existed. Because all of ComEd's generation is at least three wheels away from PJM, which is a very robust market, there is little basis for concern that elimination of ComEd as a separate competitor in the PJM market will allow Applicants to exercise market power. For similar reasons, PECO's Pennsylvania generation is competitively unimportant in Illinois. However, as I have described above, the pre-merger 300 MW power sale from ComEd to PECO made PECO a competitor in that region./14/

Q. PLEASE DESCRIBE THE 300 MW SALE FROM COMED TO PECO.

A. PECO has a 10-year 300 MW power purchase contract with ComEd which began in 1997. The point of delivery for the power is the ComEd-AEP interconnect or the ComEd-CIPS (i.e., Ameren) interconnect./15/ ComEd has the right to curtail this transaction in the event it has a capacity emergency in accordance with its Emergency Load Conservation Procedure. In 1999, the transaction was curtailed for only 26 hours. At the option of PECO, ComEd can also re-purchase this energy from PECO, and has

/14/ Additionally, PECO's ownership interest in the Clinton facility, through its AmerGen affiliate, provides additional generation that PECO could have sold in the ComEd region as a separate competitor if there was no merger. PECO also participates, pre-and post-merger, in the midwestern markets to the extent that its other contracts and owned capacity provide it with deliverable economic capacity.

/15/ PECO informs me that it almost always takes delivery at the AEP interconnect.

done so./16/ While there is no long-term firm transmission service reservation associated with this transaction, PECO has been using non-firm transmission to move energy from this contract. Year-to-date (through September 1999), 43 percent of the energy from this transaction was delivered to PECO load in PJM. Over the 1997-99 period, 40 percent of the energy was delivered to PECO.

Q. HOW DID YOU ANALYZE THIS CONTRACT?

A. My analysis treats the 300 MW power contract between Applicants in a manner consistent with other long-term contracts analyzed, namely a transfer of control over generation (in this case 300 MW) from the seller (ComEd) to the buyer (PECO).

This contract, however, is distinguishable from many typical utility long-term contracts in that the point of delivery is not in the purchasing

party's control area. Both as a matter of practice and contract, PECO generally takes delivery of this energy in the AEP control area. Two other factors distinguish this contract, namely ComEd's recall rights and the fact that it has historically re-purchased a portion of the energy from PECO.

My general practice is to treat power for which control is transferred from the seller to the buyer as located at the contract point of delivery. I deviated from this practice in the case of this contract, and assumed PECO controlled this generation in ComEd's control area. This is conservative in that a larger overlap is assumed to exist between Applicants in the ComEd control area than would otherwise be determined if I treated the 300 MW in either the AEP or Ameren control area, as specified by the contract. Indeed, treating the contract as giving PECO 300 MW in the ComEd market area, rather than the AEP area, is the direct cause of the only screen failures produced by my analysis./17/ The 300 MW of energy is then subject to allocation by limited transmission from ComEd into surrounding

/16/ In January-September 1999, for example, ComEd accounted for only 1.6 percent of PECO's sales of the 300 MW. In 1998, in contrast, ComEd accounted for 28 percent. The difference is primarily attributable to the return to service of ComEd nuclear capacity that did not operate for much of 1998.

/17/ Had I treated the contract as being located in the AEP service area, the 300 MW would have had to compete with AEP's capacity (and other capacity that reaches the AEP control area) for available transmission from AEP to ComEd. As a result, it would have been so severely "squeezed" in the proration of available transmission capacity that it would not have caused a screen failure in the ComEd market.

destination markets./18/ Because PECO takes the energy on an round the clock basis, I assume ComEd supplies the 300 MW from its lowest-cost energy sources.

As discussed above, Applicants are willing to sell contract rights to the 300 MW to an unaffiliated third party if necessary to obtain merger approval. If the contract rights are sold to a third party, control of the capacity is transferred to that party, and the capacity is no longer controlled by Applicants. I have performed further analyses assuming that the 300 MW have been sold to a third party. Those analyses show that the sale would eliminate any merger-related increases in the Appendix A screen for Economic Capacity.

Q. HOW DID YOU ANALYZE AMERGEN'S OWNERSHIP OF THE CLINTON PLANT?

A. As discussed above, PECO's subsidiary AmerGen has purchased the Clinton facility from IP, but has agreed to sell 75 percent of the output back to IP through 2004. Consistent with my treatment of other power sale arrangements, I treated the 75 percent as belonging to IP. I treated the remaining 25 percent of the plant (approximately 230 MW) as belonging to PECO in my analysis (even though PECO has only 50 percent ownership in AmerGen). The effect of this assumption is to increase the market concentrations (relative to an assumption that PECO owns only 50 percent of AmerGen), and the merger-related changes in concentrations, in IP and other markets to the south and west of ComEd. However, because the IP market is only moderately concentrated, the change in market concentration arising from the Clinton ownership is not problematic; in the other markets, the change in market concentration arising from the merger is not material. It is possible that some of the Clinton output could be sold into the ComEd market. However, the transmission capacity between IP and ComEd (and, more generally, into ComEd) is limited, and I have treated Clinton identically to all other capacity, pro-rating the amount of that capacity that could be transferred to ComEd, consistent with my general methodology for allocating limited transmission capacity, described in Exhibit No. APP-302. After the pro-rated allocation of capacity, some 30 to

/18/ One might speculate that this treatment is not conservative in the markets in-between Applicants (particularly the AEP destination market), but as I demonstrate later in my testimony and exhibits, Applicants' overlap in the AEP market is small. Hence, an additional 300 MW controlled by PECO in the AEP market would not be consequential to the HHI screen.

63 MW from AmerGen's share of the Clinton unit enters the ComEd destination market, depending on the time period and market conditions. This pro-rated allocation of capacity has been factored into the Appendix A study results that I present.

Q. WOULDNT IT HAVE BEEN MORE CONSERVATIVE TO ASSUME THAT ALL OF AMERGEN'S SHARE OF CLINTON GETS INTO THE COMED MARKET?

A. Yes. However, while I have sought to make conservative assumptions, more likely to amplify than conceal the effects of the merger, "conservative" does not extend to "biased." Simply to assume that AmerGen's share of Clinton is in the ComEd market, as an exception to an otherwise consistent allocation of scarce transmission, would be improper. Any consistent means of transmission allocation that would have brought all of AmerGen's share of Clinton into the market would also have brought in all of Clinton that is not controlled by AmerGen. Such a methodology also would have substituted other nearby and/or low cost generation (depending on the method used) for the generation that my proration method allowed into the ComEd market. Among the losers for any method that brought in all of AmerGen's Clinton share almost certainly would be the share my method allocated to PECO's distant capacity in Pennsylvania.

Moreover, any paradigm that gets all of Clinton into the market, such as allocating all transmission to the lowest cost suppliers, would mean that if Applicants were to artificially withhold their share of Clinton from the ComEd market, the transmission made available for re-allocation would go to other very low cost generation (e.g., the Callaway station or MidAmerican's share of the Quad Cities plant). While such a substitution would change the HHI calculation, it would not actually change the supply curve of imports into the ComEd area.

Q. PLEASE DESCRIBE THE 100 MW PATH RESERVATION BETWEEN COMED AND PECO.

A. As discussed above and as described in the testimony of Mr. McDonald, Applicants are prepared to interconnect via a 100 MW firm transmission reservation from ComEd to the PJM border, if required to do so by the SEC.

Q. HOW DID YOU ANALYZE THIS INTERCONNECTION PLAN?

A. Applicants will use the path when it is economic to do so. When it is not used, it will be re-posted on OASIS by the party that controls the transmission and be made available to other parties. I have modeled both states. To model the effects of the merger when the path is being used, I assumed that, post-merger, Applicants would supply 100 MW of energy to PECO from resources in the ComEd area during all hours./19/ This 100 MW flow assumption has the greatest adverse affect on PJM markets, since it assumes that Applicants' share of such markets is increased by the full amount of the interconnection in all hours. This analysis also takes into account the loop flow effects of the power transfer. It was not necessary to explicitly and separately model the effects of the merger when the path is not being used. When the path is not used, there is no change from the pre-merger case in how Applicants' systems are used or in the flows on the transmission network. Hence, the effects of the merger are limited to combining Applicants' pre-merger shares of each destination market; I calculated these using the pre-merger model runs. By modeling both states, I made the most conservative assessment possible: within ComEd, the most conservative assessment arises when the transmission does not occur as that would increase Applicants' post-merger share of the market within ComEd; to the east of ComEd, the most conservative assessment assumes that the transaction does occur, as that would reduce ATC in the region, reducing the ability of other competitors to serve those areas. Since 100 MW of power is assumed to be transferred from the midwest to eastern PJM, it doubly impacts Applicants' share of PJM markets by increasing their controlled deliverable economic capacity and reducing the transmission available to others.

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/19/ As discussed infra, when the path is not being used and is posted for reassignment, the post-merger case will look exactly like the pre-merger case, except that Applicants' shares are combined. Hence, the analysis allows the merger to be evaluated under both feasible conditions with respect to the integration path: that it is being used and that it is not.

VI. IMPACT OF THE MERGER ON COMPETITION

Q. WHAT SPECIFIC ANALYSES DID YOU CONDUCT TO EVALUATE THE POTENTIAL EFFECTS ARISING FROM THE COMBINATION OF GENERATION ASSETS?

A. Consistent with the guidance in the Merger Policy Statement, I analyzed Economic Capacity and Available Economic Capacity, focusing on the combination of Applicants' generation. Given the status of restructuring in Pennsylvania and Illinois, and more generally, the Economic Capacity analysis is the only analysis relevant to this merger. As discussed infra, the Available Economic Capacity analyses does not provide reliable and useful insight into future market conditions since the native load that distinguishes this analysis from the Economic Capacity analysis is changing at unpredictable rates and in the long run will be eliminated.

I have not analyzed Total Capacity and Uncommitted Capacity, for two reasons. First, these measures are not required explicitly by the Merger Policy Statement or the NOPR in Docket No. RM98-4-000. Second, in this instance, Applicants are three wheels from one another, which, under the normal application of the Commission's "hub-and-spoke" analysis of Total and Uncommitted Capacity, would result in them not being in the same market.

Economic Capacity

Q. WHAT DID YOUR ANALYSIS SHOW FOR ECONOMIC CAPACITY?

A. The Economic Capacity analysis confirms that the Applicants' overlap in virtually all destination markets is sufficiently small that the HHI screen is passed readily. The only exception to this conclusion is in the ComEd destination market. In this market, the screen is failed in all time periods except for the highest super-peak period. The screen is passed in this period because, during the highest load hours, ComEd has recalled the 300 MW of capacity that is under contract to PECO pursuant to the terms of that contract. In these highest load hours, PECO does not control the 300 MW pre-merger and, hence, the merger does not reconsolidate the 300 MW with other ComEd-controlled capacity. The only other market in which the HHI increases by more than 50 points is the Illinois Power

market, wherein AmerGen's 25 percent of the Clinton unit is located./20/ In this market, the HHI increase is between about 41 to 74 points, with the largest increase in the lower load periods. The Illinois Power market is at most moderately concentrated (HHI between 1,000 and 1,800). Hence, the screen value for the change in HHI is 100 and the screen is comfortably passed.

Exhibit No. APP-305 shows that Applicants' market shares, pre- and post-merger, in the destination markets around and between them are not large and the overlap is small. Outside of its home market, ComEd's largest share is in the Illinois Power market, with shares ranging from 9 to 14 percent. PECO's share of that market is about 2 percent in all time periods. PECO's largest share is in the PJM-East market, ranging from 16 to 19 percent; ComEd's share of that market is under one percent in all periods. In intervening markets between PJM and ComEd, most of which are only moderately concentrated in most periods, each Applicant's share is well under 10 percent. The typical changes in HHI levels are 20 points or less./21/

Q. PLEASE DESCRIBE THE RESULTS FOR THE COMED DESTINATION MARKET.

A. Under the base case (i.e., when the 100 MW path is not used), PECO has a pre-merger share of 1.4 - 2 percent in most time periods. In off-peak periods, its share rises to a maximum of 2.3 percent. PECO's share is made up of four elements: (1) the 300 MW of power purchased from ComEd and assumed to reside in ComEd's control area; (2) 30 to 63 MW of power from AmerGen's Clinton plant in Illinois Power's control area that is prorated into ComEd; and (3) between 0 and 51 MW of power from PECO generation in PJM that is economic and deliverable (after proration) into the ComEd market.

ComEd has a 63 to 76 percent share of this destination market, consisting of currently owned generation and contract rights and about 500 MW of owned or contracted

/20/ There is one minor exception, for one time period in the CILCO market (winter off-peak), where the HHI change is 60 points in a moderately concentrated market (HHI of 1118).

/21/ The exception is the NIPS destination market, where ComEd has a share of up to 13 percent but PECO has a share of 1.5 percent or less. The HHI changes are 34 points or less in a moderately to highly concentrated market.

generation expected to be on-line by 2001./22/ Other local generation within ComEd's control area includes small amounts owned by ComEd TDUs and about 1,700 MW of merchant generation./23/ Imports from ECAR, MAIN and MAPP are approximately 4,500 MW, the simultaneous limit imposed into ComEd./24/

Q. PLEASE SUMMARIZE THE HHI RESULTS FOR THE COMED DESTINATION MARKET.

A. These are shown in the table below; as described above, these results reflect analyses assuming (1) no additional flows between PECO and ComEd and (2) the 100 MW firm transmission path.

ComEd Market	Pre-Merger				Pre-Mitigation Post-Merger			
					No Firm Transmission Path	100 MW Transmission ComEd to PECO		
Economic Capacity	Market Price (\$/MWh)	ComEd Market Share	PECO Market Share	HHI	Delta HHI (2AB)	Merged Market Share	HHI	Delta HHI
Summer Super Peak	\$100	75.7%	0.10%	5791	15	75.4%	5755	-37
Summer Super Peak	75	73.1%	1.40%	5419	205	74.1%	5562	142
Summer Super Peak	50	73.2%	1.40%	5429	205	74.2%	5572	143
Summer Peak	30	63.8%	1.40%	4238	179	64.8%	4368	130
Summer Off-Peak	20	71.0%	1.80%	5136	256	72.2%	5313	178
Winter Super Peak	25	65.9%	1.50%	4504	198	67.0%	4647	143
Winter Peak	20	73.2%	1.80%	5407	264	74.5%	5602	194
Winter Off-Peak	15	67.7%	2.00%	4657	271	69.2%	4861	204
Shoulder Super Peak	40	66.0%	1.40%	4453	185	67.1%	4587	134
Shoulder Peak	25	63.4%	1.70%	4179	216	64.5%	4329	149
Shoulder Off-Peak	15	64.6%	2.30%	4254	297	66.3%	4478	224

/22/ As noted earlier, approximately 300 MW of these purchases are assumed to come from a planned unit for which no contract exists. This pre-supposes that between now and 2001, ComEd will contract for additional generation to meet potential load requirements.

/23/ I discuss the planned generation in ComEd's control area in Exhibit No. APP-302. As I describe there, all of these units are either under construction or have passed sufficient project, financing and regulatory hurdles such that an in-service date by 2001 is considered highly probable.

/24/ When the 100 MW transfer from ComEd to PECO is being modeled, ComEd's simultaneous import capability increases by 100 MW to 4,600 MW.

Q. DO THE HHI RESULTS FOR THE COMED MARKET ACCURATELY REFLECT THE POTENTIALLY ADVERSE IMPACT OF THE MERGER ON THE CURRENT WHOLESALE CUSTOMERS IN THE COMED AREA?

A. This result is highly conservative in the way in which the PECO contract is modeled. As discussed earlier in my testimony, the 300 MW contract is for delivery in AEP or Ameren. Had I treated it in a manner that mirrors the contract, PECO as the owner of the contract would have been allocated only a prorated share of the available transmission back into ComEd. The more conservative treatment that I used assumes that all of the 300 MW competes in the ComEd market without the cost or limits of the transmission system. This reflects the fact that, in selling the capacity back to ComEd, PECO can, and has, "booked out" the purchase against a sale back to ComEd. This could not be done in selling the power to any party other than ComEd./25/ Hence, my treatment of the contract materially overstates PECO's role as a seller to any wholesale purchaser in the ComEd control area other than ComEd itself.

ComEd's current wholesale customers include TDUs with aggregate demand that is small relative to the amount of potentially available supply. To the extent these TDUs are served under multi-year contracts (see Ms. Juracek's testimony), they are insulated from any potential increase in market price due to the hypothetically enhanced ability of Applicants to raise prices post-merger./26/ Also, to the extent such customers are under contract, their ability to access competing suppliers is only theoretical, not real. In any event, assuming that TDUs are free to shop for power, the competitive conditions that they face will be identical for the ComEd control area.

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/25/ While PECO could, in effect, book out purchases against other parties, it still would be required to take delivery of the energy at the AEP or Ameren border. With ComEd, the energy never leaves the ComEd control area with a blackout.

/26/ Three of ComEd's six TDUs can have some of their requirements supplied competitively in 2000-2001.

Q. DO YOUR ECONOMIC CAPACITY RESULTS CHANGE SIGNIFICANTLY WHEN YOU ASSUME ADDITIONAL INTERCONNECTION BY A FIRM 100 MW WEST TO EAST TRANSMISSION PATH?

A. No. These results are shown in Exhibit No. APP-306. There are two potential affects from the 100 MW path. First, when the path is being utilized, Applicants' amount of capacity controlled in the ComEd market is decreased by 100 MW and their controlled capacity in the PECO system is increased by 100 MW. Second, again during the times when the path is being utilized, there will be merger-related changes in power flows that can affect the transmission system in a way that either increases or decrease concentration in Applicants' markets or in other markets.

The first of these effects reduces merger-related increases in concentration within the ComEd, market, the only market in which there are screen failures. Since my overall analysis also considers the case where the path is not used, I do not rely on this path-related deconcentration in reaching my conclusions. Use of the path increases the effect of the merger on PJM-East relative to the base case; however, the increase is slight and the maximum merger effect on the PJM-East market remains at under 32 points of HHI increase, far below the 100 point threshold for a moderately concentrated market.

Loop flow effects arising from the use of the 100 MW path were analyzed by Applicants' engineering staff and are addressed in Mr. Naumann's testimony. I utilized his analytic results to determine the change in the non-firm ATCs that would result from the path utilization and the consequent affects on market concentration. Specifically, and as he recommended in his testimony, I adjusted the path ATCs by the amount of the change in FCITCs that his load flow studies produced as a consequence of assuming the flow of 100 MW from ComEd to PJM-East. As he describes, the loop flow effects moderately deconcentrate the ComEd market and have minor effects on transmission in between the ComEd and PJM-East markets. In some intervening markets, a reduction in ATCs arising from the 100 MW path has a slight concentrating effect. However, in no case does the integration path create a screen failure. Quite simply, since the merger, without the 100 MW transfer, has such a slight effect on intervening markets, the reduction in ATC available to others due to the assumed transfer of 100 MW does not cause any screen violations.

Q. IS THE MERGER LIKELY TO CAUSE ANY LARGER INCREASES IN POWER TRANSFERS THAN THE 100 MW THAT YOUR ANALYSIS EXAMINES?

A. No, not appreciably. Recall that PECO already has the right to take 300 MW of energy from ComEd in the AEP market area. PECO's use and disposition of this energy has varied depending on market conditions. For example, in 1998 only 17.5 percent of energy taken under the contract was actually delivered to PJM and PECO whereas in 1999 (through September), 43 percent of it was delivered to PJM and PECO. In the future, as in the past, the Applicants will dispatch energy from ComEd to PECO only when it is economic to do so. The fact that ComEd has not found PECO (or PJM) to be its highest value market, and hence has made only small sales on its own account to PJM, coupled with the fact that PECO itself has sold little more than 100 MW of its 300 MW of ComEd energy into PJM (on average) suggests that the degree to which the merged company can expect to transfer energy from west to east will typically be in the range of around 100 MW, plus or minus. In this context, it also is notable that the cost of transferring power will change only modestly on the basis of tariff changes arising from the new ISOs. PECO already is a member of PJM. ComEd is already directly connected to AEP and its sales to the east will not benefit from a reduction in pancaking once the MISO becomes operational. Assuming that the Alliance RTO is formed and has a non-pancaked rate, transfers from ComEd to PJM would face one less wheeling charge (at least for power sent via AEP and Virginia Power or FirstEnergy), but so will other MISO members as well as power from AEP and the Michigan utilities.

Q. PLEASE DESCRIBE HOW THE MITIGATION THAT APPLICANTS HAVE OFFERED AFFECTS THE HHI RESULTS FOR ECONOMIC CAPACITY IN THE COMED MARKET.

A. As described in the Application, Applicants have stated their willingness to sell the 300 MW PECO contract that is the principal cause of the screen failure to a third party should the Commission deem it necessary. This mitigation eliminates the screen violations in all time periods as shown below.

ComEd Market	No Firm Transmission Path		100 MW Transmission ComEd to PECO			
			Pre- Mitigation	Post- Mitigation	Pre- Mitigation	Post- Mitigation
Economic Capacity	Market Price (\$/MWh)	Pre- Merger HHI	Delta HHI	Delta HHI	Delta HHI	Delta HHI
Summer Super Peak	\$100	5791	15	20	-37	-37
Summer Super Peak	75	5419	205	19	142	-36
Summer Super Peak	50	5429	205	19	143	-36
Summer Peak	30	4238	179	18	130	-31
Summer Off-Peak	20	5136	256	29	178	-41
Winter Super Peak	25	4504	198	21	143	-32
Winter Peak	20	5407	264	38	194	-31
Winter Off-Peak	15	4657	271	57	204	-8
Shoulder Super Peak	40	4453	185	18	134	-37
Shoulder Peak	25	4179	216	22	149	-38
Shoulder Off-Peak	15	4254	297	66	224	-2

In the base case, the change in HHI falls to about 20 points in all but off-peak periods. In off-peak periods when the market price is assumed to be only \$15 per MWh, the change in HHI is 57 and 66 points. This is above the level that is presumed to not create a market power issue in the Merger Guidelines, but below the level that is presumed to create a failure, a "gray area" in the Merger Policy Standards. Since this condition occurs only in the lowest priced period, during which there is substantial competing capacity,^{/27/} the "gray area" result does not signal a market power problem.

The merger, with mitigation, slightly deconcentrates the ComEd destination market if the 100 MW transmission path is used. This result occurs because Applicants reduce controlled generation by 400 MW (sale of the contract plus the 100 MW transfer), and the market size increases slightly by 100 MW (the export of 100 MW from the ComEd control area allows an extra 100 MW of import capability). As noted previously, my conclusions concerning the effects of the merger on midwest markets do not rely on the

^{/27/} Prices at the level that give rise to the "gray area" result typically occur only during overnight periods in off-peak seasons. During such hours, there is a great deal of inflexible plant, such as baseload coal, that is at or near minimum load. (Minimum load levels are typically 15 to 25 percent of full load capability for fossil steam plant.) This minimum load amount is producing energy and, hence is "in the market" even if the variable cost of the units is below the market price, since running, even at a loss, is necessary if the plant is to be available during higher priced daytime periods. Moreover, plant producing at minimum load can quickly increase output if prices rise. Hence, any attempt to raise prices would attract very rapid and substantial competition.

deconcentrating effects of the power transfer. The effect of mitigation on all other markets is shown in Exhibit APP-307. Since there are no pre-mitigation failures in markets other than ComEd, there also are no failures post-mitigation.

Sensitivities

Q. PLEASE DESCRIBE THE EFFECTS OF THE SENSITIVITY ANALYSES YOU UNDERTOOK.

A. As I described earlier, I performed two sensitivity studies. For purposes of these sensitivities, I analyzed only a subset of the destination markets, consisting of ComEd's control area and the PJM markets; historic overlapping markets in between ComEd and PECO; and control areas impacted by the 100 MW path. I analyzed 15 such destination markets./28/

In the first sensitivity study, I assumed that full TTCs, rather than ATCs, were available to interconnect markets. See Exhibit No. APP-308.

In the second sensitivity study, I assumed zero transmission rates, as a limiting case showing the effects of market enlargement on the competitive effects of the merger. See Exhibit No. APP-309.

My conclusions are further supported by these sensitivity analyses. While the absolute numbers reflected in these sensitivities differ slightly from those of my base case and 100 MW flow case, my conclusions remain robust. Indeed, in most cases, the merger causes still smaller increases in HHIs than in my main cases. These cases were designed to investigate whether future changes in the tariff structure and reservation practices of RTOs that increase transmission capability and make distant suppliers, such as the Applicants, more closely competitive. The fact that these sensitivities show no adverse effect means that my conclusions are likely to remain robust as market institutions change.

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/28/ These include ComEd, four PJM markets, IP, NIPS, AEP, VP, APS, FirstEnergy, MECS, CPL, TVA and DLCO.

Available Economic Capacity

Q. HAVE YOU ALSO ANALYZED THE EFFECTS OF THE MERGER ON AVAILABLE ECONOMIC CAPACITY?

A. Yes. However, I believe that this analysis is of at best limited value and should not be relied upon in assessing the future effects of the merger on competition.

Q. WHY SHOULD THE AVAILABLE ECONOMIC CAPACITY ANALYSIS NOT BE RELIED UPON HERE?

A. Order No. 592 indicates that the merger analysis is intended to be forward looking. Available Economic Capacity analysis differs from the Economic Capacity analysis solely in that native and requirements customer loads are deducted from the resources controlled by each supplier. Capacity required to meet native load is deducted from the resources available from each supplier on the assumption that only its higher cost remaining resources are available to sell into the market. As the Order recognizes, under conditions of full retail access, all capacity is in the market, in which case the Available Economic Capacity analysis becomes identical to the Economic Capacity.

From a market power perspective, any valid information that the Available Economic Capacity analysis provides incrementally to the Economic Capacity analysis depends on at least two assumptions. First, the capacity that serves native load is not available to make sales in the market-priced wholesale market and its control by a supplier cannot affect the wholesale market. Second, the capacity that is sold to native load customers is insulated from any increase in prices in the competitive part of the market. Neither assumption is wholly true. Most importantly, if (as is the case with the Available Economic Capacity analysis) the competitive supply is treated as a residual after individual suppliers' native loads are met, the withholding of any capacity, whether "dedicated" to native load or not, nevertheless affects prices in the competitive market. Second, depending on the precise nature of state regulation (for example, whether there are long term rate freezes or frequent rate cases, whether there is a fuel and purchased power adjustment clause, whether margins on wholesale sales offset retail revenue

requirements), the existence of native load may variously impede, contribute to or be neutral with respect to the possible exercise of market power in wholesale power markets.

If these were the only problems with Available Economic Capacity as a measure of participation in wholesale markets, then it still might have considerable value if native load requirements and the amount of capacity controlled by suppliers could be predicted with the level of confidence that was feasible only a few years ago. However, the transition to retail access that is occurring throughout the country means that a forward looking analysis of Available Economic Capacity is necessarily fraught with assumptions and transitory in relevance. Moreover, a merger policy that relies on it will give perverse signals to utilities from the point of view of public policy. A utility that builds new merchant capacity, thereby increasing market supply, may find itself with an Available Economic Capacity "problem" in a market where little such capacity exists and any new supplies clearly are pro-competitive. Similarly, a utility whose policies create a rapid success of competing retail access providers may find that it has created an Available Economic Capacity problem for itself as a result. A merger policy that penalizes suppliers for such pro-competitive activities would be counter-productive.

Q. WHY IS AN ANALYSIS OF AVAILABLE ECONOMIC CAPACITY SPECULATIVE?

A. I, and other practitioners, have interpreted Order No. 592's definition of Available Economic Capacity as being net of load served under state regulation. As retail access reduces the amount of load retained by the historic provider as a regulated utility,^{/29/} the amount of that utility's Available Economic Capacity increases. Hence, any forward-looking analysis of Available Economic Capacity depends on a forecast of the pace of retail access for each supplier in the market, an inherently speculative undertaking.

The amount and ownership of Available Economic Capacity depends also on the divestiture plans of utilities and the nature of take-back contracts and other contracts

^{/29/} It is not clear whether load served by an unregulated subsidiary of the formerly-load serving utility should be deducted. On the one hand, the load such an affiliate serves requires purchases from the market. Hence, in deciding whether an action to increase market prices is profitable, a generation owner would take such contractual responsibilities into account in much the same manner as its remaining native load responsibility. However, load served by an affiliate is not subject to state regulatory pricing rules.

entered into by the buyer. Clearly, divestiture plans for the future are not knowable and, as recent experience shows, utilities can change their plans quickly. Even if the period being analyzed is relatively near into the future, so that the amount of divestiture can be projected with some confidence, the existence, control, and pricing provisions of associated contracts may not be known.

Of course, any forecast contains elements of uncertainty. But in the case of Available Economic Capacity, which is a residual market after native load requirements are taken into account, small changes in assumptions about loads and the control of capacity can have quite magnified impacts on market shares and market concentration. Yet, the underlying supply and demand for power in the region is wholly unaffected by either the pace of retail access or the transfer of generation and contracts among parties.

Q. WHY IS ANY ANALYSIS OF AVAILABLE ECONOMIC CAPACITY TRANSITORY IN ITS MEANING?

A. Because the results of the analysis are so dependent on the balance between the pace of retail access and asset dispositions, any result, even if correct for a particular year, will be incorrect for the following year. PECO's retail access is well advanced. Other PJM utilities also are undergoing retail access. Some have sold significant generation with very short term take-back contracts. Some divested generation that initially is not subject to take-back contracts will be committed to long term sales. PECO's share of the PJM Available Economic Capacity "market", and the market HHI, will change substantially from year to year. This is far less true for Economic Capacity.

ComEd has just begun its retail access. At this point in time, the amount of access that will occur is highly uncertain. Moreover, to preserve its ability to serve retained load, ComEd has retained various option rights to the plants it has divested to EME. The extent to which it will exercise those rights depends significantly on the pace of retail access. Both the amount of retained load and the amount of capacity that is deemed under ComEd's control will, therefore, change from year to year. Its Available Economic Capacity, being determined by the balance between the two, will change even more dramatically and unpredictably. Other utilities that are beginning, or will soon begin

retail access in the region, will also experience substantial changes in their Available Economic Capacity.

Q. THESE CAVEATS NOTWITHSTANDING, HAVE YOU PROVIDED AN AVAILABLE ECONOMIC CAPACITY ANALYSIS?

A. Yes. The results of the analysis are shown in Exhibit No. APP-310 for both the base case and the case that assumes a 100 MW west-to-east interconnection path.

Q. WHAT DID YOU ASSUME IS THE LEVEL OF RETAIL ACCESS IN YOUR ANALYSIS?

A. I assumed that each utility retains its full, historic load responsibility. In a slightly different context,^{/30/} the Commission has indicated its distaste for hypothetical assumptions about the extent of retail access in markets where such access has begun. To avoid such hypothetical assumptions, I simply have assumed that retail access will not materially affect the amount that the various suppliers can make available to the wholesale market. In the midwestern markets that are most likely to be problematic based on the Economic Capacity analysis, retail access either has not yet begun or is just now beginning. Hence, the zero access assumption for suppliers to these markets likely is not far off the mark.

Q. WHAT DOES THIS ANALYSIS SHOW IN TERMS OF THE EFFECTS OF THE MERGER?

A. The base case analysis shows that, as was the case with Economic Capacity, the problem market is the ComEd market. For the 451 other markets-time periods analyzed, there are a total of 10 screen failures. No market has more than one failure. In the majority of cases, concentration in the market in which the failure occurs is at the low end of the moderately concentrated range (post-merger between 1,000 and 1,200) and the change in HHI barely exceeds 100 points.

^{/30/} EME Homer City Generation, L.P., 86 FERC (P) 61,016 (1999).

In the analyses incorporating the 100 MW path there are a few more failures (a total of 20) and a somewhat different pattern in terms of geography and time periods. For example, there are a number of screen failures in SERC. In the 100 MW case, there also are a number of markets in which the HHI is reduced by significant amounts. In some SERC markets, remote from both Applicants, there are both screen failures and HHI reductions of comparable magnitudes in the same market in different time periods./31/

Q. DOES THE SALE OF THE 300 MW CONTRACT TO A THIRD PARTY ELIMINATE THESE SCREEN FAILURES?

A. The majority are eliminated, including most of the failures in the ComEd market. These results are contained in my workpapers.

Q. WHAT DO YOU CONCLUDE FROM THIS ANALYSIS OF AVAILABLE ECONOMIC CAPACITY?

A. There are a few, mostly marginal screen failures scattered around various markets with no systematic pattern, except in the ComEd market that is the focus of the mitigation that Applicants have offered. In view of the nature of the screen failures and the significant concerns that I have identified about performing or relying on the Available Economic Capacity analysis, I do not believe that these screen failures demonstrate any competitive harm arising from the merger./32/

Applicants' Lack of Control Over Withdrawable Capacity

Q. IN YOUR SUMMARY, YOU INDICATED THAT APPLICANTS CONTROL DISPROPORTIONATELY SMALL SHARES OF CAPACITY THAT CAN BE

/31/ Some of these results illustrate the extent to which the Available Economic Capacity test can produce misleading results. For example, in the Duke market, one of the most heavily nuclear markets in the United States, PECO is one of only two suppliers, and has a share of over 90 percent in the shoulder off-peak period. This is because there is so little low cost capacity not required to meet native load of its owners (such load being assumed to be served by the lowest cost resources) that PECO's "uncommitted" resources from the Clinton nuclear plant and the 300 MW purchase from ComEd that I model with a zero price are about the only Available Economic Capacity that can economically reach the Duke market at a price near \$15/MWh. However, it is obvious that a few hundred MW of such capacity does not determine the market price in the Duke control area (several hundred miles away) during off-peak periods.

/32/ Notably, all but three of the 20 screen failures in Available Economic Capacity are eliminated by the mitigation offered by Applicants, and, the other three failures occur in markets that are only moderately concentrated.

WITHHELD TO INCREASE PRICES AND THAT THE MERGER DOES NOT CONCENTRATE THE OWNERSHIP OF SUCH CAPACITY. WHY IS THIS RELEVANT TO THE ANALYSIS OF THIS MERGER?

- A. The only way in which a generator, or group of generators, can increase prices is by reducing the supply that is available at a given price. This "withholding" of capacity can be achieved either by simply not making the capacity available or by offering the capacity at a price higher than it would be offered at under competition.

Capacity that is out of the market (has an incremental cost that is higher than the market price) cannot be effectively withheld, since such capacity is not relevant to price determination - it is not part of economic supply whether withheld or not. Capacity that has a cost that is well below the market price can, other things equal, be withheld. However, the lower the variable cost of producing energy from a given plant, the less likely it is that withholding capacity from that plant is profitable.

This can be demonstrated by example. Suppose that a generator has 2,000 MW of economic capacity with a variable cost of \$20 per MWh and that the competitive price is \$25 per MWh. The contribution to fixed costs and profit is thus \$5 times 2,000 MWh, or \$10,000 per hour. Suppose also that by withholding 500 MW of capacity (or bidding it at a price of \$28 per MWh or higher) it can drive the price to \$28 per MWh. The contribution is now \$8 times 1,500 or \$12,000 and the action is profitable.

Now suppose the same set of facts except that the variable cost of the plant is \$10 per MWh. If bid competitively, the contribution is \$15 times 2,000 MWh or \$30,000. Removing sufficient economic capacity to raise the market price to \$28 per MWh (again, 500 MW in this example) results in a contribution of \$18 times 1,500 MWh, or \$27,000 and the action is unprofitable.

As the example demonstrates, the profitability of withholding capacity depends on two factors: a) the profits lost on each MW withheld and b) the number (or proportion) of MW that must be withheld to achieve a given increase in price. Point a) means that deep baseload plant, which has higher contribution margins than plant with higher variable costs, is more difficult to withhold profitably. Point b) means that it is more difficult to withhold plant profitably when prices are such that the merit order is flat (as it is during

low and moderate load periods) compared to when the merit order is steep (high load periods when transmission may be constrained and when only high variable cost capacity competes to set market prices).

Q. DO APPLICANTS CONTROL SIGNIFICANT AMOUNTS OF PLANT THAT IT IS LIKELY TO BE PROFITABLE TO WITHHOLD?

A. Generally speaking, no. ComEd in particular controls little such plant as a result of the divestiture of its fossil units, The merger does not result in a problematic concentration of control over economically withdrawable plant.

Q. WHAT ARE THE RELEVANT CHARACTERISTICS OF PLANT CONTROLLED BY COMED?

A. ComEd controls its nuclear plants./33/ Since it has full dispatch rights for the Kincaid and State Line plants that it has divested, I assume that it also controls them. Mr. Naumann discusses ComEd's control, or lack thereof, over the balance of its previously owned fossil plant that is being sold to EME in his testimony. For purposes of my analysis, I concluded that since ComEd does not operate the divested plant, the amount that it can be said to control, in the sense of being able to withhold it from the market, is limited to, at most, the Kincaid and State Line stations and the portion of the capacity being sold to Edison Mission identified by Mr. Naumann in his testimony.

Exhibit No. APP-311 shows the plants controlled by ComEd and by PECO, together with regional amounts of plants controlled by others. ComEd controls about 9,000 MW of nuclear plants (and the low-cost Kincaid and State Line plants) with a dispatch cost below \$15 per MWh./34/ It controls no generation between \$15 and \$25 per MWh, and less than 500 MW of plant with a dispatch price between \$25 and \$30 per MWh./35/

/33/ I assume, for these purposes, that ComEd and PECO both control (and could withhold) their shares of jointly owned plant. In practice, the unilateral withholding of a share of a jointly owned plant, particularly a nuclear plant, may not be feasible.

/34/ All plant ratings and dispatch costs in the table are from the Appendix A analysis database. Plant ratings are summer values and are derated for forced outages. Variable costs include fuel and variable O&M.

/35/ The almost 500 MW of ComEd generation priced at \$25 to \$30/MWh in Exhibit No. APP-311 represents planned affiliated merchant generation and other purchases from planned units. This is a conservative estimate

Both system lambda data and reported market price data from Power Markets Week indicate that off-peak prices in MAIN typically are about \$15 per MWh. (See Exhibit No. APP-312.) Prices commonly are below \$30 in most other hours except in peak hours in the summer and super-peak hours in shoulder months. Indeed, in the ComEd control area in 1998, system lambdas were above \$30 in less than 300 hours (3 percent of the time). Thus, ComEd controls only about 1,500 MW (the Kincaid and State Line units) that is near-marginal in off-peak hours, 500 MWh of potential future generation that is near-marginal when prices are closer to \$30 per MWh, and only a portion of the capacity sold to EME as near-marginal capacity in the summer super-peak hours when prices can rise rapidly in response to relatively small changes in load or capacity./36/

Q. CAN YOU RELATE COMED'S CAPACITY IN THESE PRICE BANDS TO THE CAPACITY CONTROLLED BY OTHERS IN ITS AREA?

A. Yes. If I define a market area composed of ComEd and its first tier interconnections, ComEd has a 17 percent share of the deep baseload capacity. This is the capacity that is least capable of being economically withheld. Its share of \$20-30 capacity is 16 percent and its share of capacity above \$30 is 13 percent.

Q. ARE THERE ANY OTHER CHARACTERISTICS OF COMED'S CAPACITY THAT MAKE IT DIFFICULT TO WITHHOLD?

A. Yes. Seventy percent of its controlled capacity is nuclear. As discussed by Mr. Naumann, nuclear plant has very long cycle times (i.e., slow rates for increasing and decreasing power levels), creating severe economic penalties for withholding generation. Moreover, nuclear plant is subject to close oversight by the NRC.

of ComEd's future generation/purchase additions for 2001. I am informed that, as of this date, only 62 or 63 MW of this generation is committed for 2001.

/36/ In reviewing the material in Mr. Naumann's testimony, the Commission should bear in mind that because of operational issues, such as the need to maintain a margin of quick reaction reserves, the stated capacity of peakers materially overstates their ability to produce energy in normal conditions.

Q. DOES PECO ALSO HAVE CAPACITY THAT IS DISPROPORTIONATELY DEEP BASELOAD?

A. Yes, albeit to a lesser degree. Almost half of PECO's capacity is nuclear. This, along with low-priced fossil and purchase contracts, constitutes 8 percent of the capacity with dispatch prices below \$15 per MWh in the region consisting of itself and its first tier interconnections. It has 2 percent of the capacity in the \$15-20 dispatch cost range, one percent of the capacity dispatched at between \$20-25, and 5 percent of the capacity in excess of \$30 per MWh.

Q. YOU INDICATED THAT COMED WILL NOT CONTROL SIGNIFICANT AMOUNTS OF PLANT THAT, AS A HYPOTHETICAL MATTER, MIGHT PROFITABLY BE WITHHELD IN ORDER TO INCREASE PRICES. MIGHT IT NOT BE THE CASE THAT COMBINING THE COMED DEEP BASELOAD PLANT WITH PECO'S LARGER AMOUNTS OF CYCLING PLANT INCREASES PECO'S INCENTIVE TO INCREASE PRICES?

A. That is a hypothetical possibility. However, because of the distance between PECO and ComEd, the withholding of PECO capacity could increase the value of ComEd generation only if the withholding affected prices over a very wide area. At a bare minimum, this area would have to encompass PJM, ECAR and MAIN. As can be computed from Exhibit No. APP-311, Applicants control only 9 percent of the capacity in this region and only 8 percent of the capacity with dispatch prices above \$30 that is marginal or near-marginal at times conducive to price spikes. Applicants' market share is greatest in the \$25-30 band, still only about 20 percent, and their share of economic capacity at such prices in this market area is less than 10 percent. Moreover, PECO's mid-merit capacity is on the eastern edge of this large region, whereas ComEd's capacity is on the western edge. If PECO were hypothetically to drive up prices in eastern PJM by withholding capacity, any transmission constrain between ComEd and PECO would disconnect the prices in the PECO and ComEd regions./37/

/37/ Nodal prices in the PJM power exchange demonstrate this effect. When there is a constraint between PJM-East and other parts of PJM, prices in the east and prices for power in other regions (and for power imported from

Q. WHAT DO YOU CONCLUDE FROM THIS ASSESSMENT OF THE TYPES OF GENERATION CONTROLLED BY APPLICANTS?

A. The merger does not materially increase concentration of control over the types of generation most likely to be withdrawn in order to increase prices. Hence, it does not increase Applicants' ability to increase prices. Because of the geographic distance between PECO's mid-merit generation and ComEd's generation, any hypothetical ability that PECO might have to increase prices in PJM-East would be unlikely to have a significant effect on prices received for output from the ComEd facilities in Illinois. Hence, the merger has little effect on the incentive to increase prices.

Other Potential Market Power Issues

Q. ARE THERE ANY OTHER ISSUES THAT WOULD AFFECT COMPETITION IN THE RELEVANT MARKETS?

A. As noted earlier, I have not formally analyzed competition in long-term markets which the Commission has found to be presumptively competitive (although I discuss entry in this section as well). The possible exceptions to this presumption arise from vertical issues -- control over transmission, sites or fuels supplies, that might block entry in the long term.

Q. WHAT IS THE ISSUE CONCERNING AN APPLICANT'S CONTROL OVER ESSENTIAL FUELS OR DELIVERY SYSTEMS?

A. In the context of long term capacity markets, the issue is whether the merging parties can foreclose or impede the entry of competing generators.

Q. DO THESE APPLICANTS HAVE THE ABILITY TO FRUSTRATE ENTRY DUE TO THEIR CONTROL OVER FUELS OR FUEL DELIVERY SYSTEMS?

A. No. PECO Energy Distribution is an LDC covering a limited area in Eastern Pennsylvania. Its larger customers of the type that would include even small electric

the west of PJM) are disconnected. Any action taken to further increase prices in the east will have no effect on prices beyond the constraint.

generators are free to purchase their own gas supplies. PECO has offered transportation services to its larger commercial and industrial customers since 1985. Currently over 700 customers obtain their gas commodity from third party suppliers. Beginning in July 2000, PECO Energy will offer transportation services to all customers, including residential customers.

PECO's LDC activity is easily bypassed by large customers. While PECO Energy is permitted to discount its transportation rate to meet competitive pressures, there are a number of customers on PECO's system who have opted to bypass the utility completely and connect directly to an interstate gas pipeline (e.g., Sun Oil and Tosco). Existing larger customers often use the threat of bypass to achieve reduced rates (e.g., Lukens Steel, USX, PQ Corporation and PECO's own Eddystone and Cromby generating stations) and PECO is currently in active negotiations with several other customers (e.g., the Merck IPP and Smith Kline Beecham.) As noted earlier, PECO provides gas distribution service to only one electric generator, a 28 MW facility owned by Merck. Newly built facilities could readily avoid PECO's small service area or connect directly to an interstate pipeline.

Q. ARE THERE ANY OTHER VERTICAL ISSUES OF CONCERN IN THIS MERGER?

A. No. This merger should raise no other vertical market power concerns. PECO has already turned the operational control of its transmission system over to a the PJM ISO. ComEd has committed to join the MISO and to creating an independently owned and governed institution under MISO to which it will turn over its retained control area operator functions. Further, Commission Orders No. 888 and 889 ensure that transmission owners such as Applicants will not be able to foreclose access to any essential transmission facilities, including connecting new merchant plants to their grids. Normally and in the absence of special circumstances, the Commission has found that ISO commitments are sufficient to extinguish vertical market power issues arising from control of transmission. More specific reasons why Applicants cannot exercise vertical market power by control over transmission are discussed extensively by Mr. Naumann.

Q. DO APPLICANTS EXERCISE CONTROL OVER THE AVAILABLE GENERATION SITES?

A. No. I was unable to identify any special barriers to entry in this regard.

The geographic areas served by these Applicants are relatively small and the geographic area that must be included in any market definition that contains both Applicants encompasses quite a large region and includes many control areas. Entrants who could compete in areas potentially affected by this merger would not need to locate new facilities in Applicants' service areas or connect to Applicants' transmission systems. In any event, Applicants' open access transmission, overseen by the Commission, and their ISO membership and commitments should moot any concerns in this regard.

Q. EARLIER, YOU STATED THAT THE COMMISSION HAS FOUND LONG-TERM MARKETS TO BE PRESUMPTIVELY COMPETITIVE. PLEASE ELABORATE.

A. In Order No. 888, the Commission in referring to a decision in Entergy Services, Inc., noted that "after examining generation dominance in many different cases over the years, we have yet to find an instance of generation dominance in long-run bulk power markets."/38/ In the Merger NOPR, the Commission stated that "[a]s restructuring in the wholesale and retail electricity markets progresses, short-term markets appear to be growing in importance. The role of long-term capacity markets appears to be diminishing."/39/

Q. IS THERE ANY EVIDENCE THAT THERE WILL BE ENTRY INTO THE MAIN, PJM AND IN-BETWEEN ECAR AND SERC MARKETS WITHIN THE NEXT FEW YEARS?

A. Yes. First, entry can be accomplished in far shorter periods of time than were required with the large coal and nuclear generation facilities that used to be the chosen technology. According to the Department of Energy, conventional and advanced combined cycle

/38/ Order No. 888 at 31,649 n.86 (citation omitted).

generating units have a lead time of three years, and combustion turbines (i.e., peaking capacity) have a lead time of only two years./40/ The Elwood and Rocky Road merchant plants were installed in less than two years on the ComEd system.

There is substantial evidence that additional entry will occur. I identified more than 50,000 MW of planned new generating capacity in the relevant portions of the Eastern Interconnection in the next few years./41/ (See Exhibit No. APP-314.) This includes about 3,500 MW in the ComEd control area. The fact that much of this planned capacity is not yet in the construction phase demonstrates that the near term prospect of opening up competition in generation, a recent phenomenon, is a major spur to the development of new merchant capacity.

VII. CONCLUSION

Q. PLEASE SUMMARIZE YOUR RECOMMENDATION.

A. I recommend that the Commission determine that this merger will not have an adverse effect on competition in markets subject to its jurisdiction.

Q. DOES THIS COMPLETE YOUR TESTIMONY?

A. Yes.

/39/ Merger NOPR, op. cit., at 20.

/40/ Assumptions to the Annual Energy Outlook 1999, Energy Information Administration, U.S. Department of Energy, December 1998, p. 59.

/41/ In my analyses, I included only about 20,000 MW of planned generating capacity, representing those units that are likely, given milestones reached to date.

EXHIBITS

Exhibit No. APP-301 Resume of William H. Hieronymus

Exhibit No. APP-302 Data and Methodology

Exhibit No. APP-303 Description of CASm Model

Exhibit No. APP-304 List of Utilities and Abbreviations

Exhibit No. APP-305 Economic Capacity (no additional interconnection)

Exhibit No. APP-306 Economic Capacity (100 MW West to East path)

Exhibit No. APP-307 Economic Capacity with Mitigation

Exhibit No. APP-308 Sensitivity: TTC

Exhibit No. APP-309 Sensitivity: No Transmission Costs

Exhibit No. APP-310 Available Economic Capacity

Exhibit No. APP-311 Regional Generating Plant Characteristics

Exhibit No. APP-312 Competitive Market Price Data

Exhibit No. APP-313 Planned Generating Capacity

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Commonwealth Edison Company)
)
) Docket No. EC00-_____

APPLICATION OF COMMONWEALTH EDISON COMPANY
FOR AUTHORIZATION TO TRANSFER JURISDICTIONAL ASSETS

Pursuant to Section 203 of the Federal Power Act, 16 U.S.C. (S) 824b (1994) (the "Act"), and Part 33 of the Regulations of the Federal Energy Regulatory Commission ("FERC" or the "Commission"), 18 C.F.R. Part 33 (1999), Commonwealth Edison Company ("ComEd") requests authorization to transfer certain discrete and limited jurisdictional facilities (the "Transfer") as part of a restructuring plan to separate ComEd's generation and power marketing businesses from its transmission and distribution businesses. The jurisdictional facilities involved in the Transfer are the step-up transformers, generation tie-lines and related facilities associated with various generating units that will be transferred.

In accordance with the restructuring plan, ComEd will transfer its nuclear generating assets and will assign its power purchase agreements to an affiliated generating and wholesale marketing company. The Transfer and proposed restructuring will have no effect on ComEd's rates, the service ComEd provides its wholesale and retail customers, competition, or on federal and state regulators' ability to regulate ComEd. Consistent with authorization to accomplish the Transfer, ComEd and its affiliates will file appropriate affiliate sales and interconnection agreements at a future date with the Commission under Section 205 of the Act.

Although the Commission has applied its Merger Policy Statement to similar asset transfers in the past,^{/1/} the Transfer does not raise any issues under the Policy Statement that should require lengthy or detailed review. In particular:

- . The Transfer will not raise any market power issues because it is strictly internal in nature and will not result in any change in market power concentration of ComEd and its affiliates, nor in the control of transmission facilities that could be used to manipulate the market.
- . The Transfer will not have any effect on the rates paid by ComEd's wholesale and retail customers.
- . The Transfer will not impair effective regulation of ComEd and its affiliates at either the federal or state level.

ComEd's proposed Transfer and restructuring are similar to restructurings the Commission already has authorized for other public utility systems providing wholesale and retail electric service in the State of Illinois. Central

Illinois Public Service Company, et al., Order Authorizing Disposition Of

Jurisdictional Facilities, 89 FERC (P) 62,125 (November 15, 1999); Illinois

Power Company, et al., Order Authorizing Disposition of Jurisdictional

Facilities, 88 FERC (P) 62,229 (September 10, 1999).

I. ComEd And The Transfer

A. ComEd is a corporation organized and existing under the laws of the State of Illinois, with its principal office in Chicago, Illinois. ComEd is a majority-owned subsidiary (greater than 95%) of Unicom Corporation ("Unicom"). ComEd is engaged in generating, transmitting and distributing electric energy to the public in northern Illinois and is a public utility under Section 201 of the Act. ComEd's public utility affiliates are Commonwealth Edison Company of Indiana, Inc., and Unicom Power Marketing, Inc. ("UPM").

^{/1/} Inquiry Concerning the Commission's Merger Policy Under the Federal Power Act: Policy Statement, Order No. 592 III FERC Stats. & Regs. (P) 31,044 (1996) (codified at 18 C.F.R. (S) 2.26) (hereinafter, the "Merger Policy Statement").

Currently, ComEd owns 9,214 MW of generating capacity, all of which is located at nuclear plants in Illinois. Prior to this year, ComEd sold approximately 1,500 MW of fossil-fueled generation to two separate unaffiliated purchasers/2/; and on December 15, 1999, ComEd sold its remaining 9,772 MW of non-nuclear generation to another unaffiliated purchaser, Edison Mission Energy, Inc. ("Mission")./3/ In connection with the sale to Mission, ComEd has entered into a series of power purchase agreements with Mission intended to maintain ComEd's ability to reliably serve its load during the beginning years of Illinois' transition to full retail access./4/ These agreements provide ComEd with the right to dispatch and receive electric energy from the divested generation through the summer of 2004.

This Application reflects a restructuring plan with respect to ComEd's remaining generation, all of which is nuclear and which is located at six stations (LaSalle, Quad Cities, Dresden, Byron, Braidwood and Zion/2/). This generation will be transferred by ComEd, directly or indirectly, to an affiliated generating and wholesale marketing company. Commission

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/2/ ComEd sold its 1,108 MW Kincaid coal-fired facilities to Kincaid Generation, L.L.C., an indirect subsidiary of Dominion Resources, Inc. Kincaid Generation, L.L.C., 78 FERC (P) 62,060 (1997). Commonwealth Edison

Company of Indiana, Inc. sold its 490 MW State Line coal-fired generating facilities to State Line Energy, L.L.C., an indirect subsidiary of The Southern Company. State Line Energy, L.L.C., 78 FERC (P) 62,037 (1997).

ComEd has rights to capacity and energy from Kincaid and State Line pursuant to power purchase agreements that extend through 2013.

/3/ By an order issued on November 8, 1999, the Commission approved ComEd's disposition of jurisdictional assets associated with the generating units that were sold to Mission. Commonwealth Edison Co., et al., 89 FERC (P)

62,105 (1999). By an order issued on August 3, 1999, the Illinois Commerce Commission found that ComEd's sale of this generation to Mission "will not render ComEd unable to provide its tariffed services in a safe and reliable manner." Commonwealth Edison Co., ICC Docket No. 99-0273 and 99-0282,

Ordering (P) 5.

/4/ As discussed below, retail access began in Illinois on October 1, 1999.

/5/ The Zion Nuclear Station has been retired from service. No facilities located at Zion that are jurisdictional are included in the Transfer.

authorization is required to transfer the step-up transformers, generation tie-lines and related facilities at the stations. ComEd also will assign its power purchase agreements, including those related to the Kincaid and State Line units and the Mission divestiture identified above, to Genco. These transfers will occur at or about the time Unicom's pending merger with PECO Energy Company becomes effective. This merger, which is described below, was announced on September 23, 1999.

B. ComEd serves approximately 3.4 million retail customers in Illinois. The Illinois legislature has enacted a retail access program in Illinois. Starting on October 1, 1999, a significant number of retail customers in the state became eligible for direct access: (a) those with peak loads of four MW or greater, (b) a percentage of commercial customers with ten or more locations with peak load of 9.5 MW or greater, and (c) a percentage of other non-residential customers. The balance of ComEd's non-residential customers will become eligible for direct access by December 31, 2000, and all of its residential customers by May 1, 2002. ComEd provides unbundled retail transmission service in Illinois under the rates, terms and conditions of ComEd's open-access transmission service tariff ("OATT") on file with the Commission. The Commission has accepted changes to the OATT to implement retail transmission access. Commonwealth Edison Co., 88 FERC (P) 61,296 (1999). As a part of the Illinois retail access program, ComEd's retail rates are capped through the end of 2004.

C. ComEd is a charter member of the Midwest Independent Transmission System Operator, Inc. ("MISO"), an independent system operator established pursuant to Commission orders in Docket No. ER98-1438. Midwest Independent Transmission System Operator, Inc., 84 FERC (P) 61,231, order on reconsideration, 85 FERC (P) 61,250, order on reh'g, 85 FERC (P) 61,372 (1998). The MISO is expected to begin operation in mid-2001. ComEd has committed to transfer control of its transmission facilities to the MISO. ComEd is known for its

commitment to the success of the MISO and for endeavoring to improve the MISO so that the Commission has no reservations concerning its effectiveness. ComEd has contributed personnel to the MISO, and ComEd's parent company, Unicom, has guaranteed \$50 million in loans on behalf of the MISO.

In conjunction with its commitment to the MISO, ComEd is actively and aggressively promoting the development of an "ITC" (an independent transmission company). On December 13, 1999, ComEd and three other Midwest public utilities, IES Utilities, Inc., Interstate Power Company and MidAmerican Energy Company (which are unaffiliated with ComEd), filed a request for a declaratory order with the Commission in Docket No. EL00-25-000. The joint applicants seek an order declaring that an ITC, coupled with oversight by the MISO, will satisfy the minimum characteristics and functions of an authorized RTO. These characteristics and functions are set forth in Order No. 2000 dated December 20, 1999 in Docket No. RM99-2-000. ComEd hopes that the declaratory order request will induce more transmission owners in the Midwest (a) to voluntarily commit to the separation of their transmission and generation assets, and (b) to support efficient operation of the regional grid under MISO oversight. The proposed ITC would mitigate many of the concerns that have been raised regarding the MISO, including concerns regarding market organization and congestion management in the Midwest. The ITC would be independent of any market participant and would operate under MISO oversight.

D. On November 22, 1999, in Docket No. EC00-26-000, ComEd and PECO Energy Company ("PECO"), on their behalf and on behalf of their public utility affiliates, tendered for filing an application pursuant to Section 203 of the Act for an order approving the proposed merger which was announced in late September of this year. Upon consummation of the proposed merger, the companies will form a registered public utility holding company system. ComEd and PECO have requested that the Commission approve their application in time for the

merger to close by September 2000. The merger application contains general descriptions of (a) ComEd's proposed restructuring and (b) a similar proposed restructuring by PECO, which on December 16, 1999 filed a separate application in Docket No. EC00-38-000 for authorization to undertake its restructuring. In the merger application, ComEd and PECO further explain that these restructurings will be implemented at or about the time the merger closes. Unlike ComEd's proposed restructuring, PECO's restructuring will occur independent of the proposed merger of ComEd and PECO's systems./6/

Since the respective ComEd and PECO restructurings are internal reorganizations, they do not present the need for the in-depth review that the merger of two independent companies may warrant. ComEd anticipates that authorization to complete the proposed Transfer will be forthcoming, perhaps by order issued under authority delegated to Commission Staff, in advance of Commission action on the merger application.

II. Genco

As noted above, PECO is moving forward with a plan to transfer all of its generating assets to a generating operating company. PECO will implement its plan irrespective of the proposed merger of PECO and ComEd into a new public utility holding company system, and PECO has tendered its own application with the Commission for authorization under Section 203 of the Act (jurisdictional assets are included in PECO's restructuring).

About the same time the merger becomes effective, ComEd will effect the proposed Transfer, whereby the jurisdictional assets identified in this Application will be transferred, directly or indirectly, to the same generating company being formed by PECO's restructuring

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/6/ Assuming approval by the boards of directors of Unicom and ComEd and that all required regulatory authorizations are obtained, ComEd's restructuring will occur after ComEd's receipt of a favorable ruling from the Internal Revenue Service on the tax treatment of nuclear decommissioning funds associated with the nuclear assets that will be transferred.

plan, or a subsidiary of such generating company (hereafter, "Genco"). Genco will own generation and an inventory of power purchase agreements and will perform the wholesale power marketing function for the public utility holding company system. In addition to selling power to unaffiliated purchasers at market-based rates, Genco will provide power to ComEd in order for ComEd to meet its ongoing wholesale and retail supply obligations. (Genco likewise will supply power to PECO.) Until the Commission determines that the market for ancillary services in the Midwest is competitive, ComEd, in its capacity as a transmission provider, will purchase ancillary services from Genco at cost-based rates that are in conformance with Allegheny Energy Supply Company and West Penn Power

Company, 89 FERC (P) 61,258 (December 10, 1999) ("Allegheny Energy Supply")

(authorizing affiliated sale of ancillary services at cost-based rates to enable transmission provider to meet its OATT obligations).

Genco's sales to ComEd (and PECO) will be made under Commission-authorized rate schedules, which will be consistent with the Commission's ratemaking precedents and policies under Section 205 of the Act. ComEd and its affiliates will make the appropriate filings under Section 205 of the Act at a time closer to the proposed effective date of the Transfer. In the meanwhile, there will be no interruption in ComEd's plans to transfer control of its transmission facilities, preferably to an ITC under the oversight of the MISO, or alternatively to the MISO when it becomes effective if the ITC ComEd envisions proves infeasible for reasons beyond ComEd's control.

III. Information Required By Sections 33.2 And 33.3 Of The Commission's Regulations

Exhibits B through F and Exhibit I are attached. Also, a portion of Exhibit G is attached. To the extent necessary, ComEd requests waiver of the Commission's regulations to permit the Commission to accept Exhibits B through G and Exhibit I as filed. In addition, ComEd is not filing Exhibits A and H at this time. Because ComEd does not believe that the lack of these

exhibits will impair the Commission's ability to determine that the proposed Transfer is consistent with the public interest, ComEd requests a waiver, to the extent considered necessary, of the requirement to file these exhibits at this time. ComEd, nevertheless, will supply these exhibits as they become available if the Commission does not grant the requested waiver. Information required by Section 33.2 is set out below. To the extent necessary, ComEd requests waiver of the Commission's regulations to permit the Commission to accept the following information as in compliance with the Commission's regulations.

A. Names And Addresses Of Principal Business Offices

Commonwealth Edison Company
10 South Dearborn Street, P.O. Box 767
Chicago, IL 60690

B. Names And Addresses Of Persons Authorized To Receive Notices And Communications With Respect To The Application

Rebecca J. Lauer, Esq.
Peter J. Thornton, Esq.
Commonwealth Edison Company
125 South Clark Street
Room 1500
Chicago, Illinois 60603
312-394-3517 - voice
312-394-3950 - fax

Robert S. Waters, Esq.
Jones, Day, Reavis & Pogue
51 Louisiana Avenue, N.W.
Washington, D.C. 20001
202-879-3687 - voice
202-626-1700 - fax

C. Designation Of Territories Served, By Counties And States

ComEd provides electric service in northern Illinois, in all or portions of the following 25 counties: Boone, Bureau, Carroll, Cook, DeKalb, DuPage, Ford, Grundy, Henry, Jo Daviess, Kane, Kankakee, Kendall, LaSalle, Lake, Lee, Livingston, Marshall, McHenry, Ogle, Stephenson, Whiteside, Will, Winnebago, and Woodford. ComEd also provides wholesale

service for the requirements of the following municipalities: Batavia, Naperville, and St. Charles, Illinois; and Dowagiac, Michigan.

D. Description Of Facilities Owned Or Operated For Transmission Of Electric Energy Or The Sale Of Electric Energy At Wholesale In Interstate Commerce

As of December 31, 1998, ComEd owned approximately 5,400 circuit miles of high voltage lines that are 138 kV and above. The applicable generating facilities from which ComEd makes wholesale sales are described in a preceding section of this Application.

E. Description Of Transaction And Statement As To Consideration

The Transfer is described above. The Transfer does not involve a sale or disposition to an unaffiliated purchaser and therefore does not raise any issue of consideration for the transaction. The Transfer is voluntary.

F. Description Of Facilities Involved In The Transaction

The jurisdictional facilities of ComEd are described herein. See also Exhibit I hereto.

G. Statement Of The Cost Of The Facilities Involved In The Transaction

The original cost of the facilities involved in the transaction is approximately \$52,000,000.

H. Statement As To The Effect Of The Transaction Upon Any Contract For The Purchase, Sale, Or Disposition, Or Interchange Of Electric Energy

The Transfer will not have a material effect on any contract for the purchase, sale, or interchange of electric energy.

I. Statement As To Other Required Regulatory Approvals

The Applicants must file a notice of transfer of assets with the Illinois Commerce Commission. The Nuclear Regulatory Commission must approve the transfer of the operating licenses for ComEd's nuclear generating stations. On December 21, 1999, ComEd filed the

related filing requesting approval from the Nuclear Regulatory Commission ("NRC"). A copy of the application portion of that NRC filing is included herein in Exhibit G.

J. Facts Showing That The Transfer Is Consistent With The Public Interest

The facts relied upon to show that the proposed Transfer is consistent with the public interest are set forth in this Application. The Transfer is strictly internal, will not affect competition in either the wholesale or retail markets, will not have any effect on ComEd's ratepayers and will not affect federal or state regulation. With respect to ComEd's post-Transfer sale of ancillary services under ComEd's OATT, see Section II above, citing Allegheny Energy

Supply, supra.

K. Brief Statement Of Franchises Held

In the City of Chicago, ComEd operates under a nonexclusive franchise ordinance effective until December 31, 2020. Utility operations outside of the City of Chicago are conducted in municipalities under nonexclusive franchises and, where required, under certificates of convenience and necessity granted by the ICC. ComEd holds nonexclusive franchises and/or certificates of convenience and necessity in 395 municipalities outside the City of Chicago. The following summarizes the expiration dates of ComEd's franchises:

Franchise Expiration Period	Number of Municipalities
1999-2006	2
2007-2017	10
2018-2028	3
2029-2039	1
2040 and subsequent years	376
No stated time limit	3

L. Form Of Notice

ComEd has included a form of notice, in both hard copy and on diskette, suitable for publication in the Federal Register.

IV. Conclusion

For the reasons set forth herein, ComEd requests waiver of the Commission's filing requirements as deemed necessary and the issuance of an order authorizing the Transfer.

Respectfully submitted,

COMMONWEALTH EDISON COMPANY

By: _____

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Submitted: December 22, 1999

UNITED STATES OF AMERICA
 BEFORE THE
 FEDERAL ENERGY REGULATORY COMMISSION

PECO Energy Company)
)
 PECO Energy Power Company)
 Susquehanna Power Company)
)
)

Docket No. EC00_____

APPLICATION OF PECO ENERGY COMPANY
 AND ITS AFFILIATES AND SUBSIDIARIES FOR AUTHORIZATION
 TO IMPLEMENT PLAN OF CORPORATE RESTRUCTURING

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TO IMPLEMENT PLAN OF CORPORATE RESTRUCTURING

Pursuant to Section 203 of the Federal Power Act, 16 U.S.C. (S) 824b, and Part 33 of the Regulations of the Federal Energy Regulatory Commission ("FERC" or the "Commission"), 18 C.F.R. Part 33, PECO Energy Company and its affiliates and subsidiaries (collectively, "PECO Energy") request authorization to implement a plan of corporate restructuring under which PECO Energy will establish its generation and power marketing businesses, its transmission and distribution businesses, and its unregulated businesses as separate subsidiaries of a new holding company. As part of the PECO Energy restructuring plan, PECO Energy will transfer control over FERC-jurisdictional facilities to subsidiaries of a newly-formed holding company. PECO Energy requests Commission authorization to effect such transfers.

Also as part of the PECO Energy restructuring plan, PECO Energy Power Company ("PECO Energy Power") and Susquehanna Power Company ("Susquehanna Power"), both of which are public utility subsidiaries of PECO Energy, plan to transfer control over FERC-jurisdictional facilities to one of the new holding company's subsidiaries. In the alternative, PECO Energy may transfer control over PECO Energy and Susquehanna Power, in their entirety, to a new subsidiary of the holding company. PECO Energy Power and Susquehanna Power, or in the alternative, PECO Energy, request authorization to effect these transfers of control over FERC-jurisdictional facilities.

The PECO Energy restructuring plan will permit PECO Energy to better compete in the increasingly competitive electric industry, but it will have no negative effect on competition or on PECO Energy's rates, the service PECO Energy provides its wholesale and retail customers, or on federal and state regulators' ability to regulate PECO Energy's jurisdictional facilities and activities. The Commission should find PECO Energy's proposed restructuring plan to be consistent with the public interest and authorize it.

On November 22, 1999, PECO Energy and Commonwealth Edison Company ("ComEd") jointly applied to the Commission for authorization under Section 203 of the Federal Power Act to complete the proposed merger of PECO Energy and Unicom Corporation ("Unicom"), ComEd's corporate parent./1/ PECO Energy's restructuring and its merger with Unicom are separate transactions. Assuming receipt of required regulatory approvals, PECO Energy expects that its proposed restructuring will occur contemporaneously with its merger with ComEd, but the restructuring is not conditioned on completion of the merger, and in the event the merger is not completed, PECO Energy still will proceed with its restructuring. PECO Energy therefore requests that the instant dockets not be consolidated with the merger filing in Docket No. EC00-26-000.

PECO Energy plans to complete its restructuring by September 2000 and requests timely FERC action in the instant dockets to permit such a schedule. For purposes of this filing, PECO Energy refers to its anticipated transactional closing date as the "Restructuring Closing Date."

- - - - -
1. The PECO Energy and ComEd merger filing is pending in Docket No. EC00-26-000.

I. SUMMARY OF FILING AND REQUESTED ACTION

A. Purpose of Filing

PECO Energy seeks authorization to implement the restructuring of the existing PECO Energy into functionally distinct and legally separate subsidiaries under a holding company structure. Under this proposed restructuring, PECO Energy's business operations will be restructured into three subsidiaries of a new holding company, which PECO Energy expects will be named "Exelon Corporation" (hereinafter, "Exelon Corp."): (1) a distribution and transmission company, which will retain the name "PECO Energy Company"; (2) a generation and power marketing company, which as of yet is unnamed but which is called "GenCo" for purposes of this application; and (3) an unregulated ventures company, which also is yet unnamed but which is called "VenturesHoldCo" for purposes of this application. Under the PECO Energy restructuring plan, all the generating facilities PECO Energy or its subsidiaries currently own or control will be transferred to GenCo, including those that are part of FERC-licensed hydroelectric projects. The existing PECO Energy Company, which will emerge from the restructuring with its name unchanged, will be the Exelon Corp. transmission and distribution company subsidiary.

B. Requested Action

PECO Energy and its affiliates respectfully request the Commission to specifically authorize, pursuant to Section 203 of the Federal Power Act, the following transfers of FERC-jurisdictional facilities:

1. PECO Energy requests the Commission to grant authorization to PECO Energy to implement a plan of corporate restructuring under which PECO Energy will form Exelon Corp. as a new holding company and separate its generation and power marketing businesses from its transmission and distribution businesses as GenCo and PECO Energy Company, respectively, which will exist as separate subsidiaries of Exelon Corp.

2. PECO Energy requests the Commission to grant authorization for PECO Energy to transfer to GenCo PECO Energy's existing wholesale power sales tariff, the service agreements thereunder, and certain other rate schedules currently on file with FERC./2/
3. PECO Energy requests the Commission to grant authorization for PECO Energy to transfer to GenCo certain limited transmission facilities.
4. PECO Energy Power and Susquehanna Power request the Commission to grant authorization to transfer to GenCo the FERC-jurisdictional facilities associated with the Conowingo Project, a FERC-licensed hydroelectric project comprising a dam, generating facilities, and transmission facilities (the "Conowingo Project"), which FERC-jurisdictional facilities include transmission facilities and a rate schedule on file with FERC./3/
5. In the alternative to the authorization requested in paragraph 4, above, PECO Energy requests the Commission to grant authorization for PECO Energy to transfer to GenCo control over PECO Energy Power and Susquehanna Power as subsidiaries of GenCo./4/
6. PECO Energy requests the Commission to grant authorization to transfer to GenCo certain transmission facilities associated with the Muddy Run Pumped Storage Project (the "Muddy Run Project")./5/

2. GenCo will file an application with FERC under Section 205 of the Federal Power Act prior to the Restructuring Closing Date for market-based rate authority so that it may assume the PECO Energy tariff, service agreements, and other rate schedules. PECO Energy Company will file a market-based rate wholesale power sales tariff to replace the tariff transferred to GenCo.

3. PECO Energy Power and Susquehanna Power will make application in a separate docket under Part 1 of the Federal Power Act for authorization to transfer their Conowingo Project FERC licenses to GenCo.

/4/ PECO Energy requests alternative authorizations for the transfer of the FERC-jurisdictional facilities of PECO Energy Power and Susquehanna Power, in paragraph 4, and for the transfer of PECO Energy Power and Susquehanna Power in their entirety to GenCo, in paragraph 5, because their post-restructuring placement in the Exelon Corp. corporate structure currently is undecided.

5. PECO Energy will make application in a separate docket under Part 1 of the Federal Power Act for authorization to transfer its Muddy Run Project FERC license to GenCo.

7. Pursuant to Section 203 of the Federal Power Act, PECO Energy, on GenCo's behalf, requests the Commission to grant authorization for GenCo to lease to PECO Energy Company certain transmission facilities associated with the Conowingo Project and the Muddy Run Project.

II. INFORMATION ABOUT PECO ENERGY AND AFFILIATES

The following information is provided in detail in the testimony of Kenneth G. Lawrence, President of PECO Energy Distribution, an unincorporated division of PECO Energy, submitted with this Application as Exhibit KGL-1 (Lawrence) (the "Lawrence Testimony").

A. PECO Energy Company

PECO Energy Company is a corporation organized under the laws of the Commonwealth of Pennsylvania. PECO Energy is a vertically-integrated public utility that historically has provided regulated retail electric and gas services to customers in franchised service territories in southeastern Pennsylvania. PECO Energy serves approximately 1.5 million electricity customers and 400,000 natural gas customers.

PECO Energy's retail activities are subject to regulation by the Pennsylvania Public Utility Commission ("PaPUC"). Pursuant to the Electricity Generation Customer Choice and Competition Act (the "Competition Act"), and as a part of a PaPUC-approved settlement (the "PECO Energy Retail Restructuring Settlement"), PECO Energy has implemented a retail access program under which retail electric consumers are given the right to purchase their electric generating supply requirements from any PaPUC-licensed generation supplier. Under the program, PECO Energy is phasing-in full retail access over two years. As of the date of this application, two-thirds of the retail loads in PECO Energy's service territory are free to choose their electric generation provider. By January 2, 2000, all retail electric customers in PECO Energy's territory will have that freedom.

PECO Energy remains the provider of electric distribution services in its service territory. As part of the restructuring of the Pennsylvania utility market and the PECO Energy Retail Restructuring Settlement, retail electric ratepayers received a rate decrease in 1999 and will receive another rate decrease in 2000, PECO Energy's distribution charges are capped through June 30, 2005, and generation charges, including those associated with stranded generation investment, are capped through 2010.

In addition, the Commonwealth of Pennsylvania recently enacted legislation under which all retail gas customers will also be entitled to purchase their gas supply requirements from alternative suppliers. Upon the implementation of the legislation, PECO Energy will not hold any exclusive franchises to sell gas to retail customers, although it expects it will serve as provider of last resort to its existing retail gas customers. PECO Energy will continue to provide distribution services to all retail customers.

PECO Energy owns transmission facilities located in the Pennsylvania-New Jersey-Maryland control area ("PJM"), but PECO Energy has transferred control over its transmission facilities to the PJM independent system operator (the "PJM ISO"). The PJM ISO offers transmission service over those PECO Energy transmission facilities and the transmission facilities of other PJM regional transmission owners under the PJM Open Access Transmission Tariff on file with FERC. Pennsylvania-New Jersey-Maryland Interconnection, et al., 81 FERC (P)

61,257 (1997).

PECO Energy markets wholesale electric capacity and energy on a national basis. PECO Energy has a market-based rate wholesale power sales tariff on file with FERC under which PECO Energy is authorized to make market-rate wholesale sales of power. PECO Energy Co., 74 FERC (P) 61,336 (1996). PECO Energy's

wholesale marketing organization -- the "Power Team," an unincorporated division of PECO Energy -- is a leading supplier of wholesale electricity to

customers in the continental United States and Canada, marketing and trading electric energy in wholesale markets and procuring wholesale electricity for resale to PECO Energy's retail electric customers.

PECO Energy owns generation assets that are operated and maintained by two generation business organizations within PECO Energy, the Power Generation Group ("PGG") and PECO Nuclear. Both PGG and PECO Nuclear are unincorporated operating divisions of PECO Energy. PECO Energy owns approximately 9,200 MW of generating capacity, all of it located in the PJM control area. See Exhibit

KGL-3 (list of PECO Energy generating facilities). On September 27, 1999, PECO Energy entered into agreements with Atlantic City Electric Company and Delmarva Power & Light Company to purchase half of those companies' shares in the Peach Bottom Atomic Power Station, a generating facility in which PECO Energy already owns a 42.49 percent interest./6/ PECO Energy's purchase of these Peach Bottom interests will increase the size of its generating portfolio by approximately 164 MW.

In addition to these roles, PECO Energy is the parent company of PECO Energy Power and Susquehanna Power, which own the Conowingo Project, a hydroelectric generating plant and associated facilities located on the Susquehanna River near Conowingo, Maryland. PECO Energy also owns Horizon Energy Company d/b/a Exelon Energy ("Exelon Energy"), which is authorized to sell wholesale electric capacity and energy at market-based rates/7/ but which conducts business

6 . On December 9, 1999, PECO Energy, Atlantic City Electric Company, and Delmarva Power & Light Company jointly filed an application with FERC under Section 203 of the Federal Power Act for authorization to complete the transaction involving the Peach Bottom plant.

/7/ Horizon Energy Co., 81 FERC (P) 61,368 (1997).

primarily as a retail power marketer./8/

B. PECO Energy Ventures

PECO Energy owns or participates in numerous unregulated ventures, including several businesses related to energy and energy-related services, communications, and infrastructure services.

As noted, PECO Energy owns Exelon Energy, which is licensed by the PaPUC as a retail electric generation supplier and serves retail energy customers in PECO Energy's service territory as well as in other parts of Pennsylvania. Exelon Energy's retail activities in Pennsylvania are subject to regulation by the PaPUC. In addition, Exelon Energy competes for retail customers in other states that have implemented retail access. Exelon Energy's retail activities in other states generally are subject to regulation by the public utility bodies of those states.

PECO Energy has partnered with firms such as AT&T Corporation and Adelphia Business Solutions, Inc., in ventures that provide local and long-distance telephone service and wireless personal communications services in the Philadelphia area. Other unregulated subsidiaries of PECO Energy provide network distribution infrastructure services, equipment leasing services, and contracting services.

C. AmerGen Energy Company, L.L.C.

PECO Energy owns a 50% interest in AmerGen Energy Company, L.L.C. ("AmerGen"). In 1997, PECO Energy, British Energy plc, and British Energy Inc., formed AmerGen, a Delaware limited liability company, to acquire and operate power plants in the United States. To date, AmerGen has entered into agreements to purchase several nuclear generating facilities.

/8/ Exelon Energy's wholesale power sales tariff permits it to engage in wholesale balancing transactions in furtherance of its retail marketing activities.

On October 15, 1998, AmerGen entered into an agreement with GPU Nuclear, Inc., Jersey Central Power & Light Company, Metropolitan Edison Company, and Pennsylvania Electric Company to purchase the Three Mile Island Unit 1 Nuclear Generating Facility ("TMI-1"), located near Harrisburg, Pennsylvania. In an order issued April 2, 1999, FERC approved the sale of the jurisdictional facilities associated with the TMI-1 transaction. Jersey Central Power & Light Co., et al., 87 FERC (P) 61,014 (1999). AmerGen expects to complete the TMI-1 transaction in the near future upon satisfaction of the remaining conditions of closing.

AmerGen has entered into agreements with Niagara Mohawk Power Corporation ("Niagara Mohawk") to purchase Niagara Mohawk's ownership share in the Nine Mile Point Unit 1 Nuclear Generating Facility, and with Niagara Mohawk and New York State Electric & Gas Corporation ("NYSEG") to purchase Niagara Mohawk's and NYSEG's ownership shares in the Nine Mile Point Unit 2 Nuclear Generating Facility. The Nine Mile Point facilities are located near Oswego, New York. On October 29, 1999, the Commission approved the sale of the jurisdictional facilities associated with the Nine Mile Point transactions. Niagara Mohawk Power Corp., et al., 89 FERC (P) 61,124 (1999). AmerGen expects to complete the Nine Mile Point transactions upon the receipt of additional required regulatory approvals and satisfaction of additional conditions of closing.

On June 30, 1999, AmerGen executed an asset purchase agreement with Illinois Power Company to purchase the Clinton Power Station, located near Clinton, Illinois. The Commission approved the sale in an order issued November 8, 1999. Illinois Power Co. and AmerGen Energy Co., L.L.C., 89 FERC (P) 62,104 (1999). AmerGen completed its acquisition of Clinton on December 15, 1999.

On October 15, 1999, AmerGen entered into an agreement with GPU Nuclear, Inc. and Jersey Central Power & Light Company to purchase the Oyster Creek Nuclear Generating Station, located in Lacey Township, New Jersey. The closing of this transaction is subject to various regulatory approvals, including FERC approval under Section 203 of the Federal Power Act. AmerGen expects to file an application with FERC for Section 203 approval in the near future.

Finally, on November 17, 1999, AmerGen entered into an agreement with Vermont Yankee Nuclear Power Corporation to purchase the Vermont Yankee Nuclear Power Station, located in Vernon, Vermont. The closing of this transaction is subject to various regulatory approvals, including FERC approval under Section 203 of the Federal Power Act. AmerGen expects to file an application with FERC for Section 203 approval in the near future.

III. THE PROPOSED PECO ENERGY RESTRUCTURING PLAN

A. Background

The PECO Energy restructuring plan is proposed in partial response to the restructurings currently under way in the wholesale and retail sectors of the electric and gas industries in Pennsylvania and elsewhere. Each sector of the electric utility market is becoming increasingly competitive and presents greater market opportunities than ever existed before. PECO Energy seeks to restructure itself to adapt its electric business to these changing markets. The PECO Energy restructuring plan will permit PECO Energy to better compete in these markets and permit it to better serve its customers and its shareholders. The PECO Energy restructuring plan, moreover, implements the transfer of generation assets that PECO Energy contemplated in connection with its retail restructuring initiatives.

B. Description of the Planned Restructuring

As described more fully in the Lawrence Testimony, PECO Energy's business operations currently are functionally separated into three parts: (1) the regulated transmission and distribution function; (2) the generation function; and (3) unregulated ventures. In addition, PECO Energy has additional subsidiaries which own or control certain FERC-jurisdictional facilities in connection with hydroelectric plants. PECO Energy's restructuring plan will, for the most part, formalize this functional separation into separate legal entities. Organizational charts depicting PECO Energy's pre-restructuring and post-restructuring organizational structures are appended to the Lawrence Testimony as Exhibits KGL-2 and KGL-4, respectively. For ease of reference, copies of Exhibits KGL-2 and KGL-4 are provided immediately following the verification page of this application.

If authorized by FERC and PECO Energy's shareholders, the PECO Energy restructuring plan will be implemented in a series of steps. There now exists as a subsidiary of PECO Energy a Pennsylvania corporation currently named "Newholdco Corporation." Newholdco, which after the completion of the restructuring will carry the name "Exelon Corp." as the holding company parent of the restructured PECO Energy companies, currently is a shell corporation that owns no assets and is not a public utility under the Federal Power Act. As the first step of the PECO Energy restructuring plan, PECO Energy and Exelon Corp. will engage in a share exchange in which Exelon Corp. will become the sole holder of all the outstanding common stock of PECO Energy and all the existing holders of PECO Energy common stock will become the common stock shareholders of Exelon Corp./9/ The holders of PECO Energy preferred stock as of the Restructuring Closing Date

9. Immediately following completion of this first step, assuming receipt of all required regulatory and shareholder approvals required to complete the merger with Unicom, Unicom will merge into Exelon Corp. This step will complete the merger. In the event PECO Energy and Unicom are unable to complete their merger, PECO Energy still will complete its restructuring.

will retain their preferred stock.

Following completion of this initial step, PECO Energy will be a wholly-owned subsidiary of Exelon Corp.. In the next steps of the PECO Energy restructuring plan, specific assets held by PECO Energy will be transferred, by operation of Pennsylvania law, to newly-formed subsidiaries of PECO Energy, which in turn will be transferred to Exelon Corp., as follows

- . PECO Energy's generating assets and operations will be transferred to GenCo.
- . PECO Energy's market-based rate wholesale power sales tariff, FERC Electric Tariff Original Volume No. 1, together with the service agreements thereunder and certain other rate schedules on file with the Commission also will be transferred to GenCo so that GenCo can carry on PECO Energy's power marketing business. These tariffs, service agreements, and other rate schedules are identified in the schedules to the form of assumption agreement between PECO Energy Company and GenCo submitted as part of Exhibit H.
- . PECO Energy's unregulated ventures businesses will be transferred to VenturesHoldCo.
- . Certain of PECO Energy's administrative and support functions may be transferred to an unregulated services company, to be called "ServeCo" for purposes of this application.

PECO Energy's transmission and distribution assets and operations will remain with PECO Energy Company, with the exception of the generator step-up and step-down transformers which will be transferred to GenCo along with their associated generating facilities.

Upon completion of these steps in the restructuring, PECO Energy will have formally separated into individual business corporation subsidiaries of Exelon Corp. the business functions that previously operated as separate unincorporated business units of PECO Energy. The existing PECO Energy will emerge from the restructuring as "PECO Energy Company." PECO Energy Company will continue to own all of PECO Energy's transmission and distribution assets, and its

transmission facilities will remain under the operational control of the PJM ISO in accordance with the PJM Open Access Transmission Tariff. PECO Energy Company also will remain regulated by the PaPUC as an electric distribution company and will continue to fulfill its "provider of last resort" functions pursuant to the Competition Act and the PaPUC regulations promulgated thereunder.

PECO Energy's generation assets and operations will be transferred to GenCo, but they will for the most part continue to function and operate as they currently function and operate under PECO Energy's ownership. GenCo will hold the licenses required to operate those plants. PECO Energy's power marketing functions, which currently are pursued through the Power Team, also will be part of GenCo. In addition, PECO Energy Power and Susquehanna Power will transfer all of the Conowingo Project's facilities to GenCo. GenCo then will lease the Conowingo Project's transmission facilities, except for generator step-up and step-down transformers, to PECO Energy Company. In the alternative, PECO Energy will transfer to GenCo control over PECO Energy Power and Susquehanna Power. Also, PECO Energy will transfer all of the Muddy Run Project facilities to GenCo. GenCo then will lease the Muddy Run transmission facilities, except for generator step-up and step-down transformers, back to PECO Energy Company.

PECO Energy's unregulated ventures, including PECO Energy's unregulated retail electric and gas marketing operations, which currently operate through Exelon Energy, will continue to operate as unregulated businesses within the Exelon Corp. corporate structure./10/

10. The exact post-restructuring placement of VenturesHoldCo within the Exelon Corp. corporate structure currently is undecided.

IV. REQUEST FOR APPROVAL OF CORPORATE REORGANIZATION

The Commission has held that corporate reorganizations such as the one proposed by PECO Energy effect a transfer of ownership and control of jurisdictional facilities by virtue of the transfer of ownership of those facilities from existing shareholders to a newly-formed holding company, and therefore they are subject to the Commission's jurisdiction under Section 203 of the Federal Power Act. See, e.g. Central Hudson Gas & Electric Corp., 84 FERC

(P) 62,010 (1998); Boston Edison Co., 80 FERC (P) 61,274 (1997); Central Vermont

Public Service Corp., 39 FERC (P) 61,295 (1987). The Commission will approve

such a disposition in accordance with Section 203 if it concludes that the transaction is consistent with the public interest. See, e.g., Boston Edison

Co., 80 FERC (P) 61,274 (1997). In analyzing the effect of the disposition on

the public interest, FERC will assess three distinct effects: (1) the effect on competition; (2) the effect on rates; and (3) the effect on regulation. If the proposed transaction is determined not to present market power concerns, to adequately protect ratepayers, and not to impair federal and state regulation, the transaction will be deemed to be consistent with the public interest. See,

e.g., Duke Power Co., 79 FERC (P) 61,236 (1997). As the following discussion

demonstrates, PECO Energy's proposed restructuring will have no negative effect on the public interest. To the contrary, it likely will have a beneficial effect.

A. The Effect on Competition

PECO Energy's proposed restructuring will have no negative effect on competition and likely will have a beneficial effect. The PECO Energy restructuring plan will cause a general rearrangement of PECO Energy's corporate structure, but its effect will be limited solely to business units that already are owned or partly owned by PECO Energy, and so it will not combine any entities that currently are, or in the future likely would be, competitors. Accordingly, the PECO Energy proposal will not result in any assumption of horizontal market power by Exelon Corp., PECO Energy Company, or GenCo. The PECO Energy proposal also will not result in Exelon Corp.,

PECO Energy Company, or GenCo gaining control over generation or transmission assets or other inputs to production that PECO Energy currently does not control, and thereby it will not result in Exelon Corp., PECO Energy Company, or GenCo gaining vertical market power in the markets for generation and transmission./11/

The PECO Energy restructuring plan reflects the type of structural changes that are becoming characteristic of the evolving competitive marketplace and that are enhancing competition in the markets for wholesale power. The PECO Energy proposal properly aligns the company's generation and power marketing businesses as part of one entity, the transmission and distribution business as part of another, and competitive ventures as part of a third entity. PECO Energy believes that this alignment of interests as reflected in the corporate overhaul will be beneficial to the competitive marketplace because it will allow each entity to focus exclusively on its business objectives and goals. For instance, PECO Energy expects that GenCo will compete in the wholesale electric marketplace and will be positioned to compete in emerging markets for retail electric sales. By providing a viable competitive alternative to the generation resources of incumbent regulated utilities, GenCo's presence in retail markets that have opened up to competition will further the creation of a robust competitive marketplace at both the retail and wholesale levels.

11. With respect to transmission, PECO Energy further notes that now and in the future, neither the existing PECO Energy nor the post-restructuring PECO Energy Company possesses or will possess transmission market power because control over PECO-owned transmission facilities has been transferred to the PJM ISO, which provides open access transmission service over PECO-owned facilities under the PJM Open Access Transmission Tariff.

B. The Effect on Rates

PECO Energy's restructuring proposal will have no effect on the rates and charges that will be paid by PECO Energy Company's and GenCo's post-restructuring customers. Upon implementation of the PECO Energy restructuring plan, PECO Energy Company and GenCo will transact under rate schedules that will be subject to the jurisdiction, and the scrutiny, of the state and federal regulators to which PECO Energy currently is subject. PECO Energy does not propose any changes to its retail or wholesale rates or PECO Energy Company's retail rates or GenCo's wholesale rates as part of its proposal and does not intend to change its current or future transmission revenue requirements under the PJM Open Access Transmission Tariff as a result of this filing. The PECO Energy restructuring plan therefore will cause no change in PECO Energy's rates.

PECO Energy does not have any wholesale requirements customers under cost-of-service rates or other customers under variable-rate contracts to whom PECO Energy Company or GenCo potentially could pass added costs and higher prices. Moreover, Pennsylvania retail customers are fully protected from any potential rate impacts of the restructuring by their freedom to purchase electric generation services from PECO Energy's competitors and by a state-imposed rate reduction and cap. Under the PECO Energy Retail Restructuring Settlement, PECO Energy is phasing-in full retail choice for generation supply for all of its retail customers through January 2, 2000. After that date, all of PECO Energy's existing retail electric customers may choose to purchase electric generation services from alternative electric generation suppliers. The PECO Energy Retail Restructuring Settlement requires PECO Energy to reduce its retail electric rates during 1999 and 2000 by 8% and 6%, respectively, from the rates in existence on December 31, 1996, and then caps the distribution portion of those rates until June 30, 2005, and the generation portion of those rates until December 31, 2010. PECO Energy's retail rates do not have an energy cost adjustment

component, and PECO Energy's wholesale customers all take service under contracts that do not have adjustment factors that otherwise would permit PECO Energy Company to pass through to its customers any costs that it potentially will incur as a result of its restructuring. PECO Energy Company's customers thereby are protected from any adverse rate impacts from the restructuring.

C. The Effect on Regulation

The PECO Energy restructuring plan will not diminish in any way the ability of state regulators or FERC to assert their regulatory jurisdiction over Exelon Corp. and its subsidiaries. Following reorganization, PECO Energy Company will remain subject to federal and state regulation in the same manner, and to the same extent, as PECO Energy currently is subject to regulation. PECO Energy Company will continue to be subject to all of the Commission's regulatory oversight pertaining to transmission and wholesale power contracts, including the Standards of Conduct promulgated pursuant to Order No. 889. GenCo will remain subject to FERC regulation with respect to all wholesale power transactions carried out by itself and its subsidiaries. GenCo will be subject to regulation by the PaPUC to the extent it is engaged in the business of an Electric Generation Supplier, in which event it will be regulated as such. Further, GenCo's relationship with both PECO Energy Company and any other affiliate that provides retail electric generating services in Pennsylvania will be subject to a state-imposed "Code of Conduct" until the expiration of the competitive transition charge period, which Code of Conduct creates certain obligations on PECO Energy Company and its affiliated electric generation suppliers. GenCo also will remain subject to regulation pursuant to PUHCA.

D. Public Interest Conclusion

Because the PECO Energy restructuring plan will have no adverse effect on competition, rates, or regulation, the Commission should find the plan consistent with the public interest and authorize it.

V. FILING REQUIREMENTS UNDER PART 33

PECO Energy submits the following information pursuant to Part 33 of the Commission's regulations, 18 CFR Part 33:

A. Exact Name and Address of the Principal Business Office of Applicant's Principal Business Office:

PECO Energy Company
2301 Market Street
Philadelphia, Pennsylvania 19101

B. Name and Address of the Person Authorized to Receive Notices and Communications with Respect to the Application:

Paul R. Bonney	Floyd L. Norton, IV
Vilna Waldron Gaston	Michael C. Griffen
PECO Energy Company	Morgan, Lewis & Bockius LLP
2301 Market Street	1800 M Street, N.W.
Philadelphia, Pennsylvania 19101	Washington, D.C. 20036-586

C. Designation of the Territories Served by Applicant, by Counties and States:

PECO provides retail electric and natural gas service in Pennsylvania in all or portions of the following counties: Bucks, Lancaster, Montgomery, Chester, York, and Delaware. PECO also serves electric customers in the City of Philadelphia.

- D. General Statement Briefly Describing the Facilities Owned or Operated for Transmission of Electric Energy in Interstate Commerce or the Sale of Electric Energy at Wholesale in Interstate Commerce:

As of December 31, 1998, PECO Energy owned approximately 1,121 circuit miles of high voltage lines that are controlled by PJM. See Section

II.A of this application and Exhibit KGL-3 to the Lawrence Testimony for a description of PECO Energy's generation facilities.

- E. Whether the Application Is for Disposition of Facilities by Sale, Lease, or Otherwise, a Merger or Consolidation of Facilities, or for Purchase or Acquisition of Securities of a Public Utility; Also, a Description of the Consideration, If Any, and the Method of Arriving at the Amount Thereof:

As described hereinabove, the proposed dispositions at issue in this application are necessary to implement the PECO Energy restructuring plan. Asset transfers made pursuant to the PECO Energy restructuring plan will be made either via dividend or in exchange for stock.

- F. A Statement of Facilities to Be Disposed Of, Consolidated, or Merged, Giving a Description of Their Present Use and of Their Proposed Use after Disposition, Consolidation, or Merger. State Whether the Proposed Disposition of Facilities or Plan for Consolidation or Merger Includes All the Operating Facilities of the Parties to the Transaction:

See Section III.B.

- G. A Statement (In the Form Prescribed by the Commission's Uniform System of Accounts for Public Utilities and Licensees) of the Cost of the Facilities Involved in the Sale, Lease, or Other Disposition or Merger or Consolidation. If Original Cost Is Not Known, an Estimate of Original Cost Based, Insofar as Possible, upon Records or Data of the Applicant or its Predecessors must Be Furnished, Together with a Full Explanation of the Manner in Which Such Estimate Has Been Made, and a Description and Statement of the Present Custody of All Existing Pertinent Data and Records:

See Exhibit C.

H. A Statement as to the Effect of the Proposed Transaction upon Any Contract for the Purchase, Sale, or Interchange of Electric Energy:

The PECO Energy restructuring plan will have no material effect on any contract for the purchase, sale, or interchange of electric energy. See Section IV.B for a discussion of the PECO Energy restructuring plan's effects on rates.

I. A Statement as to Whether or Not Any Application with Respect to the Transaction or Any Part Thereof Is Required to Be Filed with Any Other Federal or State Regulatory Body:

PECO Energy has applied to the Pennsylvania Public Utility Commission for approvals required to complete the PECO Energy restructuring plan. PECO Energy also will apply to the Nuclear Regulatory Commission, the Securities and Exchange Commission, and the Federal Communications Commission for approvals required to complete the PECO Energy restructuring plan.

J. The Facts Relied upon by Applicants to Show That the Proposed Disposition, Merger, or Consolidation of Facilities or Acquisition of Securities Will Be Consistent with the Public Interest:

See Section IV, above.

K. A Brief Statement of Franchises Held, Showing Date of Expiration If Not Perpetual:

As of January 2, 2000, PECO Energy will not hold any exclusive franchises to supply electric energy to retail electric customers. In accordance with the terms of a settlement approved by the Pennsylvania Public Utility Commission consistent with the Pennsylvania Electricity Generation Customer Choice and Competition Act, all of PECO Energy's retail electric customers will be entitled to purchase their electric generation supply requirements from alternative electric generation suppliers. PECO Energy will serve as provider of last resort to retail electric customers in the City of Philadelphia, Pennsylvania, and Bucks, Montgomery, Chester, York, and Delaware Counties, Pennsylvania. PECO Energy will retain its franchise to provide distribution service to all retail customers.

PECO Energy holds franchises to provide retail gas service in Bucks, Montgomery, Chester, Delaware, and Lancaster Counties, Pennsylvania. The Commonwealth of Pennsylvania recently enacted legislation under which all retail gas customers will also be entitled to purchase their gas supply requirements from alternative suppliers. Upon the implementation of the legislation, PECO Energy will not hold any exclusive franchises to sell gas to retail customers, although it expects it will serve as provider of last resort to its existing retail gas customers. PECO Energy will continue to provide distribution service to all retail gas customers.

VI. LIST OF MATERIALS SUBMITTED

In accordance with Part 33 of the Commission's regulations, 18 C.F.R. Part 33, PECO Energy attaches the following exhibits to this application:

- Exhibit A: Resolution(s) of PECO Energy's Board of Directors
- Exhibit B: Statement of Measure of Control
- Exhibit C: Balance Sheet
- Exhibit D: List of Contingent Liabilities
- Exhibit E: Income Statement
- Exhibit F: Statement of Retained Earnings
- Exhibit G: Applications Filed with Federal and State Regulators
- Exhibit H: Proposed Form of Agreement Governing Proposed Transaction
- Exhibit I: Maps

VII. CONCLUSION

For the foregoing reasons, PECO Energy Company respectfully requests the Commission to authorize it to effect the transfers of FERC-jurisdictional facilities required to implement the PECO Energy restructuring plan as described in this application.

Respectfully submitted,

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Tel: (215) 841-4252/4265

Attorneys for PECO Energy Company

Dated: December 16, 1999

EXHIBIT A

RESOLUTIONS

PECO Energy respectfully requests waiver of the Commission's requirement that it file, as Exhibit A to this application, copies of directors' resolutions approving the transaction at issue.

EXHIBIT B

STATEMENT OF MEASURE OF CONTROL

Statement of Measure of Control By or Over PECO Energy Company

PECO Energy Company currently is not owned or controlled by any other person, company, or other entity. Upon completion of the PECO Energy restructuring plan described in this application, "Exelon Corp.," through its subsidiaries, will own interests in the following public utilities.

Name of Public Utility Controlled	Interest
Susquehanna Power Company	100%
PECO Energy Power Company	100%
Susquehanna Electric Company	100%
Horizon Energy Company	100%
AmerGen Energy Company, L.L.C.	50%

PECO Energy Company does not own any bank, trust company, banking association, or firm that is authorized by law to underwrite or participate in the marketing of securities of a public utility, or any company supplying electric equipment to such party.

EXHIBIT C

BALANCE SHEET

PECO Energy provides a copy of its balance sheet as of June 30, 1999. PECO Energy respectfully requests waiver of the Commission's requirement that it provide, as part of Exhibit C to this application, pro forma adjustments to its balance sheet.

EXHIBIT D

CONTINGENT LIABILITIES

PECO Energy respectfully requests waiver of the Commission's requirement that it file, as Exhibit D to this application, a list of contingent liabilities.

EXHIBIT E

INCOME STATEMENT

PECO Energy provides a copy of its income statement as of June 30, 1999. PECO Energy respectfully requests waiver of the Commission's requirement that it provide, as part of Exhibit E to this application, pro forma adjustments to its income statement.

EXHIBIT F

STATEMENT OF RETAINED EARNINGS

PECO Energy respectfully requests waiver of the Commission's requirement that it file, as Exhibit F to this application, a statement of retained earnings.

EXHIBIT G

APPLICATIONS FILED WITH FEDERAL
AND STATE REGULATORS

PECO Energy respectfully requests waiver of the Commission's requirement that it file, as Exhibit G to this application, copies of applications filed with federal and state regulators.

EXHIBIT H

AGREEMENTS

PECO Energy submits copies of the following agreements concerning the PECO Energy restructuring plan:

1. PECO Energy Company Plan of Restructuring and Plan of Division
2. Form of Assumption Agreement between PECO Energy Company and GenCo
3. Form of Assumption Agreement between PECO Energy Power Company and GenCo
4. Form of Easement and License Agreement between GenCo and PECO Energy Company
5. Form of Call Contract for Generator Reliability Service between PECO Energy Company and GenCo
6. Form of Amendment Agreement between GenCo and PECO Energy Company
7. Forms of Interconnection Agreements Between PECO Energy Company and GenCo

Form of Call Contract for Generator Reliability Service
between PECO Energy Company and GenCo

The Form of Call Contract for Generator Reliability Service between
PECO Energy Company and GenCo is submitted under Tab 4
of this filing. To avoid unnecessary duplication, it is not reproduced here.

Form of Amendment Agreement between GenCo and PECO Energy Company

The Form of Amendment Agreement between GenCo and PECO Energy Company is submitted under Tab 5 of this filing. To avoid unnecessary duplication, it is not reproduced here.

Forms of Interconnection Agreements Between PECO Energy Company and GenCo

The Forms of Interconnection Agreements Between PECO Energy Company and GenCo are submitted under Tabs 7 and 8 of this filing. To avoid unnecessary duplication, they are not reproduced here.

EXHIBIT I

MAPS

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

APPLICATION OF PECO ENERGY :
COMPANY, PURSUANT TO CHAPTERS :
11, 19, 21, 22 AND 28 OF THE PUBLIC :
UTILITY CODE, FOR APPROVAL :
OF (1) A PLAN OF CORPORATE :
RESTRUCTURING, INCLUDING THE : APPLICATION
CREATION OF A HOLDING COMPANY : DOCKET NO. A-_____
AND (2) THE MERGER OF THE NEWLY :
FORMED HOLDING COMPANY AND :
UNICOM CORPORATION :

APPLICATION OF PECO ENERGY COMPANY

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November 22, 1999

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

APPLICATION OF PECO ENERGY :
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AND (2) THE MERGER OF THE NEWLY :
FORMED HOLDING COMPANY AND :
UNICOM CORPORATION :

APPLICATION OF PECO ENERGY COMPANY

A. INTRODUCTION

1. PECO Energy Company ("PECO" or the "Company"), pursuant to Chapters 11, 19, 21, 22 and 28 and all other applicable provisions of the Public Utility Code, hereby requests that the Pennsylvania Public Utility Commission (the "Commission") issue an Order approving a plan of corporate restructuring, including the creation of a holding company ("Restructuring"), and the merger of the newly formed holding company and Unicom Corporation ("Merger"). More specifically, PECO requests that the Commission authorize: (1) the formation of a holding company and the transfer of certain assets and common facilities from PECO to its newly established corporate affiliates; and (2) the merger of the newly formed holding company with Unicom Corporation ("Unicom"). In addition, PECO seeks approval of various affiliated interest agreements between it and other members of the new holding company system. Finally, PECO asks the Commission to make the findings needed for its new generating

company affiliate to obtain "exempt wholesale generator" ("EWG") status and to engage in certain affiliated power sales under Sections 32(c) and 32(k) of the Public Utility Holding Company Act of 1935 ("PUHCA").

2. The name and address of the Applicant are as follows:

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2301 Market Street
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Philadelphia, PA 19101-8699

3. The names and addresses of the Applicant's attorneys are as follows:

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- B. DESCRIPTION OF THE APPLICANT AND THE
OTHER COMPANIES INVOLVED IN THE
PROPOSED TRANSACTIONS

4. PECO is an exempt public utility holding company under Section 3(a)(2) of PUHCA (15 U.S.C. (S) 79c(a)(2)), organized and existing under the laws of the Commonwealth of Pennsylvania, and is primarily engaged in the business of supplying and distributing electricity and natural gas./1/ Retail electric service is furnished in all or substantially all of Bucks, Chester, Delaware, Montgomery and Philadelphia Counties and a portion of York County. Retail gas service is provided in substantial portions of Bucks, Chester, Delaware and Montgomery Counties and a small section of Lancaster County. PECO is also engaged, through separate subsidiaries, functional divisions or partnership interests, in a variety of non-regulated activities, including the competitive marketing of electric generation and natural gas, telecommunications, real estate development and infrastructure services. A diagram depicting PECO's existing corporate structure is attached hereto as Exhibit "A."

5. Unicom is an exempt public utility holding company under Section 3(a)(1) of PUHCA (15 U.S.C. (S) 79c(a)(1)), organized and existing under the laws of the State of Illinois. Unicom's principal subsidiary is Commonwealth Edison Company ("ComEd"), a regulated utility that is engaged in the business of supplying, transmitting and distributing electricity in northern Illinois and, through a wholly owned subsidiary,

- - - - -
/1/ PECO has turned over the operational control of its electric transmission system to an independent system operator ("ISO") -- the PJM Interconnection, L.L.C. -- which performs that function for a control area comprising all or parts of the states of Pennsylvania, New Jersey, Delaware, Maryland and Virginia, and the District of Columbia.

provides transmission service in portions of Indiana./2/ In addition, other subsidiaries are engaged in a variety of non-regulated activities, including energy monitoring, distributed generation, district cooling and the competitive marketing of electric generation and natural gas. A diagram depicting Unicom's existing corporate structure is attached hereto as Exhibit "B".

6. NEWHOLDCO Corporation ("NewCo."), a Pennsylvania corporation, is a wholly owned subsidiary of PECO that was established to effectuate the Restructuring and the Merger. As more fully described below, NewCo. will become the new publicly held holding company for the combined enterprise with PECO and ComEd as wholly owned first tier subsidiaries, and will register with the Securities and Exchange Commission ("SEC") under PUHCA./3/

C. OVERVIEW OF THE PROPOSED TRANSACTIONS

7. The proposed Restructuring is described in detail in the attached Plan of Restructuring (Exhibit "C"). As discussed therein, the principal goals of the

/2/ ComEd is a charter member of the Midwest Independent System Operator ("MISO"), which is expected to commence operations in 2001. Once the MISO is operational, ComEd will turn over control of its transmission system to the MISO.

/3/ "NewCo." will be renamed shortly after consummation of the Restructuring and Merger.

Restructuring are to establish a holding company system and to formalize, in a corporate sense, the functional separation of PECO's existing lines of business.

8. The proposed Restructuring will be accomplished in three major steps, the first being a share exchange. More specifically, each PECO shareholder will be entitled to receive for each share of PECO common stock held either one share of NewCo. common stock or \$45.00 in cash, subject to proration. NewCo. will thereby become the parent of PECO.

9. In the second step of the proposed Restructuring, PECO will transfer its generating assets and wholesale power contracts to a newly formed generation subsidiary ("GenCo.") and will transfer certain other assets and common facilities to NewCo., a newly formed service company ("ServeCo.") and newly formed non-utility business subsidiaries ("VenturesCo.").^{/4/} These transfers will be effected through a "division" under the Pennsylvania Business Corporation Law (15 Pa. C.S. (S)(S) 1101 et seq.). The transferred assets will include the stock of certain existing wholly owned subsidiaries. "PECO Energy Company," as the "dividing corporation," will "survive" the division as the regulated transmission and distribution utility. PECO's wholesale marketing operations (i.e., Power Team) will be located within GenCo.; its retail marketing

^{/4/} It is anticipated that, following the Restructuring and Merger, various administrative functions (e.g., accounting, legal, human resources, finance, information technology) will be centralized and that associated services will be provided to PECO, and other members of the affiliated group, on a contractual basis. See discussion below.

operations (i.e., Exelon Energy) will report through VenturesCo. and may be located, as a matter of corporate structure, either in VenturesCo. or GenCo.

10. In the final step of the proposed Restructuring, PECO will distribute to NewCo. its shares of stock in GenCo., as well as its interest in several other existing subsidiaries. As a result, only the Eastern Pennsylvania Development Company, the PECO Energy Capital Corporation and the PECO Energy Transition Trust/5/ will continue to be owned and controlled by PECO after the Restructuring and Merger.

11. Concurrent with the Restructuring, and pursuant to the terms of the attached Agreement and Plan of Exchange and Merger (the separately bound Exhibit "D"), Unicom will merge into NewCo. Each Unicom shareholder will be entitled to receive for each share of Unicom common stock held either a 0.95 share of NewCo. common stock or \$42.75, subject to proration. NewCo. will thereby become the corporate parent of ComEd and the other Unicom subsidiaries.

- - - - -
/5/ The PECO Transition Trust was established in conjunction with PECO's securitization of intangible transition property (i.e. recoverable stranded costs).

12. As indicated previously, PECO common stock will be exchanged for a like number of shares of NewCo. common stock./6/ Consequently, all common shareholders of PECO will become common shareholders of NewCo. (unless, of course, they elect to receive cash instead). The proposed Restructuring and Merger will not change the terms or character of PECO's outstanding preferred stock -- those shares will not be exchanged, but rather will continue to represent preferred equity in PECO. In addition, none of PECO's outstanding indebtedness will be assumed or guaranteed by NewCo.; indeed, the vast majority of PECO's debt will remain the sole obligation of PECO./7/

13. Diagrams depicting NewCo.'s post-Merger corporate structure are attached hereto as Exhibits "E," "E-1" and "E-2." As shown thereon, and as further described in supporting testimony submitted herewith, NewCo.'s principal subsidiaries will include PECO, ComEd, GenCo., ServeCo. and one or more companies engaged in miscellaneous non-regulated business ventures. As noted previously, NewCo., which will be headquartered in Chicago but also have offices in Philadelphia, will be a registered public utility holding company under PUHCA.

14. The NewCo. board of directors will consist of sixteen members, eight selected by PECO and eight selected by Unicom. Corbin A. McNeill, Jr., president, chief

/6/ As is the case with PECO common shares today, NewCo. common stock will be listed and publicly traded on the New York Stock Exchange.

executive officer and chairman of the board of Unicom, will share managerial responsibility for the combined enterprise for a transition period lasting until December 31, 2003. In broad terms, Mr. McNeill will oversee generation and energy marketing operations and Mr. Rowe will oversee transmission and distribution operations, as well as unregulated business lines. Kenneth G. Lawrence, a 30-year PECO veteran, will be President of the disaggregated PECO and will be responsible for managing the electric and natural gas delivery functions in Pennsylvania.

15. PECO will remain headquartered in Philadelphia and, as noted above, will house local electric and natural gas delivery operations. Consistent with the terms of the May 14, 1998 Full Settlement in its electric restructuring proceeding at Docket No. R-00973953 (the "Restructuring Settlement"), PECO will satisfy its obligations as provider of last resort by purchasing required amounts of energy and capacity at wholesale from GenCo. and other generation suppliers.

16. In short, PECO will continue to provide regulated electric and natural gas service and, as such, will remain subject to the Commission's jurisdiction over its retail rates and terms and conditions of service. PECO's dealings with its affiliates, in turn, will be governed by the provisions of Chapter 21 of the Public Utility Code and, in the

/7/ PECO expects that certain pollution control bonds which relate directly to specific generating plant investment will be assigned to GenCo.

case of GenCo., by the Code of Conduct and Competitive Safeguards set forth in the Restructuring Settlement. Finally, should it engage in retail electric and natural gas sales in the Commonwealth, GenCo. (and its affiliated suppliers) will subject itself to regulation under Chapters 28 and 22 of the Code.

D. REQUESTED APPROVALS AND LEGAL STANDARDS

17. The transactions described herein implicate a number of Code provisions. To the extent the Commission concludes that the following recitation of requested actions is incomplete, PECO asks that the Commission grant such additional approvals as are necessary to complete the proposed Restructuring and Merger.

Chapter 11

18. Section 1102(a)(3) of the Public Utility Code (66 Pa. C.S. 1102(a)(3)) requires that a public utility obtain a certificate of public convenience before it may "acquire from, or transfer to, . . . the title to, or the possession or use of, any tangible or intangible property used or useful in the public service." Section 1103(a) of the Code further provides that such a certificate shall be issued only upon a showing that its

granting is "necessary or proper for the service, accommodation, convenience, or safety of the public" (66 Pa. C.S. (S) 1103(a)).

19. In *York v. Pa. P.U.C.*, 295 A.2d 825, 828 (1972), the Pennsylvania Supreme Court held that those seeking approval of a utility merger must demonstrate that the merger "will affirmatively promote the `service, accommodation, convenience, or safety of the public' in some substantial way." Evidence deemed sufficient to satisfy this standard has included testimony that the merger would produce a stronger company; that investors would be more attracted to a larger enterprise; that certain duplicative tasks would be eliminated; that service would be improved; and that economies would give rise to lower rates than otherwise over time./8/ See *York, supra*; see also *Application of Newtown Artesian Water Co. and Indian Rock Water Co.*, 1992 Pa. PUC LEXIS 44 (April 7, 1992).

20. Share Exchange and Change in Control. The share exchange between PECO and NewCo., by effecting a "change in control" of PECO, will constitute a transfer of used or useful property under Section 1102(a)(3) (66 Pa. C.S. (S) 1102(a)(3)), as that provision has been interpreted and applied by the Commission. See 52 Pa. Code (S) 69.901

/8/ In several recent decisions, the Commission has ruled that the specific impact of a merger or acquisition on future rates was more appropriately addressed in a subsequent rate proceeding. See, e.g., *Joint Application of PG Energy, Inc. et al.*, Docket No. A-120011 (Order entered September 15, 1999); *Joint Application of Philadelphia Suburban Water Co. et al.*, Docket No. A-212370.F0018 (Order entered March 31, 1995).

(Utility Stock Transfer Under 66 Pa. C.S. (S) 1102(a)(3) - Statement of Policy)./9/ For the reasons discussed in Paragraph 35, below, PECO submits that the proposed Restructuring is in the public interest and therefore requests that the Commission issue a certificate of public convenience evidencing the foregoing approval./10/

21. Transfer Of Assets. In its May 14, 1998 Order approving PECO's Restructuring Settlement, the Commission stated as follows (p. 10):

2. That the Commission hereby approves without condition all aspects of PECO's transfer or assignment of its generation assets and liabilities and the wholesale power contracts as set forth in the settlement. The transfer or assignment may be, in PECO's discretion, to an entity that is an affiliate or subsidiary of PECO, or a non-affiliate. We hereby grant and issue all approvals and certificates of public convenience required under the Public Utility Code regarding the transfer or assignment of PECO's generating assets and liabilities and wholesale power contracts under the settlement, including but not limited to approvals under Chapters 5, 11, 19, 21 and 28 of the Public Utility Code.

/9/ The Merger of NewCo. and Unicom will not result in the creation of a new controlling interest or the elimination of an existing controlling interest, as those terms are defined in the Commission's Policy Statement (52 Pa. Code (S) 69.901), and therefore, in PECO's view, does not itself trigger the requirements of Section 1102(a)(3).

/10/ To the extent necessary, PECO further requests that the Commission approve the concomitant change in control over PECO's 50% interest in PECO Hyperion Telecommunications ("PHT"). PHT, a general partnership formed by PECO and Hyperion Telecommunications of Pa., Inc., was issued a certificate of public convenience on March 14, 1996 to furnish intrastate telecommunications services in the Philadelphia area as a competitive access provider (see Docket No. A-310378). On May 25, 1998, PHT's certificate was revised to allow it to provide competitive local exchange services and to offer intraLATA toll services (Docket No. A-310378, F.0002 and F.0003). On March 29, 1999, PHT's certificate was further revised to allow it to operate as a competitive local exchange carrier in the service territory of United Telephone (Docket No. A-310378 F. 0002). The proposed Restructuring and Merger will have no effect on PHT's operations.

Consistent with the Restructuring Settlement (p. 24), the generating assets and liabilities will be transferred to GenCo. at their value at the date of transfer./11/ In accordance with Section 1102 of the Code (66 Pa. C.S. (S) 1102), PECO requests that the Commission take the ministerial step to issue any necessary certificate of public convenience.

The proposed Restructuring and Merger further anticipate the transfer by PECO to NewCo., ServeCo. and VenturesCo. of various assets that will be utilized by them in furnishing miscellaneous business services (e.g., accounting, legal, human resources, finance, information technology). As discussed in Paragraph 35 below, PECO believes that the consolidated group can achieve certain efficiencies by centralizing these common functions and that such efficiencies will ultimately inure to the benefit of PECO's retail electric and natural gas customers. The specific items to be transferred will not be known until integration teams conclude their analyses; however, a preliminary representation of the assets and liabilities to be transferred is provided in Exhibit "G." Following the practice utilized in the Restructuring Settlement for its generating assets, PECO requests that the Commission pre-approve the transfer of miscellaneous assets and common facilities to NewCo., ServeCo. and VenturesCo. at their value as of the date of transfer,

/11/ A general description of the generating assets, liabilities and wholesale power contracts to be transferred is provided in Exhibit "F." Also included is a schedule setting forth, by plant account, the net book value of such assets and liabilities at June 30, 1999.

with the understanding that PECO will file with the Commission an itemized list of such assets and liabilities once the transfers have been completed.

Chapter 19

22. Securities And Obligations. The proposed Restructuring and Merger do not call for PECO to issue or assume any new securities. However, several debt obligations of PECO will likely be assigned to GenCo. as part of the aforementioned transfer of generating assets and liabilities. This transaction would not appear to trigger the requirements of Section 1901 of the Code (66 Pa. C.S. (S) 1901). In the alternative, to the extent required by law, PECO requests that the Commission issue the necessary approvals.

Chapter 21

23. Contracts With Affiliated Interests. Following the proposed Restructuring and Merger, services that are presently furnished by separate business units within PECO will be provided by separate corporate entities. For example, and as earlier described, certain routine functions, such as accounting, legal, human resources, finance and information technology, will be housed within ServeCo. and made available to PECO on a contractual basis. The provision of non-power goods and services from a ServeCo. in a registered holding company system is generally regulated by the SEC. PECO and Unicom will submit a form of affiliated services contract to the SEC that generally controls

the provision of non-power goods and services to all entities in the corporate family, including PECO. The SEC contract is attached as Exhibit "H-1." This contract conforms to SEC requirements on pricing -- that the services be provided at no more than cost -- and rigorous requirements for allocation of indirect costs. PECO anticipates that the contract will be approved by the SEC in substantially the form attached as Exhibit "H-1." PECO also believes that the agreement is reasonable and in the public interest. Insofar as the SEC contract will control the provision of non-power goods and services from ServeCo. to PECO, PECO therefore requests that the contract, in the form provided as Exhibit "H-1" or in such other substantially similar form as ultimately approved by the SEC, be approved under Section 2102(b) of the Code (66 Pa. C.S. (S) 2102(b)).

24. In addition to the services that will be provided by ServeCo., from time to time other entities within the corporate group may provide or receive non-power goods and services from PECO. A form of service agreement for the provision of those goods and services is attached as Exhibit "H-2." This contract is based on the SEC contract described above and contains the same pricing and allocation factors, with one key exception: for transactions that involve PECO and any affiliated electric generation supplier ("EGS"), the contract provides that PECO will continue to honor the specific pricing provisions approved by the Commission in Appendices G and H of the Restructuring Settlement. Since this contract implements the affiliate transaction pricing for PECO - EGS transactions that the Commission previously approved, PECO believes that the agreement is reasonable and in the public interest and requests that the contract,

in the form provided as Exhibit "H-2" or in such other substantially similar form to conform that contract to the service contract that will ultimately be approved by the SEC, be approved under Section 2102(b) of the Code (66 Pa. C.S (S) 2102(b)).

25. PECO will enter into a purchased power agreement with its GenCo. affiliate to provide substantially all of PECO's generation needs for the year 2000. The form of contract for that service is attached as Exhibit "H-3." PECO will either submit this wholesale purchased power contract to the Federal Energy Regulatory Commission ("FERC") for its approval, or seek waiver of that requirement. In the Restructuring Settlement, PECO committed to abide by the comparable treatment/non-discrimination features set forth in the Competitive Safeguards (Appendix G) and the Interim Code of Conduct (Appendix H) attached to the Settlement Agreement. PECO acknowledges that its obligations under that agreement continue, notwithstanding the Restructuring and Merger, and will apply to its purchased power agreement with GenCo. PECO therefore believes that the form of agreement is reasonable and consistent with the public interest.

Chapters 22 and 28

26. Natural Gas And Electric Restructuring. Chapters 22 (Natural Gas Competition Act) and 28 (Electric Competition Act) contain parallel provisions requiring

the Commission to consider whether a proposed merger, consolidation, acquisition or disposition "is likely to result in anticompetitive or discriminatory conduct, including the unlawful exercise of market power, which will prevent retail [gas] [electricity] customers in this Commonwealth from obtaining the benefits of a properly functioning and workable competitive retail [natural gas] [electricity] market." See 66 Pa. C.S. (S)(S) 2210 and 2811(e). As the Commission previously recognized in approving the Restructuring Settlement, the formal separation of PECO's electric generation and delivery functions, coupled with the consumer protections to which PECO has already agreed, will have a beneficial effect on the development of a competitive retail electric market.^{/12/} In addition, PECO and ComEd have taken leading roles in their respective jurisdictions in promoting and facilitating the opening up of wholesale and retail markets for competition. As demonstrated by the detailed analyses submitted with this filing, the Merger will not result in anticompetitive or discriminatory conduct or the unlawful exercise of market power, will not impede the further development of retail electric competition and will have no effect on PECO's natural gas operations.

Exempt Wholesale Generator ("EWG") Findings

^{/12/} PECO notes that Chapter 28 approval for the transfer of electric generating assets, liabilities and wholesale power contracts was expressly granted as part of PECO's Restructuring Settlement. See Paragraph 21 above.

27. PECO does not plan to seek EWG status for GenCo. from the FERC at this time. However, that situation may change in the future. In order to minimize the possibility of having to refile a similar application, PECO therefore requests that the Commission's Order approving this Application contain the findings required by Section 32(c) of PUHCA (15 U.S.C. (S) 793-5a(c)), namely that the transfer of generating assets, liabilities and wholesale power contracts to a newly formed corporate subsidiary (1) will benefit customers, (2) is in the public interest and (3) does not violate state law.

28. In addition, and for the same reasons, PECO requests that the Commission's Order include the findings required by Section 32(k) of PUHCA (15 U.S.C. (S) 793-5(a)(k))with respect to purchases of power from GenCo., i.e. that (1) the Commission possesses sufficient regulatory authority, resources and access to books and records of PECO and any relevant associate, affiliate or subsidiary company to exercise its duties under Section 32(k) and (2) the purchase by PECO of energy and capacity from an affiliated EWG will benefit customers, does not violate State law, would not provide the EWG an unfair competitive advantage and is in the public interest. See Application of UGI Development Co., Docket No. P-00991693 (Order adopted August 26, 1999).

29. The Commission essentially made the foregoing findings when it approved the Restructuring Settlement, authorizing the transfer of PECO's generating assets to a separate corporate entity and adopting stringent Competitive Safeguards/Code

of Conduct provisions governing transactions between PECO and GenCo. PECO simply asks that those findings be made explicit in the Commission's Order approving the proposed Restructuring and Merger.

E. IMPACT OF THE PROPOSED TRANSACTIONS ON
SERVICE, RATES, JOBS AND LOCAL COMMUNITIES

30. PECO is committed to providing adequate, efficient, safe and reliable electric service, and its track record of extraordinary dependability bears this out. Neither the Restructuring nor the Merger will diminish in any way PECO's aggressive pursuit of service excellence. To the contrary, PECO believes that the combined enterprise, by virtue of its greater resources and the sharing of "best practices," will be even better positioned to meet future customer demands and to ensure that the high quality of service presently being provided is maintained and/or enhanced.

31. The rates, rules, regulations, and terms and conditions of service in effect on the date of closing will not change as a result of the Restructuring and Merger. Going forward, PECO believes that economies generated by the Restructuring and the Merger will help to offset the ongoing rise in the cost of providing regulated electric service, will give rise to lower rates than otherwise over time and will delay the need for rate relief

following the expiration of the transmission and distribution ("T&D") rate cap on June 30, 2005./13/

32. The proposed transactions have very positive implications for the long-term outlook for employment in the Commonwealth. PECO, as the local "pipes and wires" company, will continue to be headquartered in Philadelphia and there will be no reduction in force of non-supervisory field personnel. In addition, GenCo., including power marketing operations such as the Power Team, will be headquartered in suburban Philadelphia and its presence is expected to create substantial employment opportunities as it grows and as competitive wholesale and retail electric and natural gas markets flourish. Finally, ServeCo., which will be headquartered in Chicago, will also maintain offices in the Philadelphia area and will employ substantial numbers of administrative personnel currently working for PECO.

33. PECO has always played a vital role in the day-to-day life of southeastern Pennsylvania through the financial support of numerous civic and charitable organizations and, of equal importance, through the tireless involvement of PECO employees in the activities of those groups. That commitment will continue.

F. IMPACT ON COMPETITION

/13/ As part of the Restructuring Settlement, PECO agreed to extend the T&D rate cap by an additional 4 years from the June 30, 2001 date specified in the Electric Competition Act.

34. PECO believes that the proposed Restructuring and Merger will have a positive impact on competition by (1) facilitating the separation of the generation and delivery functions and (2) furthering the development of new energy-related goods and services. However, to ensure that the specific concerns of Sections 2210(a) and 2811(e) are addressed, PECO is submitting herewith a detailed market power study performed by Dr. William H. Hieronymus (Ex. WHH-1). The study was conducted in a manner consistent with the Competitive Analysis Screen described in Appendix A to the FERC's Merger Policy Statement, which, in turn, is intended to comport with the Department of Justice and Federal Trade Commission Horizontal Merger Guidelines ("DOJ/FTC Guidelines"). /14/ Based on his analysis, Dr. Hieronymus concludes that the Merger will have no adverse competitive effect on Pennsylvania's retail energy markets.

G. BENEFITS OF THE RESTRUCTURING AND MERGER

35. Restructuring. The holding company structure is a well-established form of corporate organization for those companies conducting multiple lines of business. Indeed, PECO is one of the very few major utilities in Pennsylvania that has not

/14/ The Commission has adopted the DOJ/FTC Guidelines as the framework for evaluating the competitive impact of electric utility mergers. See Joint Application of DQE Inc., Allegheny Power System, Inc., and AYP Sub, Inc., Docket No. A-110150F0015 (Order entered August 29, 1997).

heretofore structured its operations in this fashion. /15/ The benefits of the proposed Restructuring and functional disaggregation are summarized below.

(a) Financial And Operational Flexibility. The holding company structure will allow use of financing techniques that are better suited to the requirements, characteristics and risks of non-utility operations without affecting PECO's creditworthiness. The ability to access different capital markets quickly with a broad range of financial instruments and maturities will permit a financing to be tailored to the type of investment being made on the most attractive possible terms, taking into account the appropriate capitalization for a particular subsidiary. This, in turn, will permit NewCo. to take advantage of non-utility business opportunities in a more timely manner.

(b) Increased Accountability. Legally distinct entities will increase internal accountability and enable management to more thoroughly evaluate the success of existing and new businesses. This form of organization will also facilitate business segment reporting as now required under SEC and financial accounting rules.

/15/ To the best of PECO's knowledge, all of the following entities are part of holding company systems: Electric -- Duquesne Light Company, Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company, Pennsylvania Power and Light Company and West Penn Power Company; Natural Gas - Columbia Gas of Pa., Equitable Gas Company, National Fuel Gas Distribution Corporation, Penn Fuel Gas Companies, PG Energy, Inc., Peoples Natural Gas Company, and UGI Utilities, Inc.; Telecommunications-- Bell of Pa. and Citizens Utilities, Inc.; Water -- Consumers Water Companies, Pennsylvania-American Water Company, Philadelphia Suburban Water Company and United Water Pennsylvania.

(c) Insulation Of Utility Customers From Unregulated Business Risks. The adoption of a holding company structure will further serve to insulate utility customers from the risks attendant to unregulated businesses. Conducting non-utility businesses through separate subsidiaries of NewCo., rather than through subsidiaries or functional divisions of PECO, and the separate financing of their activities should provide additional comfort that PECO's customers are effectively shielded from the potential earnings volatility of those businesses.

(d) Positive Effects On Retail Competition. The separation of electric generation and marketing functions from regulated delivery services will facilitate compliance with the Code of Conduct and Competitive Safeguards adopted as part of PECO's Restructuring Settlement because the individuals involved in these functions will be employed by different corporate entities. In addition, the creation of a stand-alone generating company was clearly anticipated and favored by the parties to that Settlement.

(e) Reduction Of The Potential For Cross-Subsidization. PECO believes that economies can be achieved by centralizing certain business functions in a ServeCo., particularly as its non-utility operations expand in the future. Moreover, this step, coupled with rigorous adherence to the service agreements attached hereto as

Exhibits H-1 and H-2, should significantly reduce any risk of PECO's utility customers subsidizing unregulated businesses.

36. Merger. The proposed Merger will create one of the premier energy companies in the nation. Indeed, by combining their considerable resources and expertise, PECO and ComEd will strengthen their ability to provide cost-effective, safe and reliable service in the rapidly evolving competitive energy marketplace and thereby will affirmatively promote the public interest in a number of substantial ways.

(a) Expanded Portfolio Of Generation Assets. The combined enterprise is expected to have a national portfolio of generation assets with a capacity nearly double that of PECO alone. It is anticipated that this will enable PECO and ComEd to enhance reliability and minimize their exposure to the risk of supply disruptions.

(b) Sharing Of Best Practices. The sharing of "best practices" between PECO and ComEd will enhance operations at all levels -- e.g., nuclear generating plant performance, fuel procurement, transmission and distribution system maintenance and customer service. Over time, such improvements will directly benefit customers in terms of the quality and cost of the service they receive.

(c) Improved Reliability And Customer Service. With a customer base of approximately 5 million, the combined enterprise will be able to invest in new technologies that might be cost prohibitive for either PECO or ComEd on a stand-alone basis. In addition, PECO and ComEd plan to assess the viability of coordinating their call center operations to provide enhanced phone coverage during high volume periods.

(d) Commitment To Competition. PECO and ComEd fully support wholesale and retail competition and, as previously noted, have become strong advocates of the restructuring initiatives undertaken in Pennsylvania and Illinois in recent years. This shared vision, and the critical mass that will come with the Merger, will allow both companies to be even more proactive in the development of new energy-related goods and services.

(e) Cost Savings. The Merger will create the opportunity to achieve meaningful cost savings not only through the sharing of best practices (see discussion above), but also through purchasing economies and the elimination of duplicative functions. These savings will inure to the benefit of customers over time as they will mitigate the need to file for rate relief in the future.

(f) Intellectual Capital. The merged entity will be able to draw upon the knowledge, technical expertise and experience of a deeper and more diverse workforce simply by virtue of the combination of human resources.

(g) Creation Of A Stronger Company. All of the foregoing will result in the creation of a stronger company that is better positioned to compete and to attract capital on reasonable terms.

37. PECO remains fully committed to providing safe and reliable electric and natural gas service at reasonable rates and, in fact, is convinced that the relief requested in this Application will enhance its ability to do so in the emerging deregulated environment.

H. WRITTEN TESTIMONY

38. PECO is submitting herewith the written testimony and supporting exhibits of five witnesses that comprise its case-in-chief:

Kenneth G. Lawrence is President of PECO Energy Distribution and is responsible for managing PECO's retail natural gas and electric delivery functions. Mr. Lawrence makes clear that the proposed Restructuring and Merger will not adversely affect PECO's regulated operations, the employees who staff those operations or the local communities and organizations that have enjoyed PECO's support over the years.

Richard G. White is PECO's Vice President of Corporate Planning. Mr. White describes the proposed Restructuring and Merger and identifies the principal factors that PECO considered in deciding to pursue a merger with Unicom.

Thomas P. Hill, Jr. is PECO's Vice President, Regulatory and External Affairs. Mr. Hill underscores PECO's unwavering commitment to honor all aspects of its Restructuring Settlement and explains how various provisions of that Settlement will apply following consummation of the Restructuring and Merger proposed herein. Mr. Hill also discusses the impact of merger-related synergies on future regulated rates.

Thomas J. Flaherty is the National Partner - Energy Consulting and a partner in the Deloitte & Touche Consulting Group LLC. Mr. Flaherty presents the results of a study that he conducted to assist PECO and Unicom in identifying and quantifying the potential cost savings in regulated operations that will likely arise from the proposed Merger.

William H. Hieronymus is Senior Vice President of PHB Hagler Bailly, Inc. Dr. Hieronymus analyzes the Merger in light of the FERC's Merger Policy Statement and concludes that the Merger will have no adverse competitive impact on Pennsylvania's retail energy markets.

I. ADDITIONAL SUPPORTING DATA

39. Attached as Exhibit "I" are statements of the original cost of PECO's electric and natural gas plant in service, by primary account, together with the associated reserve for depreciation, as of December 31, 1998. As noted previously, a schedule setting forth the net book value of assets and liabilities to be transferred to GenCo. is provided in Exhibit F.

40. Attached as Exhibit "J-1" is a consolidated balance sheet for PECO as of June 30, 1999 and a pro forma, post-Restructuring and Merger balance sheet for NewCo. as of that same date. Exhibit "J-2" provides a post-Restructuring and Merger balance sheet for PECO.

41. Attached as Exhibit "K-1" is an income statement for PECO for the twelve months ended December 31, 1998 and the six months ended June 30, 1999, and pro forma, post-Restructuring and Merger income statements for NewCo. for those same periods. Exhibit "K-2" provides a post-Restructuring and Merger income statement for PECO for the six months ended June 30, 1999.

42. Attached as Exhibit "L" is a listing of the number of electric customers and natural gas customers, by rate classification, for PECO as of June 30, 1999. Approval of this Application and consummation of the transactions proposed herein will have no effect on the number of customers served by PECO or the rates that they are charged.

43. Attached as Exhibit "M" is a copy of PECO's 1998 annual report to shareholders.

44. Attached as Exhibit "N" is a copy of Unicom's 1998 annual report to shareholders.

45. All annual reports, tariffs, certificates of public convenience, applications, securities certificates and similar documents previously filed by PECO are made a part hereof by reference.

J. OTHER REGULATORY AND SHAREHOLDER APPROVALS

46. Consummation of the proposed Restructuring and Merger is subject to various conditions, including: (a) the approval of the SEC under PUHCA; (b) the registration of NewCo.'s common stock by the SEC under the Securities Act of 1933; (c) the expiration or termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976; (d) the approval of the FERC under the Federal Power Act; and (e) the approval of the Nuclear Regulatory Commission ("NRC") under Section 184 of the Atomic Energy Act of 1954. In addition, ComEd will shortly be making a filing

with the Illinois Commerce Commission under Section 16-111(g) of the Illinois Public Utilities Act./16/

47. PECO is preparing and will file shortly a request seeking a ruling from the Internal Revenue Service ("IRS") that the Restructuring transactions contemplated herein will qualify as a tax-free restructuring for Federal corporate income tax purposes. In addition, certain rulings by the IRS and/or legislative changes to the Internal Revenue Code will be necessary to assure that nuclear decommissioning funds accumulated in qualified and non-qualified trust accounts and presently maintained by PECO may be transferred to GenCo. on a tax-free basis.

48. The proposed Restructuring and Merger are subject to the affirmative vote of the holders of a majority of the votes cast by all of PECO's common shareholders. In addition, the proposed Merger is subject to the affirmative vote of at least two-thirds of the outstanding shares of Unicom common stock. PECO and Unicom intend to seek the approval of their shareholders at meetings to be scheduled for early April, 2000 and plan to complete the Restructuring and Merger as soon as possible after all regulatory and shareholder approvals have been obtained.

/16/ A copy of the FERC Merger application, filed jointly by PECO and ComEd on November 22, 1999, is being served on the Commission under separate cover. Copies of the SEC, NRC and Illinois filings will be served on the Commission when made.

K. PROPOSED LITIGATION SCHEDULE

49. PECO hopes to consummate the proposed Restructuring and Merger and to begin creating the benefits therefrom as expeditiously as possible consistent with the legitimate review rights of interested parties. With that in mind, and because the transactions set forth herein do not raise competitive concerns, PECO requests that the Commission direct that this proceeding be concluded within five months, or by mid-April 2000. Such a schedule would be consistent with the time taken by the Commission to review and act upon other recent merger applications.

50. PECO suggests that holding a Preheating Conference early in the process will assist the parties in identifying and resolving the issues that will need to be addressed. In addition, PECO proposes that this matter, should it proceed to full litigation, be briefed directly to the Commission without resort to an initial round of Briefs to the presiding Administrative Law Judge, the issuance of a Recommended Decision and the filing of Exceptions and Replies to Exceptions thereto. This procedure was followed successfully in PECO's electric restructuring proceeding and yielded significant savings in terms of time and litigation expense.

L. NOTICE

51. PECO will shortly begin sending bill inserts to its customers advising them of this filing and will issue a press release and publish notice of this Application in newspapers of general circulation in its service territory. PECO is also serving copies of this filing on the Offices of Trial Staff, Consumer Advocate and Small Business Advocate and is serving notice of this filing on all other active parties to PECO's electric restructuring proceeding at Docket No. R-00973953 and parties that have been active in natural gas restructuring (see the service list attached to PECO's transmittal letter). A copy of the form of notice is appended hereto as Exhibit 0.

WHEREFORE, for the reasons set forth above, PECO Energy Company requests that the Commission approve this Application and grant the relief requested herein.

Respectfully submitted,

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Dated: November 22, 1999

Counsel for PECO Energy Company

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

Commonwealth Edison Company)
)
)
Notice of reorganization pursuant to)
Section 16-111(g) of the Illinois)
Public Utilities Act.)

NOTICE OF REORGANIZATION PURSUANT TO
SECTION 16-111(g) OF THE ILLINOIS PUBLIC UTILITIES ACT

Pursuant to Section 16-111(g) of the Illinois Public Utilities Act ("Act"), 220 ILCS 5/16-111(g), Commonwealth Edison Company ("ComEd" or the "Company") hereby notifies the Commission of a reorganization involving the Company's parent, Unicom Corporation ("Unicom"). Unicom has agreed to merge with a new holding company affiliate of PECO Energy Company ("PECO"). The new holding company, which will be named later, will own, among other things, nearly all of the outstanding common stock of ComEd,^{/1/} and will be registered with the Securities and Exchange Commission ("SEC") under the Public Utility Holding Company Act of 1935 ("PUHCA").

The reorganization is another step in the ongoing restructuring of utility operations to accommodate the development of competitive retail and wholesale markets. ComEd is deeply committed to the establishment of a competitive retail market in Illinois, and previously has taken several significant steps to make the development of such a market possible. ComEd is also firmly committed to ensuring the reliable operation of its transmission and distribution systems, and to bringing the performance of those systems to the very highest level.

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^{/1/} A very small percentage (less than 1%) of ComEd's common stock is not held by Unicom and will be unaffected by this transaction.

This reorganization, which brings together two active supporters of competition in the retail and wholesale electric marketplaces, will serve both goals -- promoting competition and enhancing reliability of power delivery.

I. Purpose of the Reorganization

A. The Reorganization

Unicom and PECO have entered into a definitive agreement providing for a merger of equals./2/ Unicom is the parent of ComEd, which provides electric service across northern Illinois to approximately 3.4 million customers. ComEd has the largest nuclear fleet in the country, with a total capacity of 9,400 megawatts from 10 generating units at five sites. It has disposed, or is in the process of disposing, of all of its fossil fueled generating capacity. Unicom, through other subsidiaries, also is participating in various unregulated, energy-related businesses.

PECO is an electric and gas utility serving 1.5 million electric customers and more than 400,000 natural gas customers in the Philadelphia area. PECO participates actively in the deregulated marketplace, trading wholesale power 24 hours a day in 47 states and Canada, purchasing and operating nuclear generation and establishing unregulated ventures in retail energy sales, telecommunications and utility infrastructure management. PECO also has a substantial nuclear fleet, and has set new nuclear performance standards in safety, capacity factors, refueling efficiency and low operating and maintenance costs, while producing more than 33 billion kilowatt-hours of nuclear electricity in 1998. PECO also owns and operates coal, natural gas, oil, landfill gas and hydro generating plants.

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/2/ A detailed description of the parties to the merger is set forth in Appendix A to this Notice. A copy of the merger agreement is included as Appendix B to this Notice.

PECO, like ComEd, has actively supported the introduction of competition into the wholesale and retail marketplaces. The Commonwealth of Pennsylvania has introduced customer choice into its retail electric market, and PECO is restructuring its operations to reflect that new environment. PECO also is committed, again like ComEd, to providing the highest quality delivery service. To that end, PECO also seeks to structure its operations in a manner that produces the highest level of reliability.

The new holding company will have total assets in excess of \$37 billion. Its utility subsidiaries will constitute one of the nation's largest electric utility systems, with approximately 5 million customers and total utility revenues of \$12.4 billion. The combined company will rank among the nation's five largest power generators, with a generation portfolio of more than 22,500 megawatts, and will be a leader in the growing U.S. wholesale power marketing business.

The principal benefits of the merger for Illinois consumers will be the continued transition of ComEd toward operations in a competitive marketplace, the formation of a new company with significant financial and managerial resources to assure provision of reliable electric service and the implementation of a new management structure that will support more direct senior management oversight of transmission and distribution operations.

ComEd believes that the benefits offered by this reorganization are precisely the types of benefits that the General Assembly anticipated when it adopted the Customer Choice and Rate Relief Law in 1997 ("Customer Choice Law"). Moreover, the General Assembly plainly intended that utilities seeking to reorganize or restructure to achieve these benefits have the flexibility to do so in an expeditious manner. Accordingly, the mechanism that ComEd is using -- a reorganization under Section 16-111(g) of the Act -- is being put to the very use that the General Assembly foresaw and desired.

As the Commission is aware, ComEd has been an active proponent of the development of a competitive retail electric market in Illinois. ComEd participated actively in the development of the Customer Choice Law, and has since taken several steps to see that meaningful competition evolves in the Illinois market.

The most significant step that ComEd has taken to date involves the sale of all of its remaining fossil-fueled generating assets to Edison Mission Energy ("Mission"). The sale of those assets to Mission has provided strong, definitive signals that Illinois is restructuring the power generation business in a manner consistent with the General Assembly's intent and that the Illinois generation market is truly open to competition. This sale will encourage others to build capacity in Illinois, because investors are more likely to invest in generation where meaningful competition with the incumbent is more assured. Previously, ComEd sold other fossil units to affiliates of Southern Company and Dominion Resources, Inc.

The reorganization reflects ComEd's effort to further restructure its operations to reflect the new environment. Generation has become a more complex operation than it was in the past, with a different set of risks, and demands increasing levels of managerial attention. At the same time, ComEd is striving to improve its distribution and transmission system performance, which also requires an increasing amount of management's time. Further, ComEd needs to assure that the company will continue to be healthy financially as it faces increasing levels of competition.

The combination with PECO allows ComEd to address all of these concerns. The reorganization will allow ComEd to isolate the generation function from the transmission and distribution operations, devote greater management attention to the operation of the transmission and distribution systems, and structure operations to ensure continued financial viability.

ComEd will emerge from the reorganization stronger, from both managerial and financial perspectives.

B. Post-Merger Structure and Operations

The new holding company will be headquartered in Chicago. The generation and power marketing operations will be the responsibility of a new affiliate ("Genco"), which will be headquartered in the Philadelphia region. Unicom's and PECO's electric and gas delivery operations will remain separate subsidiaries of the holding company and will continue to operate under the names Commonwealth Edison Company and PECO Energy Company, and will maintain their respective headquarters in Chicago and Philadelphia. The new holding company will be incorporated in Pennsylvania. A diagram of the new holding company system is attached as Appendix C to this Notice.

Generation operations will be managed separately from transmission and distribution operations. The ComEd and PECO systems will be operated as separate control areas, but there will be system-wide exchanges of power on an economic basis, and transmission operations will be coordinated. Further, the merged system will rely on one or more service companies for the performance of a wide range of functions.

1. Management Structure

As indicated above, the reorganization facilitates the use of a management structure that will be able to devote the full attention that both generation and delivery operations require. Following the close of the merger, Corbin A. McNeill, Jr., president, chief executive officer and chairman of the board of PECO, and John W. Rowe, president, chief executive officer and chairman of the board of Unicom, will become co-chief executive officers of the new holding company for a transition period lasting until December 31, 2003. During the first half of the transition period, Mr. McNeill will be chairman and Mr. Rowe will be president of the new

holding company. Mr. McNeill will serve as chairman of the board of directors for the first half of the transition period and Mr. Rowe will serve as chairman of the executive committee of the board. During the second half of the transition period, Mr. Rowe will serve as chairman of the board of directors and Mr. McNeill will serve as chairman of the executive committee of the board. At the end of the transition period, Mr. Rowe will become chairman and sole chief executive officer of the new holding company. Mr. McNeill will remain on the board of directors.

During the transition period, Mr. McNeill will have responsibility for overseeing the generation and power marketing operations of the new company and Mr. Rowe will have responsibility for overseeing transmission and distribution operations, as well as unregulated retail enterprises. This means that senior management will not have to divide its time between generation and delivery concerns. Both Mr. McNeill and Mr. Rowe will be able to devote their complete attention to their respective spheres of responsibility.

Further, ComEd will have a Distribution President who will be responsible for delivery services. As will be discussed below, ComEd will no longer be in the power marketing business. Accordingly, the position of Distribution President will be dedicated solely to the wires business.

The combined company will continue to focus on maintaining excellent performance at its nuclear plants. Mr. Oliver D. Kingsley, Jr. will be the Chief Nuclear Officer of the combined company system.

2. Generation Operations

Upon or shortly after consummation of the merger, all power production and wholesale merchant functions will be centralized in a single entity or group of entities ("Genco").

ComEd will be supplied by Genco under a wholesale agreement that will be filed with the Federal Energy Regulatory Commission ("FERC") at a later date.

ComEd presently intends to transfer control of the output of its nuclear generating assets to Genco. ComEd has not yet determined the form of such a transfer, which could involve a sale or lease of plant, or a power sales agreement. Additionally, ComEd intends to assign to Genco all of its purchase rights under the wholesale purchase agreements with Mission, Dominion and Southern. ComEd will cease to market power and energy in the wholesale and retail markets, except to the extent that ComEd is required to offer power and energy under its Illinois retail tariffs (including the power purchase option under Section 16-112 of the Customer Choice Law) and existing wholesale and retail contracts./3/

ComEd is not seeking approval of any restructuring of its generation function in this Notice. To the extent required by Illinois law, ComEd will make an appropriate filing with the Commission regarding such a transaction when the terms of the transaction are determined.

3. Transmission and Distribution Operations

A primary focus of the new system will be the provision of reliable transmission and distribution service. As indicated above, the reorganization will further ComEd's present, ongoing efforts to improve its level of service. The provision of reliable service requires significant managerial effort and attention, and a financially stable company. The reorganization, as also indicated, will bring about both. The management structure described above ensures that management is not required to divide its attention between generation and delivery. The combination of the two companies also brings about a more robust competitor that will be stronger financially than either of the two companies merging to form it.

/3/ PECO also will restructure, and intends to transfer all of its generating assets to Genco.

The combined company will continue to strengthen the transmission and distribution systems of the two utilities. ComEd's immediate priority is, and must be, improving the reliability of its distribution service. ComEd will have made substantial progress by the time this merger is consummated. Thereafter, the new company will be committed to making sure that both operating utilities provide service that satisfies the expectations of their customers. The two companies will combine the best practices and talent from each company to create the preeminent company for distribution, as well as generation.

4. Service Company

ComEd and PECO anticipate that the new holding company will have one or more service company subsidiaries ("Service Company"). The companies are determining which functions will be performed by Service Company. The functions are likely to include administrative, legal, accounting, human resources and similar matters.

Transactions between Service Company and ComEd will be subject to the affiliate transaction regulations of the SEC under PUHCA and to the affiliated interest requirements of Section 7-101 of the Act. ComEd will make the appropriate filings with the Commission for approval of affiliated interest transactions at a later date, most likely before the end of this year.

C. Mechanics of the Transaction

Each shareholder of PECO will have the opportunity to elect to receive for each PECO Energy share either one new holding company common share or \$45.00 in cash, subject to proration; and each shareholder of Unicom will have the opportunity to elect to receive for each Unicom share either 0.95 new holding company common shares or \$42.75 in cash, subject to proration. The cash prices represent a premium of approximately 11% to PECO's and Unicom's ten-day average trading prices through September 22, 1999, the day before announcement of the reorganization.

Based on approximately 182.4 million shares of PECO expected to be outstanding immediately prior to the close of the transaction (after planned stock repurchases), PECO shareholders will receive approximately 165.7 million shares in the new holding company and \$750.0 million in cash. Based on approximately 191.3 million shares of Unicom expected to be outstanding immediately prior to the close of the transaction (after planned stock repurchases), Unicom shareholders will receive approximately 165.1 million shares in the new holding company and \$750.0 million in cash. At the close of the transaction, PECO and Unicom shareholders will each own approximately 50% of the new holding company.

The transaction is expected to be tax-free to shareholders to the extent they receive common stock of the combined company and, in general, cash received is expected to be taxed as capital gains.

II. Satisfaction of Regulatory Requirements

A. Illinois Commerce Commission

The merger involving Unicom and PECO is a "reorganization" within the meaning of Section 7-204 of the Act. That section defines a "reorganization" as "any transaction which, regardless of the means by which it is accomplished, results in a change in the ownership of a majority of the voting capital stock of an Illinois public utility; or the ownership or control of any entity which owns or controls a majority of the voting capital stock of a public utility. . . ." 220 ILCS 5/7-204. Under the agreement reached by Unicom and PECO, the ownership of virtually all of the voting capital stock of ComEd will pass from Unicom to the new holding company, and Unicom will cease to exist.

Prior to enactment of the Customer Choice Law, electric utilities were required to obtain approval of reorganizations under Sections 7-204 and 7-204A of the Act. Section 16-111(g), which was added by the Customer Choice Law, however, provides that:

During the mandatory transition period, an electric utility may, without obtaining any approval of the Commission other than that provided for in this subsection and notwithstanding any other provision of this Act or any rule or regulation of the Commission that would require such approval:

implement a reorganization, other than a merger of 2 or more public utilities as defined in Section 3-105 or their holding companies....

This reorganization does not involve the merger of two public utilities or their holding companies because PECO is not a "public utility" within the meaning of Section 3-105 of the Act. Accordingly, the reorganization itself need only satisfy the requirements of Section 16-111(g), and does not require Commission approval under any other Section of the Act.

B. Provision of Information Required under Section 16-111(g)

Section 16-111(g) provides that an electric utility implementing a reorganization must comply with the provisions of Section 16-128(c) and (d) of the Act, if applicable, and give the Commission certain information and at least 30 days notice of the reorganization. ComEd hereby commits that it will comply with Section 16-128 of the Act, to the extent applicable, and provides the following information and commitment required by Section 16-111(g) of the Act:

- (i) a complete statement of the entries that the electric utility will make on its books and records of account to implement the proposed reorganization or transaction together with a certification from an independent certified public accountant that such entries are in accord with generally accepted principles and, if the Commission has previously approved guidelines for cost allocations between the utility and its affiliates, a certification from the chief accounting officer of the utility that such entries are in accord with those cost allocation guidelines

The statement of entries and required certifications are attached at Appendix D.

- (ii) a description of how the electric utility will use proceeds of any sale, assignment, lease or transfer to retire debt or otherwise reduce or recover the costs of services provided by such electric utility

The merger does not involve a sale, assignment, lease or transfer of assets by ComEd. This is a merger at the holding company level. No premium will accrue to either merger partner. Hence, there are no sales proceeds involved. To the extent that ComEd's cost of

service is reduced through savings produced by the merger, such reductions will be reflected in the returns on equity reported to the Commission pursuant to Section 16-111 of the Act.

- (iii) a list of all federal approvals or approvals required from departments and agencies of the State, other than the Commission, that the electric utility has or will obtain before implementing the reorganization or transaction

Consummation of the merger will require approval from the following federal regulatory agencies: a) the FERC, under Section 203 of the Federal Power Act, b) the Nuclear Regulatory Commission, for a change in control of nuclear operating licenses, c) the SEC, under PUHCA, and d) the Federal Communications Commission, for a change in control of telecommunications licenses. Copies of the initial filings with these agencies will be provided to the Commission as they are made. Additionally, Unicom and PECO are required to notify the Federal Trade Commission and the Department of Justice under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and await the expiration of the applicable waiting period under that act.

- (iv) an irrevocable commitment by the electric utility that it will not, as a result of the transaction, impose any stranded cost charges that it might otherwise be allowed to charge retail customers under federal law or increase the transition charges that it is otherwise entitled to collect under this Article XVI

ComEd hereby irrevocably commits that it will not, as a result of the reorganization, either impose any stranded cost charges that it might otherwise be allowed to charge retail customers under federal law or increase the transition charges that it is otherwise entitled to collect under Article XVI of the Act.

Respectfully submitted,
Commonwealth Edison Company

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APPENDIX A

Description of the Parties to the Proposed Merger

Unicom. Unicom, which is based in Chicago, Illinois and has been

incorporated since 1994, is a public company dedicated to meeting the energy needs of residential, commercial, industrial and wholesale customers. Unicom and its subsidiaries have approximately 16,000 employees, \$7 billion in annual revenues, and 182,000 shareholders. Unicom is the parent holding company to Commonwealth Edison Company ("ComEd"), its principal subsidiary, and Unicom Enterprises, Incorporated ("Unicom Enterprises"), the holding company for unregulated subsidiaries, and Unicom Resources, Incorporated, an unregulated subsidiary.

ComEd. ComEd is engaged in the production, transmission, distribution and

sale of electricity to wholesale and retail customers. ComEd has been providing electricity to customers in Northern Illinois since 1887, when it was founded as Chicago Edison Company. In 1907, Chicago Edison Company and Commonwealth Electric consolidated to become Commonwealth Edison Company. ComEd provides service to more than 3.4 million customers (nearly 300,000 are commercial and industrial customers, and the rest residential) across northern Illinois, or 70 percent of the state's population, covering approximately one-fifth of the state of Illinois (including the city of Chicago). ComEd's current net generating capability is 19,138 megawatts (MW), supplied by five nuclear power and eight fossil plants plus peaking units. In March 1999, ComEd announced the sale of its fossil operations. The sale, involving 9,772 MW, is expected to close in the fourth quarter of 1999.

ComEd has approximately 5,200 miles of overhead transmission circuits and nearly 400 miles of underground transmission circuits. ComEd is part of the Mid-American Interconnected Network, Incorporated (MAIN), one of ten regional reliability councils under the North

American Electric Reliability Council ("NERC") dedicated to the safe, reliable and economic operation of the region's electric transmission system.

Unicom Enterprises. Unicom Enterprises serves as the holding company for

Unicom's unregulated subsidiaries, including:

- . Unicom Thermal Holdings, Inc. provides retail district energy systems and site specific thermal energy products.
- . Unicom Power Holdings, Inc. provides creative energy solutions that yield significant cost savings and reduced risks associated with the overall energy supply through a customized portfolio.
- . Unicom Energy Services, Inc. provides energy services including gas services, performance contracting, distributed energy and active energy management systems.
- . Unicom Power Marketing, Inc. may engage in wholesale marketing activities.
- . Unicom Energy, Inc. provides retail electric and gas services as an Alternative Retail Electric Supplier.
- . Unicom Technology Development, Inc. pursues advanced technologies and other research and development opportunities for commercial application in the power industry.
- . Unicom Investment, Inc. will be used to facilitate the fossil plant sale from ComEd to Edison Mission Energy and to fund other business opportunities.
- . Unicom Mechanical Services, Inc. serves as the holding company for Unicom's mechanical service operations that designs, installs and services heating, ventilation and air conditioning systems.

PECO. PECO, which is based in Philadelphia, Pennsylvania, is an investor-owned electric and natural gas distribution utility and energy services company with approximately

\$5.2 billion in annual revenues, \$12 billion in assets, 195,000 shareholders and 6,500 employees. PECO operates three primary businesses: PECO Energy Generation, PECO Energy Distribution, and PECO Energy Ventures. PECO Energy is one of the largest and cleanest power generators with nuclear, coal, natural gas, oil, hydro, and landfill gas generating assets, and with 1.5 million electric and 415,000 natural gas customers situated across 2,107 square miles in southeastern Pennsylvania.

PECO Energy Generation. PECO has more than 100 years of generation plant

management experience. PECO Energy Generation is responsible for safe, reliable and efficient operation of PECO's power generating facilities, which includes a diverse fleet of nuclear, hydro, and fossil generating units. PECO has coal, oil, natural gas, landfill gas fired generators, run of the river and pumped storage hydro facilities, and two-unit nuclear plants at two sites. PECO is recognized as a leading nuclear operator across the industry and has managed two other plants under service contracts. PECO's large baseload capacity and fuel diversity helps its competitiveness in today's changing generation market. Market expertise and competitive generation assets provide the foundation for Power Team, the five-year old unit of PECO involved in wholesale power trading. Power Team is a leading supplier of reliable physical delivery of electricity to other utilities, cooperatives and marketers all across the continental United States and Canada. Power Team's energy sales have grown in each of the past five years, and for the first time, wholesale deliveries exceeded PECO's retail sales in 1998. Power Team also has agreements to market full output of plants under construction or planned in Texas, Georgia and Oklahoma. AmerGen, a partnership with British Energy, was formed in 1997 to acquire additional nuclear generating assets. Both firms have strong operating cultures for safety and reliability. AmerGen has agreements to assume ownership of Three Mile Island Unit 1 in Pennsylvania, the two-unit Nine Mile Point Nuclear Power Station in upstate New York, and the

Clinton Power Station in southern Illinois. Exelon Energy is the retail energy supplier that markets in deregulated states including Pennsylvania, New Jersey, Maryland, and Massachusetts. It has established itself a competitive supplier in Pennsylvania with customers in every utility franchise in the state.

PECO Energy Distribution. PECO Energy Distribution is responsible for

building and maintaining the massive regional infrastructure that safely and reliably delivers electricity and natural gas to retail customers in southeastern Pennsylvania. The utility has 1.5 million electric and 415,000 natural gas customers in all or portions of the City of Philadelphia, Bucks, Chester, Delaware, Montgomery, and York counties. PECO Energy Distribution handles customer choice implementation, customer service, meter reading and billing, response to emergencies, and maintenance of the thousands of miles of poles and wires, underground mains and cables for electric and gas delivery.

PECO Energy Ventures. PECO Energy Ventures operates several businesses

under the Exelon master brand related to energy and energy-related services, communications, and infrastructure services. PECO Energy Ventures develops businesses that leverage PECO assets and skills in new growth opportunities, sometimes in partnership with other firms such as AT&T and Adelphia's Hyperion Communications unit. Exelon Communications has built a 27,000-mile fiber optic network in the Greater Philadelphia and Lehigh Valley regions with current expansion in New Jersey and a wireless cellular telephone network that serves more than 100,000 customers.

December 20, 1999

APPLICATION FOR LICENSE TRANSFERS AND CONFORMING

ADMINISTRATIVE LICENSE AMENDMENTS

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- Enclosure 8 Affirmation of Gerald R. Rainey
- Enclosure 9 10 CFR 2.790 Affidavit of Gerald R. Rainey
- Enclosure 10 Conforming License Amendments to Reflect License Transfers of Peach Bottom Atomic Power Station Units 1, 2, and 3, and Limerick Generating Station Units 1 and 2.

LIST OF ENCLOSURES IN PROPRIETARY ADDENDUM

The following proprietary enclosure is in a separately bound Proprietary Addendum to the Application:

Enclosure 7P Projected Income Statement and Opening Balance Sheet of GENCO
(Proprietary Version)

-v-

APPLICATION FOR LICENSE TRANSFERS AND CONFORMING
ADMINISTRATIVE LICENSE AMENDMENTS

I. INTRODUCTION

Unicom Corporation (Unicom), an Illinois corporation, is the parent company of Commonwealth Edison Company (ComEd). ComEd is currently the licensed owner and operator of Braidwood Station, Units 1 and 2; Byron Station, Units 1 and 2; Dresden Nuclear Power Station, Units 1, 2, and 3; LaSalle County Station, Units 1 and 2; and Zion Nuclear Power Station, Units 1 and 2. ComEd is also licensed to own 75% of Quad Cities Nuclear Power Station, Units 1 and 2, and to operate the Quad Cities units./1/

PECO Energy Company (PECO), a Pennsylvania corporation, is currently the owner of Peach Bottom Atomic Power Station, Unit 1, holds a 42.49% ownership interest in Peach Bottom Units 2 and 3, and is the licensed operator of all three Peach Bottom units./2/ PECO is also the sole owner and operator of the Limerick Generating Station, Units 1 and 2, and holds a 42.59% ownership interest in the Salem Generating Station, Units 1 and 2, which are operated by Public Service Electric & Gas Company (PSE&G)./3/

/1/ MidAmerican Energy Company is the owner of 25% of Quad Cities Nuclear Power Station, Units 1 and 2. MidAmerican's non-operating ownership share is not involved in this application.

/2/ Pursuant to Purchase Agreements with Delmarva Power & Light Company and Atlantic City Electric Company, dated September 27, 1999, PECO will acquire an additional 7.51% ownership interest in Peach Bottom, Units 2 and 3. When these transactions are completed, PECO will hold a 50% ownership interest in each of these units.

/3/ The ownership and operating interests in the Peach Bottom and Salem units that are not held by PECO, including those held by Public Service Electric & Gas Company (PSE&G), are not involved in this application. A request for conforming changes to the

On September 22, 1999, Unicom and PECO entered into an Agreement and Plan of Exchange and Merger (Merger Agreement) which will result in the formation of a combined company, Exelon Corporation (Exelon). Exelon will be a Pennsylvania corporation and a registered holding company under the Public Utility Holding Company Act (PUHCA) of 1935, as amended. Exelon will have several principal subsidiaries, including: ComEd; PECO; and GENCO./4/ ComEd will remain an Illinois regulated public utility that will continue to own and operate the transmission and distribution (T&D) assets currently held by ComEd. PECO will remain a Pennsylvania regulated public utility that will continue to own and operate the T&D assets currently held by PECO. GENCO will be a Pennsylvania corporation that will own and operate the nuclear electrical generating units currently owned and operated by ComEd and PECO and the fossil-fired electrical generating units currently owned and operated by PECO, and will engage in other business activities, including the sale of electricity at wholesale./5/ A schematic of the corporate structure resulting from the Unicom/PECO merger is presented in Enclosure 1.

In connection with these transactions, and in accordance with 10 CFR 50.80, PECO requests that the NRC issue an order consenting to the transfer of PECO's interests in the

licenses and technical specifications for the Salem units will be submitted separately by PSE&G.

- /4/ The actual name of GENCO has yet to be determined. The parties will notify the NRC once the actual name is selected, which will be well in advance of the time requested for issuance of an NRC order approving the license transfers and associated conforming license amendments.
- /5/ Other activities or assets being transferred to GENCO include PECO's and Unicom's power marketing operations and PECO's interests in hydroelectric generating facilities.

following Facility Operating Licenses:

License No. DPR-12 (Peach Bottom Atomic Power Station, Unit 1)
License No. DPR-44 (Peach Bottom Atomic Power Station, Unit 2)
License No. DPR-56 (Peach Bottom Atomic Power Station, Unit 3)
License No. NPF-39 (Limerick Generating Station, Unit 1)
License No. NPF-85 (Limerick Generating Station, Unit 2)
License No. DPR-70 (Salem Nuclear Generating Station, Unit 1)
License No. DPR-75 (Salem Nuclear Generating Station, Unit 2)

PECO requests that the NRC consent to these transfers and authorize GENCO to own and/or operate the facilities on essentially the same terms and conditions included in the existing licenses. No physical changes will be made to the facilities as a result of the transfers, and there will be no significant changes in their day-to-day operation. ComEd's and PECO's existing nuclear organizations will be transferred to GENCO, and nuclear employees of ComEd and PECO will become employees of GENCO or a wholly-owned subsidiary of GENCO.

PECO also requests, in accordance with 10 CFR 50.90, "Application for Amendment of License or Construction Permit," NRC approval of certain administrative amendments to conform the licenses and Technical Specifications (TS) for these facilities to reflect the proposed transfers. Mark-ups of the licenses and TS of the Peach Bottom and Limerick units showing the necessary conforming changes are provided in Enclosure 10, as are the associated evaluations conducted in accordance with 10 CFR 50.91, "Notice for Public Comment; State Consultation," confirming that these changes do no more than reflect the proposed license transfer and involve no significant hazards consideration, consistent with the generic finding of no significant hazards in 10 CFR 2.1315(a).

Additionally, PECO is a 50% owner of AmerGen Energy Company, LLC (AmerGen), a company owned by PECO and British Energy, Inc., which owns and operates nuclear power

plants in the United States. AmerGen is submitting a separate application pursuant to 10 CFR 50.80, seeking NRC consent for the transfer to GENCO of PECO's ownership interest in AmerGen./6/

- -----
/6/ AmerGen is a Delaware limited liability company owned by PECO and British Energy, Inc. AmerGen owns and operates nuclear plants in the United States. The NRC has recently consented to the transfers of ownership and operating responsibility for Three Mile Island Unit 1 (TMI-1) (License No. DPR-50) and Clinton Power Station (Operating License No. NPF-62) to AmerGen. See GPU Nuclear, Inc. (Three Mile Island, Unit No. 1), Order Approving Transfer of License and Conforming Amendment, 64 Fed. Reg. 19,202 (April 19, 1999); Illinois Power Company (Clinton Power Station), Order Approving Transfer of License and Conforming Amendment, 64 Fed. Reg. 67598. AmerGen has also recently submitted License Transfer Applications to the NRC for the Nine Mile Point Nuclear Station (Operating License Nos. DPR-63 and NPF-69) and the Oyster Creek Nuclear Generating Station (Operating License No. DPR-16). See Application for Orders and Conforming Administrative Amendments for License Transfers for Nine Mile Point Units 1 & 2 (DPR-63 and NPF-69) (September 10, 1999); Application for Order and Conforming Administrative Amendments for License Transfer for Oyster Creek Station (DPR-16) (November 5, 1999).

II. PURPOSE OF THE TRANSFERS AND NATURE OF THE TRANSACTION MAKING THE TRANSFERS NECESSARY OR DESIRABLE

The merger of Unicom and PECO, and the coincident transfer of electrical generating assets to GENCO, are in response to the overall restructuring of the electric utility industry in the United States, and are in furtherance of legislation and regulatory orders in Pennsylvania and Illinois to promote restructuring and competition in the electric industry. The merger of Unicom and PECO will strengthen the merged companies' T&D capability, will create a diversified and efficient generating company to provide power for sale in the restructured competitive electricity market, and will improve the safety, reliability, and efficiency of all of the functions of the merging companies. The creation of GENCO will enhance competition in the restructured electric industry, will separate Exelon's generation activities from regulated T&D activities, and will enhance the overall financial and operational flexibility of Exelon.

The integration of ComEd's and PECO's nuclear organizations will enhance the continued safe operation of the nuclear facilities currently owned and operated by ComEd and PECO. ComEd and PECO are among the largest and most experienced owners and operators of nuclear power plants in the United States. The nuclear management teams of both companies have demonstrated the ability to operate their nuclear facilities reliably and safely, and to achieve and sustain performance improvement. The senior members of these management teams will be part of the GENCO management team. A Nuclear Group (NG) will be created within the GENCO to operate the nuclear units. The NG will combine the resources and expertise of both organizations under one Chief Nuclear Officer of the GENCO NG. The NG organization will be built on a model enabling it to support all of the nuclear units operated by GENCO and to

maintain high standards and effective programs, processes, management controls, and best practices.

In addition, the transfer to GENCO of all of the existing nuclear, fossil and hydroelectric generating assets of PECO and ComEd, along with the existing power marketing operations of PECO and ComEd, will provide GENCO with substantial assets, revenues and other financial resources to pay for any capital expenditures or operations and maintenance costs required to ensure nuclear safety.

As described previously, coincident with the transfer of licenses and generating assets, PECO and Unicom will combine to form Exelon as of the "Closing Date," as defined in the Merger Agreement, once all conditions precedent are satisfied and regulatory approvals are obtained. The Merger Agreement is included as Enclosure 2. On or about the Closing Date, the following events will occur:

- (a) GENCO will assume ownership of the nuclear, fossil and hydroelectric generating units currently owned by ComEd and PECO, excluding certain switchyard and transmission facilities which will remain with PECO and ComEd; GENCO also will assume responsibility for the safe operation, maintenance, and eventual decommissioning of the nuclear facilities;
- (b) PECO's nuclear employees located at the Limerick and Peach Bottom nuclear stations, in PECO's nuclear support offices in Wayne, Pennsylvania, and other locations, will become employees of GENCO or a wholly-owned GENCO subsidiary, and will support GENCO's nuclear operations. Similarly, ComEd's nuclear employees at the Braidwood, Byron, Dresden, LaSalle, Quad Cities, and

Zion nuclear stations, and ComEd's nuclear support personnel in Downers Grove, Illinois, and other locations will become employees of GENCO or a wholly-owned GENCO subsidiary and will support GENCO's nuclear operations;

- (c) Interconnection Agreements and/or operating protocols between GENCO and PECO, and between GENCO and ComEd, will take effect, ensuring the continued availability of offsite power to the nuclear units in accordance with all applicable regulatory requirements. GENCO may also contract for additional transmission service and for back-up power to the sites consistent with NRC requirements.

III. GENERAL CORPORATE INFORMATION REGARDING EXELON AND GENCO

GENCO will be a wholly-owned subsidiary of Exelon, a corporation formed under the laws of Pennsylvania resulting from the merger of PECO and Unicom. Exelon will be a registered holding company subject to Securities and Exchange Commission (SEC) regulation under the PUHCA. Exelon's headquarters and principal place of business will be located at 10 South Dearborn Street, Chicago, Illinois, 60690-3005. Upon the receipt of the necessary regulatory approvals, Exelon will become a publicly traded company on the New York Stock Exchange, whose shares will be widely held, initially by the current shareholders of PECO and Unicom. Exelon will become the parent holding company of GENCO, PECO, ComEd, and non-utility subsidiaries. The entire Exelon Board of Directors has not yet been named, but Mr. Corbin A. McNeill, Jr., will become Chairman of the Board of Directors of Exelon upon completion of the merger of PECO and Unicom, and Mr. John W. Rowe will be the Chairman of

the Executive Committee of Exelon's Board of Directors. Other directors of Exelon will be selected from the existing Boards of Directors of PECO and Unicom.

A. NAME OF TRANSFEREE

GENCO

B. ADDRESS

GENCO's headquarters will be located at:

965 Chesterbrook Boulevard
Wayne, Pennsylvania 19087-5691

C. DESCRIPTION OF BUSINESS OR OCCUPATION

GENCO will be a corporation formed to own, operate, and acquire nuclear and other electric generating stations; to engage in the sale of electrical energy; and to perform other business activities. GENCO will be a wholly-owned corporate subsidiary of Exelon, a corporation formed under the laws of Pennsylvania.

Copies of the Unicom and PECO 1996, 1997, and 1998 Annual Reports are provided in Enclosures 3 and 4.

D. ORGANIZATION AND MANAGEMENT

1. State of Establishment and Place of Business

GENCO will be organized under the laws of the Commonwealth of Pennsylvania. GENCO's principal place of business will be in the Commonwealth of Pennsylvania.

2. Board of Directors

The business and affairs of GENCO will be conducted under the direction of a Board of Directors, who will be elected by Exelon, the sole shareholder of GENCO. Mr. Corbin A.

McNeill, Jr., will be the Chairman of the Board. Mr. McNeill is a United States citizen. The parties will provide the names, addresses, and citizenship of the remaining members of the GENCO Board of Directors once they are identified. Currently, the intention is for these members to be initially drawn from the current senior management and/or Boards of Directors of PECO, Unicom, and ComEd.

3. Principal Executives and Officers

The names, titles, addresses, and citizenship of the principal executives and officers of GENCO are as follows: Mr. Corbin A. McNeill, Jr., will be the Chief Executive Officer. Mr. McNeill is a U.S. citizen. His address is 965 Chesterbrook Boulevard, Wayne, Pennsylvania 19807-5691. Mr. Oliver D. Kingsley, Jr., will be President of GENCO's Nuclear Group and Chief Nuclear Officer. Mr. Kingsley is a U.S. citizen. His address is 1400 Opus Place, Suite 900, Downers Grove, Illinois 60515. GENCO's Nuclear Group will also have a Chief Operating Officer, who has yet to be named. The names, addresses, and citizenship of additional executives and officers will be provided.

E. FOREIGN PARTICIPATION

GENCO will not be owned, dominated, or controlled by foreign interests. GENCO will be a U.S. corporation that is a wholly-owned subsidiary of Exelon, a U.S. corporation. Pursuant to the Merger Agreement, Exelon's stock will initially be held by the current shareholders of PECO and Unicom, and will continue to be widely held and traded on the New York Stock Exchange.

IV. TECHNICAL QUALIFICATIONS OF GENCO

A. OVERVIEW

The technical qualifications of GENCO to carry out its licensed responsibilities will meet or exceed the technical qualifications of ComEd's and PECO's current organizations as described in the Updated Final Safety Analysis Reports (UFSARs) or the Defueled Safety Analysis Reports (DSARs) for the facilities involved. Indeed, the proposed merger will bring together two of the nation's most experienced nuclear management teams, with demonstrated experience in achieving and sustaining safe and reliable nuclear unit operations.

When the proposed license transfers and amendments become effective, GENCO will assume responsibility for, and control over, the operation of the current ComEd and PECO nuclear plants. Additional plants may be integrated into the NG in the future. The nuclear organizations of ComEd and PECO will be combined into one organization -- the NG -- which will be responsible for appropriate standards, programs, processes, management controls, and support for the nuclear facilities being transferred to GENCO. Oliver D. Kingsley, Jr., the current President and Chief Nuclear Officer of ComEd's Nuclear Generation Group, will become the President and Chief Nuclear Officer (CNO) of the new GENCO NG. PECO's existing nuclear employees at the Limerick and Peach Bottom sites, and its nuclear employees at PECO's Wayne, Pennsylvania office and other locations, will be transferred to GENCO and will become employees of GENCO or a wholly-owned GENCO subsidiary. Similarly, the nuclear employees of ComEd at its nuclear sites, its Downers Grove, Illinois office, and other locations will be transferred to GENCO and will become employees of GENCO or a wholly-owned GENCO subsidiary. The NG headquarters will be located in the Greater Chicago, Illinois area (currently

Downers Grove, Illinois). Headquarters employees may be deployed at other locations.

In light of the size of the combined ComEd and PECO nuclear operating fleet, an organizational model will be adopted, designed to provide:

- 1) a single CNO accountable for overall management, leadership, performance, and nuclear safety;
- 2) a manageable span of control over the nuclear units by the nuclear management team;
- 3) implementation of high standards, best practices, effective programs and processes, and management controls; and
- 4) effective oversight, support, and service functions for the nuclear units.

The NG structure is based upon an overriding philosophy of an engaged nuclear management team that establishes and enforces high standards and clear accountabilities, focuses on effective nuclear support, assures the sharing and implementation of best practices, and effectively exercises oversight of licensed activities. The NG organization will be managed as a single cohesive entity, with a common vision, a shared mandate for regulatory compliance and performance excellence, and consistent standards, programs, practices, and management controls. Management will apply a philosophy emphasizing operational excellence, excellent material condition, and the use of a well-defined process to identify and address performance gaps relative to industry top performers by monitoring of meaningful performance indicators.

B. ORGANIZATIONAL STRUCTURE

Enclosure 5 is an organizational chart for GENCO illustrating the post-transfer management structure and reporting relationships for the nuclear stations that GENCO will own, operate, and manage.

The organization model consists of the NG headquarters functions, Regional Operating Groups (ROGs), and the nuclear sites. Span of control and geographic location will be the principal considerations in the makeup of the ROGs. Additional plants may be integrated into these initial ROGs, or additional ROGs may be formed, as necessary to ensure effective management controls, support, and oversight.

Direct responsibility and accountability for the safe and reliable operation of the plants will reside in line management, from the Site Vice Presidents up through the Regional Operating Group Vice Presidents and Chief Operating Officer, ultimately residing with the CNO. The NG will also include senior managers and their staffs responsible for the areas of nuclear support services, nuclear oversight, business operations, human resources, and administrative functions. The support services will include generation support (e.g., radiation protection, operations, maintenance), engineering, regulatory services, and training, which are currently provided by the PECO and ComEd corporate nuclear organizations. The NG headquarters, in conjunction with the ROGs, will to the extent practicable implement standardized programs, processes, and management controls that support the highest level of operation. Support for the nuclear plants in areas such as regulatory programs, oversight and assessment of the implementation of these programs, and development of consistent standards, programs, processes, and practices will be provided by these organizations.

As described above, each of the individual facilities will be assigned to a ROG. The existing onsite organizational structures, responsibilities, and reporting chains are not being changed as a result of the proposed license transfers. The onsite management and technical support structure will continue to conform to the pertinent provisions in each facility's UFSAR,

DSAR, or Technical Specifications, as applicable.

With respect to the permanently shut down units, the onsite staffs will have responsibility for maintaining the facilities in their long term, safe storage mode until decontamination and dismantlement begins. The headquarters support organizations, ROG, and associated operating nuclear unit organizations will provide additional support.

C. MANAGEMENT PERSONNEL AND RESPONSIBILITIES

As shown in Enclosure 5, the reporting relationships among the principal GENCO executive officers and managers involved in the management of nuclear power facilities will be as follows:

- . The Co-Chief Executive Officer (CEO) of Exelon, Corbin A. McNeill, Jr., will serve as the CEO of GENCO. The NG, the other generation organizations (i.e., fossil-fueled, hydroelectric), and the power marketing and trading businesses of GENCO will report to the CEO. The CEO will have responsibility for overall GENCO corporate policy.
- . The Chief Nuclear Officer (CNO) of the NG, Oliver D. Kingsley, Jr., will report to the GENCO CEO. The CNO will be the senior corporate executive with all the necessary authority and full responsibility for the safe and reliable operation of the nuclear facilities operated by GENCO. The CNO will not have any non-nuclear ancillary responsibilities.
- . The Chief Operating Officer (COO) of the NG will report to the CNO. The COO of the NG will have responsibility for the overall day-to-day operations of the Regional

Operating Groups. The COO position will be filled by an individual who possesses senior nuclear management experience.

The Vice Presidents for the ROGs will report to the COO. The ROG Vice Presidents will be responsible and accountable for the safe and reliable operation of the nuclear units within their particular ROG. The ROG Vice President positions will be filled with individuals who possess senior nuclear management experience.

A Vice President, Corporate Nuclear Support, will report to the CNO and will have responsibility, in conjunction with the ROGs and the COO, for providing support to the sites in defining and implementing standards, programs, processes and best practices in areas such as engineering, nuclear supply, regulatory services, nuclear fuels, generation support (e.g., chemistry, radiation protection), project management, and information services, and will monitor performance in these areas. This Vice President will also manage projects associated with those units that are permanently shutdown (i.e., Peach Bottom 1, Dresden 1, and Zion 1 and 2).

A Vice President, Nuclear Oversight and Safety Review, will report directly to the CNO and be the executive responsible for ensuring that the activities of the oversight organization, including audits, quality control, and assessments of the operating organization, are carried out. A Nuclear Oversight Director responsible for Quality Assurance will be assigned to each ROG. The ROG Nuclear Oversight Directors will report directly to the Vice President, Nuclear Oversight and Safety Review.

A Vice President, Human Resources and Administration, will report to the CNO and will be responsible for human resource policies and programs in support of the NG

organization, and for carrying out other administrative duties. This Vice President will be responsible for monitoring performance in implementing the above.

. A Vice President, Business Operations, will report to the CNO and will be responsible for NG business management processes, including annual and long-term business planning and goals, performance indicator data, and operating efficiencies and cost controls. This Vice President will be responsible for monitoring performance in implementing the above.

. A Site Vice President will be assigned for each operating nuclear site. The Site Vice President will report to the Vice President of the appropriate ROG. The Site Vice President will be the senior executive on site responsible for overall plant nuclear safety and for compliance with the NRC operating license. The Site Vice President will provide day-to-day direction and management oversight of activities associated with the safe and reliable operation of the facility. It is expected that the incumbents will remain as the Site Vice Presidents once the merger is complete.

. Chairpersons of the Nuclear Safety Review Boards (NSRBs) will report directly to the CNO and will advise the Vice President, Nuclear Oversight and Safety Review. These Chairpersons will be responsible for the independent review and audit function for the nuclear units operated by GENCO.

Enclosure 6 includes resumes detailing the specific educational background and experience for the key GENCO and NG executive management personnel who will be responsible

for the nuclear program. Specifically, resumes are included for Mr. McNeill and Mr. Kingsley./7/

D. TECHNICAL SUPPORT

The existing technical support organizations for the nuclear stations currently operated by ComEd and PECO, as described in the UFSAR or DSAR for those stations, are currently located at the plant sites or at the Wayne, Pennsylvania or Downers Grove, Illinois, nuclear support offices. These organizations and personnel will continue to perform technical support functions for their respective stations on behalf of GENCO. The functions, responsibilities, and reporting relationships of these organizations, especially as they relate to activities important to the safe operation of each station, will continue to be clear and unambiguous.

Support functions relating to information technology, the Public Information Centers, and the back-up Emergency Operations Facilities will either be transferred from PECO/ComEd to GENCO, provided by another organization within Exelon, provided by contract, or created within GENCO.

PECO and ComEd will also transfer the assets related to the nuclear units that GENCO will need to maintain and operate the units in accordance with NRC requirements. In addition to

7 The personnel at each nuclear station, including senior managers, will be essentially unchanged as a result of the merger. However, as is common for the management and staff at operating nuclear power plants, individuals routinely transfer to other positions within the same company, retire, resign, or transfer to positions at other sites. Thus, it is to be expected that additional experienced personnel may join the site organizations during the period leading up to and after the license transfer. Similarly, changes in titles within the organization may occur. Similar changes may be expected to occur within the PECO and ComEd corporate nuclear organizations. Prior to the transfer, decisions regarding such changes will be made by the current licensee, and following the transfer, such decisions will be made by GENCO. Any new personnel assigned to the nuclear stations will meet all existing qualifications requirements in accordance with the licenses and technical specifications of those stations.

plant and equipment, necessary books, operating records, operating safety and maintenance manuals, engineering design plans, documents, blueprints and as-built plans, specifications, procedures, and similar items will be transferred. The records that the NRC requires a licensee to maintain are located and maintained at the nuclear plant sites or in the nuclear support offices and will be transferred to GENCO. GENCO will also ensure that it acquires custody or control of, or access to, any important documents needed for operation at the nuclear plants or compliance with NRC requirements presently owned by PECO or ComEd that may currently be in other locations. Further, any necessary contracts with Architect Engineers, Nuclear Steam Supply System (NSSS) suppliers, and other major vendors, will be assigned to GENCO, if possible, or other appropriate contracts will be obtained by GENCO on a timely basis. Other contracts and contractor relationships relating to these nuclear facilities will also be assigned or transferred to GENCO.

E. CONCLUSIONS

The information presented above describes the organizational groups, key executive positions, reporting relationships, and responsibilities that will exist in the GENCO NG for accomplishing the activities associated with the support and operation of the nuclear units to be owned and operated by GENCO. Clear management control and effective lines of authority and communications will exist between the organizational units involved in the management, operation, and support of the nuclear units. Breadth and level of experience, and availability of personnel off site, will exist to provide support for operation of the facilities. Moreover, following the proposed merger, the nuclear onsite organizations and staff will be essentially the same as currently approved by the NRC and as reflected in the governing UFSARs, DSARs and

Technical Specifications. Accordingly, GENCO will be technically qualified to become the licensee for the nuclear units which are the subject of the proposed license transfers.

V. FINANCIAL QUALIFICATIONS OF GENCO

A. PROJECTED OPERATING REVENUES AND OPERATING COSTS

GENCO will own, operate, and market power from nuclear, fossil, and hydroelectric generating units. GENCO will sell electricity to electric utility affiliates and will market electricity pursuant to rate tariffs approved by the Federal Energy Regulatory Commission. GENCO will also possess the financial qualifications to meet the applicable requirements of 10 CFR 50.33(f) for non-electric utility licensees. Specifically, GENCO will possess, or will have reasonable assurance of obtaining, the funds necessary to cover the estimated operating costs for the period of the facility licenses in accordance with 10 CFR 50.33(f)(2).

ComEd and PECO have prepared a Projected Income Statement for GENCO operations from January 1, 2001 through December 31, 2005. The GENCO Projected Income Statement is included in Enclosures 7 and 7P./8/ In accordance with the NRC Standard Review Plan on Power Reactor Licensee Financial Qualifications and Decommissioning Funding Assurance (NUREG-1557, Rev. 1) (SRP), this Projected Income Statement provides the estimated total annual operating costs for the nuclear facilities to be owned by GENCO. The source of funds to cover these operating costs will be operating revenues. The Projected Income Statement shows that the

8 Enclosure 7P is separately bound in a proprietary Addendum to this Application. The parties request that Enclosure 7P be withheld from public disclosure pursuant to 10 CFR 2.790, since it contains confidential commercial or financial information, as described in the Affidavit of Gerald R. Rainey, provided as Enclosure 9. A redacted version, suitable for public disclosure, is provided in Enclosure 7.

anticipated revenues from sales of capacity and energy by GENCO provide reasonable assurance of adequate funds to meet GENCO's ongoing operating expenses. The projected revenues from the sale of electricity from the nuclear units alone are expected to provide sufficient income to cover the total operating costs of GENCO's nuclear units. In addition, there will be substantial additional revenues available from sales of electricity from the more than 5000 MWe of capacity in the fossil-fired and hydroelectric generating stations to be owned and operated by GENCO, as well as revenues from power marketing and other business operations.

GENCO's projected assets and revenue streams are more than sufficient to cover its share of costs that might be associated with a six-month shutdown of one or more of the nuclear units it will own. The GENCO Projected Income Statement and Projected Opening Balance Sheet provided in Enclosure 7P demonstrates that GENCO will have total assets exceeding \$ 9 billion, and annual gross revenues of more than \$ 6 billion. Furthermore, based upon the financial stature of the company, GENCO is expected to have an investment-grade bond rating, which will enable it to raise additional funds as necessary. Accordingly, GENCO will fully meet or exceed the financial qualifications requirements of 10 CFR 50.33 (f) and the guidelines of the SRP.

B. DECOMMISSIONING FUNDING ASSURANCE

In accordance with 10 CFR 50.75(b), GENCO will maintain financial assurance for decommissioning funding that meets the requirements of 10 CFR 50.75(e), by maintaining external sinking funds for each of the units. The mechanism for obtaining funds for future contributions to the external sinking funds differs between Illinois and Pennsylvania, depending upon each state's restructuring legislation.^{9/}

PECO Energy, as a rate-regulated electric utility, currently maintains Nuclear Decommissioning Trusts (NDTs) for its interests in each of the Peach Bottom, Limerick and Salem units. The NDTs utilize the external sinking fund financial assurance mechanism provided in 10 CFR 50.75(e)(1)(ii). On March 31, 1999 and August 4, 1999, PECO Nuclear (a unit of PECO) submitted information to the NRC regarding the status of the NDTs. These existing NDTs will be transferred to GENCO, which will continue to utilize the external sinking fund method, with periodic deposits to the funds over the operating life of the units.

Pursuant to the restructuring legislation in Pennsylvania, and the Nuclear Decommissioning Cost Adjustment Clause (NDCA) established by the Pennsylvania Public Utilities Commission (PaPUC) (Docket No. R-00973953), PECO has been authorized to recover the decommissioning costs for its interests in the Peach Bottom, Salem and Limerick units pursuant to non-bypassable charge mechanisms. Following the merger, PECO will continue to recover these costs through these mechanisms and will be contractually obligated to pay these amounts to GENCO. Thus, GENCO will have a source of revenues for decommissioning the

⁹ Certain private letter rulings may be required from the Internal Revenue Service in connection with these matters. This is discussed in Section X.

former PECO units that is a "non-bypassable charge" within the meaning of 10 CFR 50.75(e)(1)(ii)(B).

VI. ANTITRUST CONSIDERATIONS

The NRC has determined that antitrust review of post-operating license transfers is not required by the Atomic Energy Act, and that from a policy, as well as legal perspective, such a review should not be conducted. See Kansas Gas and Electric Company (Wolf Creek Generating Station, Unit 1), CLI-99-19, June 18, 1999.

VII. RESTRICTED DATA AND CLASSIFIED NATIONAL SECURITY INFORMATION

This application does not contain any Restricted Data or Classified National Security Information, and it is not expected that any such information will become involved in the licensed activities. However, in the event that such information does become involved, and in accordance with 10 CFR 50.37, PECO agrees that it will appropriately safeguard such information and will not permit any individual to have access to such information until the individual has been appropriately approved for such access under the provisions of 10 CFR Part 25 and/or Part 95.

VIII. ENVIRONMENTAL CONSIDERATIONS

This license transfer application and accompanying administrative amendments are exempt from environmental review, because they fall within the categorical exclusion appearing at 10 CFR 51.22(c)(21) for which neither an Environmental Assessment nor an Environmental

Impact Statement is required. Moreover, the proposed license transfer and conforming amendments do not involve any amendment to the license or other change that would directly affect the actual operation of the facilities involved in any substantive way. The proposed transfer and amendments to the license do not involve an increase in the amounts, or a change in the types, of any radiological effluents that may be allowed to be released off-site, and do not involve any increase in the amounts or change in the types of any non-radiological effluents that may be released off-site. Further, no increase in the individual or cumulative occupational radiation exposure is expected.

IX. ADDITIONAL INFORMATION REGARDING SPECIFIC REGULATORY REQUIREMENTS, PLANS, PROGRAMS AND PROCEDURES

A. OFFSITE POWER CONSIDERATIONS

The physical systems for supplying offsite power to the nuclear plants will be unchanged as a result of the transfers. However, as a result of the merger and the transfer of the nuclear plants, operation of the nuclear plants by GENCO will be separated from the operation of the transmission and distribution systems by ComEd and PECO. Accordingly, by closing on the restructuring transactions, interconnection agreements and/or operating protocols will be established between GENCO and the T&D entities addressing offsite power to the nuclear sites, including issues such as notifications, maintenance of the transmission facilities, coordination of switching voltage levels, and emergency power restoration. The existing transmission facilities, along with the proposed interconnection agreements and/or operating protocols, will assure that the sources of offsite power to the nuclear plants will continue to be reliable and in full compliance with 10 CFR 50, Appendix A, General Design Criterion 17.

Current arrangements for off-site power for the Salem facility, which is operated by Public Service Electric & Gas (PSE&G), will not be affected by the transfer of PECO's non-operating license interest to GENCO.

B. EMERGENCY PLANNING

Upon transfer of the licenses, GENCO will assume authority and responsibility for functions necessary to fulfill the emergency planning requirements specified in 10 CFR 50.47(b) and Part 50, Appendix E. Either before or after the transfer, any changes to the emergency plans for the facilities will be made in accordance with 10 CFR 50.54(q). Neither PECO nor ComEd anticipates any changes that will result in a decrease in the effectiveness of the plans.

No substantive changes are anticipated to the existing emergency organizations for the nuclear plants. However, certain functions may be performed by ComEd, PECO, or other GENCO corporate affiliates pursuant to an appropriate services agreement. The current off-site emergency facilities and equipment will be transferred or leased to GENCO. Existing agreements for support from organizations and agencies not affiliated with PECO or ComEd will be assigned to GENCO.

The transfer to GENCO of PECO's ownership interest in the Salem nuclear station, which is operated by PSE&G, will not affect emergency planning for Salem.

C. EXCLUSION AREAS

By virtue of the transfer of ownership of the nuclear plants and transfer of the NRC licenses to GENCO, ComEd and PECO will transfer to GENCO the authority to determine and control all activities within the exclusion areas for the nuclear plants to the extent required by 10 CFR 100.

GENCO is not acquiring certain switchyard and other transmission assets owned by ComEd and PECO, which are located within the exclusion area. These T&D facilities will be retained by ComEd or PECO, as the case may be. However, GENCO will have authority, with respect to ComEd's or PECO's ownership of and access to switchyard and transmission facilities, to determine and control all activities in the exclusion area, including exclusion of personnel and property from the area, to the extent necessary to comply with applicable NRC requirements. This authority will be confirmed in the interconnection agreements and/or operating protocols for these switchyard and transmission facilities.

The transfer of PECO's non-operating interest in Salem to GENCO will have no impact on PSE&G's control of the Salem exclusion area.

D. SECURITY

Upon transfer of the nuclear units, GENCO will assume authority and responsibility for the functions necessary to fulfill the security requirements specified in 10 CFR 73. Any changes made to the existing, NRC-approved physical security, guard training and qualification, and safeguards contingency plans will be made in accordance with 10 CFR 50.54(p). No changes are anticipated that will result in a decrease in the effectiveness of the plans.

No material changes are anticipated to the existing security organization. Existing agreements for support from organizations and agencies not affiliated with PECO or ComEd will be assigned to GENCO.

The transfer of PECO's non-operating interest in Salem to GENCO will not affect security at Salem, which is operated by PSE&G.

E. QUALITY ASSURANCE PROGRAM

Upon the transfer of the nuclear units, GENCO will assume authority and responsibility for the functions necessary to fulfill the quality assurance (QA) requirements of 10 CFR 50, Appendix B. Any changes made to the existing Peach Bottom and Limerick QA Program Descriptions (QAPD) implemented by PECO, or to the ComEd Quality Assurance Topical Report (QATR), to reflect the transfer and new NG organization, will be made in accordance with 10 CFR 50.54(a). No changes are anticipated that will result in a reduction in the commitments in the QAPD or QATR previously accepted by the NRC. No material changes to the existing QA organizations, other than the NG reporting relationships described above, are anticipated.

The transfer of PECO's non-operating interest in Salem, which is operated by PSE&G, will not affect the Salem Quality Assurance Program.

F. UPDATED FINAL SAFETY ANALYSIS REPORTS

With the exception of areas discussed in this application, the proposed license transfers and conforming administrative amendments will not invalidate technical or design information presently appearing in the UFSARs or DSARs for the nuclear units, and licensing basis commitments will remain in effect. UFSAR or DSAR changes necessary to reflect the proposed transfers and conforming administrative license amendments will be made in accordance with 10 CFR 50.71(e), following NRC approval of the proposed transfers.

G. TRAINING

The training centers and simulator facilities operated by ComEd and PECO, and the staff currently working at these facilities, will be transferred to GENCO or to a wholly-owned

GENCO subsidiary. The proposed license transfers will not impact compliance with the operator re-qualification program requirements of 10 CFR 50.54 and related sections, nor maintenance of the INPO accreditations for licensed and non-licensed training. Upon transfer of the licenses, GENCO will assume responsibility for implementation of present training programs. Changes to the programs to reflect the transfers and new organization will not decrease the scope of the approved operator re-qualification program without the specific authorization of the NRC in accordance with 10 CFR 50.54(i).

The transfer of PECO's non-operating license interest in Salem, which is operated by PSE&G, will have no effect on Salem training programs.

H. PRICE-ANDERSON INDEMNITY AND NUCLEAR INSURANCE

In accordance with 10 CFR 140.92, Art. IV.2, PECO requests NRC approval of the assignment and transfer of the Price Anderson indemnity agreements for all of the nuclear units involved to GENCO, upon consent to the proposed license transfers. Prior to the license transfers, GENCO will obtain all required nuclear property damage insurance pursuant to 10 CFR 50.54(w) and nuclear liability insurance pursuant to 10 CFR 140. GENCO's Projected Income Statement and expected investment-grade rating, discussed above, provide adequate assurance that, pursuant to the requirements of 10 CFR 140.21(e)-(f), GENCO would be able to pay its share of deferred premiums in the amount of \$ 10 million per nuclear unit.

I. STANDARD CONTRACT FOR DISPOSAL OF SPENT NUCLEAR FUEL

Upon completion of the merger, GENCO will assume title to and responsibility for storage and disposal of spent nuclear fuel located at all of the nuclear plants operated by PECO

and ComEd. PECO and ComEd will assign, and GENCO will assume, PECO's and ComEd's rights and obligations under the Standard Contract with the Department of Energy.

X. OTHER REQUIRED REGULATORY APPROVALS

The proposed merger and transfers are subject to the approval of the Pennsylvania Public Utility Commission and notification to the Illinois Commerce Commission. Additionally, Exelon will become a registered holding company subject to approval and regulation by the Securities Exchange Commission under the Public Utility Holding Company Act of 1935, as amended. PECO and ComEd will also request Federal Energy Regulatory Commission (FERC) approval for the transfer of jurisdictional assets pursuant to Section 203 of the Federal Power Act, and acceptance of Interconnection Agreements and other rate schedules under Section 205 of the Federal Power Act. GENCO will also apply for FERC authorization under Section 205 of the Federal Power Act to sell electric generating capacity and energy at wholesale and market-based rates.

PECO and ComEd will also file notifications with the Federal Trade Commission and the Department of Justice that are required in connection with the merger under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (HSR Act), and applicable rules and regulations. Any additional information required will be supplied with a goal towards the termination or expiration of the HSR Act waiting period at the earliest possible date after the date of filing.

Certain rulings by the Internal Revenue Service under the Internal Revenue Code may also be necessary to assure that the current PECO and ComEd decommissioning funds

accumulated in qualified and non-qualified decommissioning trust funds may be transferred by PECO and ComEd to GENCO on a tax-efficient basis. To the extent that satisfactory private letter rulings or other tax relief are not timely obtained, the parties will update the NRC on alternative plans for decommissioning funding assurance.

XI. EFFECTIVE DATE

PECO requests that the NRC consent to the proposed transfers as promptly as possible, and in any event before June 30, 2000. This date is important because the benefits of the PECO/Unicom merger, including anticipated benefits to the safety, reliability, and efficiency of operation of the nuclear plants to be owned and operated by GENCO, and the benefits to competition flowing from the unbundling of PECO's and ComEd's utility functions, will not become available until the transfers have been completed. The parties request that the NRC's consent be immediately effective upon issuance, and that it allow the transfers at any time through twelve months following the date of approval (or such later date as may be permitted by the NRC), to allow time for receipt of regulatory approvals, completion of administrative activities associated with the transaction, as well as contingencies.

XII. CONCLUSION

Based upon the foregoing information, GENCO will be qualified to be an owner and the licensed operator of the Peach Bottom and Limerick nuclear facilities. GENCO will also be qualified to be the non-operating licensee co-owner of the Salem facility. The requested license transfers are consistent with applicable provisions of law, regulations, and the orders of the NRC. Accordingly, PECO respectfully requests that NRC issue an order approving the license transfers and issue the associated conforming administrative license amendments as requested in this submittal.

Enclosure 1

Proposed Corporate Structure of Exelon
and Principal Subsidiaries

[CHART APPEARS HERE]

1. Entity is a Pennsylvania corporation.
2. Entity is currently a vertically integrated electric utility which includes transmission and distribution (T&D), and nuclear generating assets. On December 15, 1999, it disposed of its fossil assets in a transaction separate from the merger. The nuclear generating assets of this entity will be transferred to GENCO. This entity may continue to hold some or all of the subsidiaries it currently has.
3. Entity has several subsidiary or joint venture operations including Unicom Energy, an alternative retail electric supplier (ARES). This entity may eventually hold interest in the current "unregulated" ventures of PECO Energy.
4. Entity is a current first tier subsidiary of Unicom Corporation which conducts no activity and has no subsidiary operations.
5. Entity or entities which will own the nuclear and fossil generating assets of PECO, will house the Power Team (i.e., wholesale marketing organization) and will own the nuclear generating units of ComEd. Group will also include the Conowingo Project entities and the 50% interest in AmerGen Energy Company, LLC.
6. Entity will be newly formed as a Service Company generally providing administrative and general services to all entities within the group.
7. Entity is the current publicly traded parent company of the PECO group. It is currently a vertically integrated electric and gas utility which includes T&D, fossil and nuclear generating assets, wholesale power marketing and non-regulated activities. In conjunction with the merger, this entity will disaggregate some operations and focus its operations on the southeastern Pennsylvania territory T&D business. This entity may continue to hold some of its current subsidiaries.

ENCLOSURE 5

GENCO
Nuclear Group
Organizational Structure

[CHART APPEARS HERE]

Note: Additional regional operating groups may be formed if plants are added or for current plants. Plants may also be moved within regional operating groups. These organizational changes may be made in order to ensure effective management control, support, and oversight.

List and Description of Subsidiaries and Investments
Of Unicom Corporation
(Other than "Public-Utility" Companies)

As of March, 2000

Name	Jurisdiction	Description	Authority

Subsidiaries of Unicom			
Unicom Enterprises Inc	Illinois	First tier holding company for Unicom non-regulated investments	See below
Unicom Mechanical Services Inc	Delaware	design, build, test, repair, distribute products and and finance heating, cooling, ventilation and industrial process systems, and high and low voltage electrical power systems for commercial and industrial customers	Rule 58 (b)(1) (ii) and (vii); CINergy HCAR 35-26662
V. A. Smith Company	Illinois	Subsidiary of Unicom Mechanical Services Inc.	See Unicom Mechanical Services Inc
UMS Acquisition Corp	Delaware	Subsidiary of Unicom Mechanical Services Inc	See Unicom Mechanical Services Inc
KHB Inc	Illinois	Subsidiary of UMS Acquisition Corp	See Unicom Mechanical Services Inc
MMCD, Inc	Illinois	Subsidiary of UMS Acquisition Corp	See Unicom Mechanical Services Inc
Access Systems Inc.	Illinois	Environmental control; building automation and security systems for commercial and industrial customers	See Unicom Mechanical Services Inc
Hoekstra Building Automation, Inc	Illinois	Environmental control; building automation and security systems for commercial and industrial customers	See Unicom Mechanical Services Inc
MMSD, Inc	Illinois	Subsidiary of UMS Acquisition Corp	See Unicom Mechanical Services Inc

Unicom Power Holdings Inc	Delaware	owns electric power production facilities; full service developer engaged in the design, construction, financing, ownership and operation of energy production facilities	Rule 58 (b)(1) (vii) and (viii)
Unicom Investment Inc.	Illinois	formed to receive the proceeds from the fossil sale pending eventual use of those funds.	Passive tax advantaged investment in arrangement not involving a public utility company. No-action request pending with the Commission.
Unicom Energy Inc	Delaware	markets electricity and natural gas where retail competition is established	Rule 58 (b)(1) (v)
Unicom Energy Ohio, Inc.	Delaware	markets natural gas where retail competition is established	Rule 58 (b)(1) (v)
Unicom Energy Services Inc.	Illinois	distributed generation including microturbine and similar technology; turnkey energy and operational solutions; demand-side and supply side solutions; energy performance contracting and guaranties; custom lighting solutions; financing related thereto Unicom Distributed Energy division sells, finances, installs and maintains on-site generation and cogeneration Unicom Active Energy Management division provides a suite of energy information products and related consultative services (forecast daily energy usage and track historical energy consumption) eQuater provides energy information services	Rule 58 (b)(1) (i), (vii) and (viii)
Unicom Gas Services LLC	Delaware	Markets natural gas where retail competition is established (To be merged with Unicom Energy Inc)	Rule 58 (b)(1) (v)
Unicom Power Marketing Inc.	Delaware	wholesale electricity and natural gas marketing	Rule 58 (b)(1)(v)
Unicom HealthCare Management Inc.	Illinois	management of SFAS 106 contingent medical plan liabilities	

UT Holdings Inc.	Delaware	district energy company; operates district cooling systems; district energy systems (chilled water, steam and/or hot water); construction and operating services for central energy plan	Rule 58 (b)(1)(vi) and (vii)
Unicom Thermal Development Inc	Delaware	Subsidiary of UT Holdings Inc.	See UT Holdings Inc.
Unicom Thermal Technologies Inc	Illinois	Subsidiary of UT Holdings Inc.	See UT Holdings Inc.
Unicom Thermal Technologies Boston Inc.	Delaware	Subsidiary of UT Holdings Inc.	See UT Holdings Inc.
Northwind Boston LLC	Massachusetts	25% held by Unicom Thermal Technologies Boston Inc.	See UT Holdings Inc
Unicom Thermal Technologies Houston Inc.	Delaware	Subsidiary of UT Holdings Inc	See UT Holdings Inc
Northwind Houston LLC	Delaware	25% held by Unicom Thermal Technologies Houston Inc	See UT Holdings Inc
Northwind Houston LP	Delaware	25% held by Northwind Houston LLC	See UT Holdings Inc
Unicom Thermal Technologies North America Inc.	Delaware	Subsidiary of UT Holdings Inc (operates in Canada)	See UT Holdings Inc
Northwind Thermal Technologies Canada Inc.	New Brunswick	Subsidiary of Unicom Thermal Technologies North America Inc.	See UT Holdings Inc
Unicom Thermal Technologies Inc.	New Brunswick	Subsidiary of Northwind Thermal Technologies Canada Inc.	See UT Holdings Inc
UTT National Power Inc.	Illinois	Subsidiary of UT Holdings Inc	See UT Holdings Inc
Northwind Midway LLC	Delaware	Subsidiary of UTT National Power Inc.	See UT Holdings Inc
UTT Nevada Inc.	Nevada	Subsidiary of UT Holdings Inc	See UT Holdings Inc
Northwind Aladdin LLC (75%)	Nevada	Subsidiary of UTT Nevada Inc.	See UT Holdings Inc
Northwind Las Vegas LLC (50%)	Nevada	Subsidiary of UTT Nevada Inc.	See UT Holdings Inc
Northwind Chicago LLC (100%)	Delaware	Subsidiary of UT Holdings Inc.	See UT Holdings Inc
UTT Phoenix, Inc.	Delaware	Subsidiary of UT Holdings Inc	See UT Holdings Inc

Northwind Arizona Development LLC (50%)	Delaware	Subsidiary of UTT Phoenix Inc.	See UT Holdings Inc
Northwind Phoenix LLC (50%)	Delaware	Subsidiary of UTT Phoenix Inc.	See UT Holdings Inc
Unicom Resources Inc.	Illinois	[inactive]	
Unicom Assurance Company Limited	Bermuda	A direct sub of Unicom. Insurance captive	Columbia Insurance Corporation, Ltd. HCAR No. 27051
Subsidiaries of Commonwealth Edison			
ComEd Financing I	Delaware	Special purpose financing vehicle	New Century Energies, HCAR No. 26748
ComEd Financing II	Delaware	Special purpose financing vehicle	New Century Energies, HCAR No. 26748
ComEd Funding, LLC	Delaware	Special purpose financing vehicle	New Century Energies, HCAR No. 26748
ComEd Transitional Funding Trust	Delaware	Special purpose financing vehicle	New Century Energies, HCAR No. 26748
Commonwealth Research Corporation	Illinois	Engaged in research, development and testing activities to ensure a safe, economical and adequate electric power supply for ComEd; holds certain energy related patents	
Concomber Ltd	Bermuda	Captive insurance company	Columbia Insurance Corporation, Ltd. HCAR No. 27051
Edison Development Company	Delaware	Holds real estate; real estate joint ventures.	
Edison Development Canada Inc.	Canada	Exploration, development, mining and milling of uranium ore	Rule 58 (b)(1)(ix)
Edison Finance Partnership	Ontario	Intercompany financing with Edison Development Canada and Northwind Thermal Technologies Canada	New Century Energies, HCAR No. 26748

Non-subsiary investments	Percentage ownership	Description	Authority
Apeco Corporation (Common Stock - \$.50 Par Value	less than 5%		
Chicago Community Ventures, Inc.	less than 5%	enterprise small business investment company	WPL Holdings, ----- HCAR 35-26856
Chicago Equity Fund	less than 5%	funds rehab glow and moderate income housing	WPL Holdings, ----- HCAR 35-26856; Ameren ----- HCAR 35-26809
Dearborn Park Corporation	less than 5%		
I.L.P. Fund C/O Chicago Capital Fund	less than 5%	venture capital small business fund	WPL Holdings, ----- HCAR 35-26856
Illinois Venture Fund (Unibanc Trust)	less than 5%	venture capital new technology in Illinois	WPL Holdings, ----- HCAR 35-26856

List and Description of Subsidiaries and Investments
Of PECO Energy Company
(Other than "Public-Utility" Companies)

As of March, 2000

Name	Jurisdiction	Description	Authority
Subsidiaries of PECO			
PECO Energy Capital Corp. (PECC), wholly owned by PECO		financing vehicle for issuance of cumulative income preferred securities	New Century Energies, HCAR No. 26748
PECO Energy Capital, L.P.	Delaware	issue cumulative income preferred securities and lend the proceeds thereof to PECO	New Century Energies, HCAR No. 26748
PECC Trust 1		trust created for the issuance of a retired series of cumulative preferred securities (inactive)	New Century Energies, HCAR No. 26748
PECC Trust 2		trust created for the issuance of a specific series of cumulative preferred securities	New Century Energies, HCAR No. 26748
PECC Trust 3		trust created for the issuance of a specific series of cumulative preferred securities	New Century Energies, HCAR No. 26748
PECO Energy Transition Trust (PETT)		securitization of stranded costs; in March 1999 PECO Energy issued \$4 billion of transition bonds through PETT	New Century Energies, HCAR No. 26748
ATNP Finance Company,	Delaware	wholly owned by PEWI, was formed to manage the net securitization proceeds to maximize the return thereon	New Century Energies, HCAR No. 26748
PEC Financial Services, LLC (PEC)	Pennsylvania	manages the net securitization proceeds to maximize the return thereon	New Century Energies, HCAR No. 26748
Eastern Pennsylvania Development Company (EPDC), wholly owned by PECO		hold interests in subsidiaries conducting unregulated real estate and complementary operations	PECO is in the process of winding-up or selling-off each of its non-utility real estate businesses. Exelon requests that the Commission reserve jurisdiction for three years subsequent to the

		date of any order in this matter. See --- CINergy Corp., Holding Co. Act ----- Release No. 26146 (October 21, 1994). Exelon will make a filing with the Commission as soon as it has dissolved or sold off the last of the identified entities.
Adwin Realty Company (ARCO), wholly owned by EPDC	real estate development and management company	See discussion under EDPC
Route 213 Enterprises, Inc., wholly owned by ARCO	real estate development and management company (currently being dissolved)	See discussion under EDPC
Energy Performance Services, Inc., 10% interest held by EPDC	specializes in the development, financing, implementation and construction of energy efficiency projects for large industrial, institutional, commercial and governmental facilities	Rule 58(b)(1)(i),(vii)
Adwin Equipment Company, wholly owned by PECO	leases equipment for co-generation and related activities	Rule 58 (b)(1)(vi), (viii)
PECO Wireless, LLC (PEWI)	wholly owned LLC which serves as a holding company for financing subs for securitization transactions	New Century Energies Holding Co. Act Release No. 26748, supports utility operations.
AT&T Wireless PCS of Philadelphia, LLC, 49% LLC membership interest held by PEWI	joint venture with AT&T Wireless Services formed to offer personal communications services in the Philadelphia Major Trading Area (MTA); an FCC license holder	Section 34 of the Act
PECO Hyperion Telecommunications (PHT), PECO is a 50% partner	competitive local exchange carrier that provides services such as local dial tone, long distance, Internet service and point-to-point (voice and data) communications	Section 34 of the Act

AmerGen Energy Company, L.L.C., PECO is a 50% owner	joint venture with British Energy to acquire nuclear and complementary electric generating assets	EWG
AmerGen Vermont, LLC (AVT)	Formed to own and operate nuclear generating facility in Vermont	EWG
Adwin (Schuykill) Cogeneration, Inc.	inactive	
Exelon Infrastructure Services, Inc. (EIS), PECO owns approximately 95%	Holding company for infrastructure services unit specializing in the design, construction, operation and maintenance of utility (electric, gas, water cable television, and telecommunications) distribution networks	Rule 58 (b)(1)(vii), (ix)
Exelon Infrastructure Services of PA, Inc. (EISPA)	Performs residential development and other infrastructure services work for PECO Energy	New Century Energies, HCAR No. 26748
Chowns Communications, Inc. (CCI)	utility contractor providing primarily telecommunications services, including conduit installation projects for Bell Atlantic, Inc.	Rule 58 (b)(1)(vii)
Fischbach and Moore Electric, Inc. f/k/a NEWCOFM, Inc. (FAMI)	electrical contracting firm that constructs electrical infrastructure for commercial and industrial buildings and transit and traffic management systems for various government and private entities. Subsidiaries of Fischbach and Moore, Incorporated are: Fischbach and Moore Electrical Contracting, Inc.; T.H. Green Electric Co., Inc.; and A.S. Shulman Electric Company.	Rule 58(b)(1)(i),(ii), (vii)
MRM Technical Group, Inc. (MRM)	gas contracting firm comprised of six subsidiary construction companies and several non-construction subsidiaries. The construction companies are: Mueller Pipeliners, Inc. (New Berlin, WI); Gas Distribution Contractors, Inc. (Aurora, MO); Mid-Atlantic Pipeliners, Inc. (Newark, DE); Mueller Energy Services, Inc.	Rule 58(b)(1)(vii)

	(Lorain, OH); Mueller Distribution Contractors, Inc. (Sanford, FL); and Aconite Corporation (St. Paul, MN). Other subsidiaries are: Mechanical Specialties Incorporated and Rand-Bright Corporation.	
Syracuse Merit Electric, Inc. (SME)	industrial and commercial electrical contracting services including on-site electric facility, inside commercial facility electrical system and data system design and installation	Rule 58(b)(1)(i),(ii), (vii)
NEWCOTRA, Inc	Holding company for FAMI	See FAMI above
Trinity Industries, Inc. (TII)	underground utility contractor installing natural gas pipeline mains and laterals	Rule 58(b)(1)(iv)(vii)(ix)
OSP Consultants, Inc. (OSP)	engineering and design services, construction-related services, craft services (cable splicing, installation and repair), project management and administrative functions on telecommunications infrastructure projects Subsidiaries include: International Communications Services, Inc.; OSP, Inc.; OSP Servicios, S.A. de C.V.; OSP Telcom de Colombia, LTDA; OSP Telcom, Inc.; OSP Telcomm de Mexico, S.A. de C.V.; OSP Telecommunications, Ltd.; RJE Telecom, Inc.; and Utility Locate & Mapping Services, Inc. OSP operates in 33 states and several countries	Rule 58(b)(1)(vii); Section 34 of the Act
Horizon Energy Company f/k/a PECO Gas Supply Company	sell competitively priced electricity and natural gas in deregulating retail markets; currently inactive	Rule 58(b)(1)(v)

East Coast Natural Gas Cooperative LLC, PECO holds a 16.66% LLP interest	facilitate the coordinated use of certain natural gas capacity, storage, transportation and supply assets in order to improve service reliability and efficiency	New Century Energies, HCAR No. 26748
Energy Trading Company	holds interests in two publicly-traded companies: WorldWide Web NetworX Corporation and Entrade, Inc., each a developer and provider of business-to-business e-commerce solutions	Section 34 of the Act
Exelon Ventures Corporation	Inactive	
Exelon Capital Partners, Inc.,	venture capital fund established to leverage the core business of utility infrastructure services and communications and PECO's other resources through investment in new businesses. Currently holds a 12% interest in Extant, Inc. and a 50% interest in CIC Global, LLC	Section 34 of the Act and/or Rule 58(b)(1)(i), (ii), (vii)
NEWHOLDCO Corporation	An inactive subsidiary of PECO which will be renamed Exelon Corporation and will become the Applicant as a result of the Merger	
Utility Competitive Advantage Fund, LLC; Peco holds 10% interest	Venture capital fund	

PECO ENERGY COMPANY

ANALYSIS OF THE ECONOMIC IMPACT OF
A DIVESTITURE OF THE REGULATED GAS BUSINESS OF
PECO ENERGY COMPANY

February 15, 2000

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PECO ENERGY COMPANY

ANALYSIS OF THE ECONOMIC LOSS IMPACT
OF A DIVESTITURE OF THE
GAS OPERATIONS OF PECO ENERGY COMPANY

I. EXECUTIVE SUMMARY

This study was undertaken by the management and staff of PECO Energy Company, a Pennsylvania corporation ("PECO"), in the context of its proposal to merge with Unicom Corporation. The objective of this study is to quantify the economic impact on shareholders and customers of divesting PECO of its natural gas assets and business in the Commonwealth of Pennsylvania to a separate stand-alone or independent natural gas distribution company ("NewGasCo"). This study attempts to conservatively quantify many of the direct increases in the cost of labor, facilities, information technology resources, capital financing and miscellaneous general overheads that would be incurred as a result of a forced divestiture. Additionally, PECO's study evaluates difficult to quantify, indirect costs that would occur as a consequence of divestiture.

Summary of Shareholder Impacts

The shareholder impacts of divesting PECO's gas operations were calculated based on the increased operating expenses and capital cost that would result from divestiture, and assumes no regulatory rate relief. These substantial increases are caused by several factors, including but not limited to much higher employee counts due to the loss of shared intra-company support services which are currently provided to both the gas and the electric operations at PECO. Cumulative employee counts resulting from the study total 1,031 for NewGasCo, as opposed to the 582 full time equivalents charged to PECO's gas operations in calendar year 1998. While much of the field staff could be drawn from existing PECO gas operations, most corporate, information system, and customer service functions would need to be developed from scratch. Other corporate overheads and facilities, including buildings and IT systems, reflect the cost of a start-up, detached operation. Table I-1 shows these estimated effects on NewGasCo.

Table I-1

Annual Shareholder Impact of Lost Economies (\$000)

Total Lost Economies	\$72,878
Lost Economies as a percent of:	
Total Gas Operating Revenues	18.24%
Operating Revenue Deductions	22.54%
Gross Income	95.42%
Net Income	124.57%
Estimated return on rate base	2.04%
Estimated common equity return	-5.70%
Estimated return on net plant	1.49%

In Table I-1, lost economies represent the additional costs, excluding income taxes, for NewGasCo to operate as a stand-alone company. Total revenues reflect the operating revenues for PECO's gas operations for the twelve months ended December 31, 1998. Operating Revenue Deductions include all purchased gas expense and gas withdrawn from storage, operation and maintenance expenses, depreciation, and taxes other than income taxes. Gross income is the difference between Total Revenues and Total Expenses but excludes income taxes. Net Income is equal to Gross Income less income taxes. Rate base represents capitalization as of December 31, 1998.

Not measured in this study are prospective economic losses resulting from the inability of the gas operations to obtain economic benefit of costs reductions likely to result from the merger of PECO and Unicom. That cost reduction synergy has been estimated by management to range between \$100 and \$180 million annually for NewHoldCo's combined regulated and non-regulated energy services over the first three years after the merger is consummated. Accepted accounting principles would attribute a significant amount of those costs savings to PECO's gas operations. NewGasCo's inability to obtain these benefits, albeit not quantified here, would be a clear economic loss for NewGasCo's shareholders.

Summary of Customer Impacts

With divestiture, it would be a reasonable assumption that shareholders of NewGasCo would expect to receive a return on investment on a par with other comparable gas utilities. To achieve such a return, management of NewGasCo would be required to seek and obtain increased revenues from its customers through a rate increase. Assuming further that NewGasCo were permitted by state regulators to increase its revenue through a rate increase in an amount equal to the "lost economies" plus associated income taxes, the projected impact on customers is shown in Table I-2.

Table I-2

Annual Gas Customer Revenue Requirement Impact
Due to Lost Economies
(\$000)

Pre-Divestiture	\$399,642
Post-Divestiture	\$520,640
Increase	\$120,988
Percent Increase	30.28%
\$ Annual Increase/Customer	\$ 292

In addition, divesting the natural gas operations would create economic losses for PECO's remaining electric utility operations. These losses would come in the form of higher corporate overheads and capital costs resulting from the loss of allocation to the gas operations. It is anticipated that transfers of any common plant such as buildings and structures, communications equipment, and information technology to NewGasCo would be minimal due to the retained need for these items in electric operations. Table I-3 shows the impact of these losses on PECO's post-divestiture electric operations and assumes that those losses, plus associated income taxes, would be fully allowed for recovery from customers by state regulators.

Annual Electric Customer Impact
Due to Lost Economies
(\$000)

Increase	\$6,950
Percent Increase	0.0014%

Finally, due to the geographic overlap of PECO's electric and gas service territories, effectively all of PECO's 415,000 gas customers receive a single monthly bill for gas and electric service. These customers would incur increased personal costs such as additional postage (or if the customers pay their utility bill in person, additional travel expense) and check writing expense due to the need to remit payment to two utilities rather than one. Also, unquantifiable would be the possible cost in having to deal with two utilities instead of a single utility to address service, billing, and land-related questions. Table I-4 shows the impact of these lost economies on postage expense of PECO's existing gas customers.

Table I-4
Other Annual Customer Impacts

Postage	\$1,643,400 (415,000 customers X 12 bills X \$.33 postage)
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II. CONCLUSIONS

Forced divestiture of PECO's gas operations would cause enormous economic losses for the existing shareholders and customers of PECO Energy Company. Efficiencies currently derived through shared employees and facilities, which are integrated into almost every functional area of the company, would be eliminated. As a result, costs in each of these areas would markedly increase, thereby reducing the value of the enterprise to PECO's shareholders and PECO's gas and electric customers. As set forth below and as shown in Exhibit 1, shareholders would see lost economies of approximately \$73 million per year, which translates into 18.24% of operating revenue 22.54% of operating revenue deductions; 95.42% of gross income; and 124.57% of net income. Because the resulting return on common equity would be entirely unsatisfactory, and assuming rate recovery for the full amount of these lost economies, the estimated impact on customers would be increased gas rates amounting to more than 30% of an average customer's annual bill, or \$292 per customer.

III. DIVESTITURE ASSUMPTIONS

In determining the economic losses associated with divestiture of PECO's gas operations, this study makes the following key assumptions:

- A. If required, PECO would spin-off and divest its natural gas business into a stand-alone gas company (NewGasCo), independent of PECO Energy

Company, unaffiliated with the parent holding company to be created as a result of the merger of PECO and Unicom (NewHoldCo), and unaffiliated with any other company.

- B. Unlike other recent transfers of natural gas businesses, PECO's natural gas business would be transferred to NewGasCo at depreciated original cost book value of the assets, with no premium over book to reflect the market value being paid to acquire similar assets in today's energy marketplace.
- C. Corporate administrative and general ("A&G"), information systems, customer service and field functions would be handled by NewGasCo stand-alone employees rather than through business units shared in common with PECO's electric utility, generation, and ventures businesses, except as otherwise indicated.
- D. This study assumed current level of customers and business operations for PECO's utility businesses, including:
 - 1. PECO is a combination electric and gas utility, engaged in 1) the generation, purchase, transmission, distribution and sale of electricity; 2) the purchase, transmission, distribution, storage and sale of natural gas; and 3) certain non-regulated related businesses.
 - 2. PECO's gas business serves a geographical region in Pennsylvania comprising the four-county region surrounding the City of Philadelphia. This service territory is identical in all material respects to that served by PECO's electric operation, except that PECO's electric service territory also includes the City of Philadelphia.
 - 3. PECO serves approximately 415,000 gas customers and 1.5 million electric customers in this overlapping service territory. In calendar year 1998, PECO's gas throughput and operating revenues totaled 90,835,564 thousand cubic feet (mcf) and \$399.6 million. PECO's gas service is provided through 5,877 miles of distribution mains interconnected with two interstate natural gas pipelines and employed the services of 582 employees (full-time equivalents or "FTEs") as of December 31, 1998. Comparable operating statistics for the electric side include 74,864 gigawatt hours (gwh) of service delivered, \$4,836 billion of operating revenues, 1,198 pole miles of transmission lines, 12,368 pole miles of distribution lines, 9,465 megawatts of installed generation capacity, and 6,477 employees (FTEs).
 - 4. PECO's gas operations share common functions with its electric service counterpart throughout its operations, including common corporate and administrative, building, customer service, information technology, office, field, purchasing, and construction services.

IV. GENERAL METHODOLOGY USED IN THE ANALYSIS

- A. This study employs information, assumptions, and data derived from the industry expertise and experience of personnel at PECO Energy, comparative benchmarking data, and assistance from independent management consultants. Personnel providing input and analyses into this study serve all major aspects of utility operations and corporate support functions, including but not limited to human resources, legal, information technology, gas operations, regulatory and external affairs, accounting, building services, corporate finance and strategic planning. Cost decreases, as well as cost increases, were considered.
- B. The general assumptions applied to develop lost economies are as follows:
1. The economic losses associated with the divestiture of PECO gas operations into NewGasCo, as quantified, were based on the analysis of the work functions, facilities, vehicles, information system and telecommunications, and capital requirements consistent with a stand-alone gas utility concept.
 2. The base from which economic results were measured used calendar year 1998 operating statistics, including numbers of employees, customers, revenues, assets, costs, and other data available at PECO.
 3. NewGasCo would require an organization, number of employees, size and scope of facilities and infrastructure adequate to ensure that customers receive safe and reliable service into the future, including the need to satisfy industry standards, accepted practices, and regulatory requirements in all operational, customer service, shareholder service, financial reporting, and corporate governance functions.
 4. Costs were developed on the following basis:
 - a. Labor costs were determined using PECO's average labor costs in specific job classifications (e.g., executive, managerial, supervisory, and technical professional, and non-exempt other) and the pension and benefit cost loaders used by PECO.
 - b. Non-labor costs included the costs for information systems, telecommunications, field facilities, postage and other cost items that would be significantly impacted by divestiture.

5. All economic losses reflect the net impact on the cost item measured after removing the allocation of costs to the gas business unit from the combined company.

V. NEWGASCO ANALYSIS

A. General Assumptions

PECO's gas distribution system serves approximately 415,000 customers over a square mile area in the four-county region surrounding Philadelphia, Pennsylvania. Those operations are tightly integrated into PECO's electric and general corporate operations. Of PECO's total number of employees (as of December 31, 1998), only about 250 spent 100 percent of their time on gas operations. Shared operations include integrated operational functions such as customer service personnel who deal with service requests, planning engineers, purchasers, managers and supervisors, warehouse personnel, service dispatchers, marketing and sale personnel, and information systems specialists. Additionally, PECO provides the gas business required corporate services in the areas of human resources and employee benefits, risk management, legal, regulatory, public affairs, communications, building services, and telecommunications. This depth of integration has enabled PECO to provide gas utility service at a low cost.

Following divestiture, NewGasCo would no longer be able to share staff for various corporate, customer support, and field functions. These areas would need to be staffed at appropriate levels in order to maintain safe and reliable service in a manner which would allow NewGasCo to function as a going concern, attract and maintain capital investment, and comply with all applicable legal requirements.

This study generally incorporates PECO's existing corporate structure, where practical. Management representing each of PECO's functional areas were consulted for detailed input into the requirement of a stand-alone gas utility business. Also, the study incorporates, where feasible, industry benchmarks and practices.

B. Specific Assumptions

1. Board of Directors

It was assumed that the number of and compensation for Board members would be the same for the stand-alone gas company as it would be for the combined PECO utility.

2. Labor

- a. Current organizational structures, business practices and levels of efficiency applicable to gas utility operations were used as the basis for NewGasCo's organization and staffing levels.
- b. Numbers of employees required for NewGasCo were developed using an approach in which each functional area was reviewed to determine the nature of the work performed and the level of effort required to support a stand-alone gas company. Functional managers were consulted to determine appropriate staffing levels.
- c. Applicable comparative benchmark operating ratios were used to gauge appropriate personnel levels in all functional areas.
- d. Employee benefits were assumed to be similar to the existing levels of benefits in all functional areas.
- e. Salaries of senior management of the smaller stand-alone gas company were conservatively assumed to equal existing non-officer executive level positions, a conservative measure in light of the probable difficulty in attracting qualified senior level gas utility executives to a newly-formed, medium sized stand-alone gas company without paying premium salaries and benefits.
- f. Labor cost increases were determined on a net basis. Allocation of labor costs from the combined PECO utility operations were deducted from the cost of labor for NewGasCo.
- g. Salaries were determined using the average labor costs for executives, technical professional, management, supervisory and non-exempt positions.

3. Outside Services

This study assumes that the cost of outside services expenditures would remain constant where the service was conducted exclusively for the gas business, and in certain other areas where the service was conducted jointly on behalf of both the electric and gas operations of PECO but divestiture would not significantly impact the costs to the gas operations. However, other jointly provided services, such as annual financial audits performed by an independent external auditor, meter reading vendors, shareholder service vendors, and outside legal, were measured because costs in these areas would increase significantly as a result of divestiture. In preparing this Study, PECO also considered areas where divestiture-related cost decreases might occur. The potential cost decreases PECO identified were insignificant.

4. Information Systems/Telecommunications

Post-divestiture, NewGasCo would require information system capabilities that are now provided through the combined PECO utility operations. Pervasive integration of the gas and electric information systems exists currently in most functional areas, including customer dispatch, finance and accounting, payroll, human resources, work management, inventory and purchasing, meter reading, and customer service.

Substantial capital costs to detach, map and reconfigure existing systems servicing the gas operations would be incurred. Incremental O&M expense also would be incurred due to the lost ability to spread those costs over PECO's larger electric operations and achieve the economies of scale currently benefiting the combined enterprise.

5. Buildings, Facilities, Vehicles

Due to the gas-electric service territory overlap in the Philadelphia suburbs, PECO's gas operations currently share all non-electric generation related service buildings, warehouses, and storage yards outside of Philadelphia except the facilities located at the LNG plant in West Conshohocken, PA and a Propane-Air Plant located in Chester, PA. PECO's gas operations are allocated a portion of the costs of these common facilities based on a formula using criteria such as number of customers, plant in service and revenues. Post-divestiture, NewGasCo would need to replace these shared common facilities with similar stand-alone facilities located in the same general area due to the overlapping geography of the electric and gas service territories. This study based the cost of these similar facilities on the replacement value of

the existing common plant and adjusts those values based on customer or employee count allocation criteria.

While new employees would be hired to perform functions currently provided on a shared basis by employees located at PECO's Center City corporate headquarters, it was assumed for the purposes of this study that those employees would be absorbed into office space constructed for NewGasCo. No separate corporate headquarters was included in this assessment.

6. Vehicles

Due to the larger number of stand-alone administrative and general employees, incremental average annual transportation cost values were determined. While it is a reasonable assumption that NewGasCo would receive a transfer of a number of trucks and cars at least equivalent to the current cost allocation and the specialized gas vehicles already directly assigned to the gas operations, it is also likely that NewGasCo would need to purchase significant numbers of new service vehicles.

With the number of new full-time managerial, supervisory and technical professionals employed by NewGasCo, corporate vehicular usage and associated travel costs were measured to derive the incremental cost associated with the larger administrative & general staffing for NewGasCo.

7. Depreciation

Depreciation values were derived for the incremental plant only. PECO's depreciation rates were applied to the plant values to obtain the incremental depreciation expense.

8. Other Costs

This study measured cost levels in the areas of insurance, postage and uncollectibles. Insurance levels were based on the cost per thousands of dollars of increased plant or the numbers of employees. Postage was predicated on NewGasCo's need to transmit its own customer bills rather than through a common bill format shared with the electric operations. Uncollectibles were presumed to increase in accordance with the level of lost economies and increased revenue requirement.

9. Capital Expenditure and Cost

- a. Capital costs would consist of: 1) the costs associated with new buildings, facilities, plant, including field and service buildings, and vehicles; and 2) capitalized labor costs.
- b. Divestiture was assumed to involve a tax-free spin-off to the existing PECO shareholders. This would involve the separate incorporation of NewGasCo, the transfer of gas-related assets to NewGasCo, and the distribution of shares to current shareholders.
- c. Capital structure of NewGasCo was conservatively premised on PECO's existing capital structure. No adjustments were made to the cost of debt, although PECO's existing structure reflects debt financing rates which may not be available in today's financial markets for a stand-alone gas distribution company. The cost of Common equity is conservatively premised on returns recently allowed by various public utility commissions for other gas distribution companies.
- d. NewGasCo would receive the transfer of gas assets at net book value, with additional capital expenditures for new buildings, facilities, furniture, etc. based on replacement cost value.
- e. Working capital rates were unchanged from the pre-divestiture values.

10. Transition Costs

Transition costs were estimated for the cost of auditing and other accounting costs, legal fees, investment banker fees and human resources issues associated with the transfer of employees. The cost of hiring and training several hundred new employees, while likely to be significant, was not measured in this analysis. Estimated transition costs were amortized over a 10-year period. It was also assumed that the divestiture would be structured to avoid all federal or state income taxes and that the future tax obligations of NewGasCo would not be materially affected by the transfer.

C. Organizational Structure

The existing management structure supporting PECO's gas operations was utilized generally for the purposes of NewGasCo's organization. See Exhibit 2. This structure was deemed adequate to satisfy the business purposes of meeting

NewGasCo's customer service obligations, legal and regulatory requirements and generally accepted business and industry practices. This organizational design is reasonably structured along functional lines and is the primary driver of the size of the employee base, associated payroll and employee benefit costs. The estimates for these items are predicated upon extensive consulting with PECO management personnel, with utility benchmarks and industry practices also being taken into account.

PECO's management structure currently allows the gas and electric operations to share personnel and outside vendors for various corporate and field functions. Examples of the corporate and field functions include legal, regulatory, internal audit, environmental, safety, customer service, accounting, construction, procurement, finance, and billing. Examples of outside services include meter reading, customer service, outside legal and external audit. Upon divestiture, NewGasCo would need to create a stand-alone management structure to staff each of these shared functions and obtain needed outside services without the shared support from PECO's electric operations, as follows and as shown in Exhibit 1.4:

1. Senior Management. NewGasCo would have a President and Chief Executive Officer (CEO) which would report directly to the Board of Directors. Reporting to the CEO would be the Chief Operating Officer (COO), VP-Legal (General Counsel), VP-Finance and Accounting (CFO), VP-Information Systems, and VP-Human Resources.
2. Directly reporting to the COO would be vice presidents of Corporate & Public Affairs, Gas Supply and Transportation, Contractor and Supply Management, Customer and Marketing Services, and Operations.
 - a. Corporate and Public Affairs handles government affairs, public relations and corporate communications. A total of 1 executive, 9 managerial, supervisory and technical professionals, and 4 support personnel are estimated for this function.
 - b. Gas Supply and Transportation involves supply and transportation planning and acquisition, end user transportation, risk and portfolio management, off-systems sales and trading, and supply and capacity contract management, gas regulation, production plant management and operation. A total of 1 executive, 32 management, supervisory, and technical professionals, and 13 other personnel were estimated for this department.
 - c. Contractor and Supply Management handles non-gas supply purchasing and disposal, inventory control and management, transportation management, work management, general services, real estate, storeroom and warehousing, construction and materials vendor relations and contracts associated therewith. A total of 1 executive, 72

managerial, supervisory, and technical professionals, and 89 other personnel are estimated for this department.

- d. Customer and Marketing Services includes load and sales forecasting, market, product, and sales planning and support, market research, community services, advertising and promotion, economic development, customer outreach, customer inquiries, call center functions, meter reading, managing outside meter reading services, billing and payment, customer and revenue accounting, central cash remittance and bill processing, credit and collections. A total of 1 executive, 63 managerial, supervisory and technical professionals, and 111 other personnel are included for this department.
 - e. Operations includes gas system engineering, design and analysis, field services, contractor and builder services, field work management, management of outside construction services in the field, facilities maintenance, engineering & design services, customer dispatch, mapping and document services, corrosion control. A total of 1 executive, 90 managerial, supervisory and technical professional, and 352 other personnel are estimated for this department.
3. Human Resources is responsible for establishing and administering employee compensation plans, training and development, and employee relations. A total of 1 executive, 15 management, supervisory, and technical professionals, and 5 support personnel are estimated for this department.
 4. Finance and Accounting provides treasury and financing services, payroll accounting, insurance, internal and external reporting, office services, performance measurement, accounts payable and receivable accounting, property accounting, general ledger and corporate accounting, tax accounting, budgeting, financial and corporate planning, shareholder relations, rates and regulatory affairs. A total of 3 executives, 49 management, supervisory and technical professionals, and 22 support personnel are estimated for this department.
 5. Legal is responsible for compliance with applicable statutes, rules and regulations, claims, litigation, internal audit, environmental affairs and corporate secretary functions. This function performs legal services itself and manages specialized outside counsel. A total of 1 executive, 21 management, supervisory and technical professionals, and 12 support personnel are estimated for this department.
 6. Information Services and Telecommunications handles application systems development and maintenance, database administration and security, computer operation, end user information and help-desk support, and telecommunications. A total of one executive, 52 management, supervisory

and technical professionals, and 3 support personnel are estimated for this department.

D. Annual Cost Increase

The annual incremental costs associated with creating the stand-alone NewGasCo are shown in the Income Statement at Exhibit 1.1. These costs total \$72.9 million, and include operating expense and rate base cost increases caused by a divestiture and the tax implications resulting therefrom. See Exhibit 1.2. Put on a ratemaking basis, the full impact on customers is estimated to be \$122.9 million. See Exhibit 1.1.

Table V-1
Annual Cost Increases to NewGasCo
(Thousand \$)

Income Statement Adj.	Rate Base	Revenues	Expenses	Taxes
I. Payroll			27,541	(11,428)
II. Benefits			9,565	(3,969)
III. External Audit			1,041	(432)
IV. Insurance			217	(90)
V. Director's Fees			582	(241)
VI. Transportation			32	(13)
VII. Transition Cost Amort.			567	(235)
VIII. Meter Reading			2,868	(1,190)
IX. Postage Expense			603	(250)
X. Book Depreciation Other than IT			1,420	
XI. Income Tax Impact of Book Depr. Other than IT				(917)
XII. Deferred Tax Impact of Book Other than IT				1,235
XIII. IT Operating Expense			11,682	(4,847)
XIV. IT Book Depreciation			11,875	
XV. Income Tax Impact of IT Book Depreciation				(7,281)
XVI. Deferred Tax Impact of IT Book Depreciation				6,074
XVII. Interest Adjustment				(7,976)
XVIII. Shareholder Services			2,585	(1,073)

XIX. Capital Stock and Realty taxes	870	(361)
XX. Uncollectible Accounts	1,453	(593)

Rate Base Adjustments

I. Buildings, Facilities, Vehicles	14,142
II. ADIT Excluding IT	(1,004)
III. Book Reserve Excluding IT	5,017
IV. IT Plant	86,777
V. IT ADIT	6,074

Income Statement Adjustments

1. Labor costs (Payroll and Benefits) represent the largest total cost increase associated with divestiture, an aggregate increase of \$37,106,312. See Exhibit 1.2a. These increases are due to the following:
 - a. Divestiture of NewGasCo would require the hiring of many employees for job functions which were previously performed at PECO by shared employees supporting both the gas and electric operations. This study estimates that 449 new employees would need to be hired and trained in a number of areas, including executives, managerial, supervisory and technical professionals, and other personnel in all areas of the company excluding Gas Supply and Transportation. See Exhibit 1.3.
 - b. NewGasCo's staffing estimates compare favorably with benchmarks of other gas companies on the basis of customers per employee, generally accepted measures of efficiency were also made. This comparison is shown in Table V-2. PECO's level of efficiency exceeds all of the gas companies in the comparison group. The addition of employees for NewGasCo lowers the efficiency of the gas company as compared with its original position within PECO but efficiency still exceeds the majority of the other companies measured. The relative efficiency of NewGasCo compared to its peers post-divestiture is indicative of the conservative nature of this study. See also, Exhibit 1.5.

Table V-2

Benchmark Comparison With
Other Stand-Alone Gas Companies

Gas Utility	Employees	Customers per Employee	Dist. Mains/ Employee (000 ft.
Peoples	935	374	31.65
Columbia of PA	876	438	41.55
PG Energy	554	269	22.29
Equitable	770	265	24.07
Avg.		336	29.89
PECO	582	714	53.32
NewGasCo	1031	402	30.10

PECO would note that, during 1998, the employee counts of three of the four other Pennsylvania gas companies included in Table V-3 benefitted from being part of holding company corporate structures which utilize shared employees to provide services in a number of functional areas and therefore reflect employee counts which understate the number of employees in a true stand-alone company. In today's energy marketplace, true stand-alone gas distribution companies are rare. Most gas distribution companies of any significant size are now part of larger holding company corporate structures or a combination utility, and those figures are growing at a quick pace with additional mergers. Indicative of this trend is the fact that of the four gas companies cited above, three were involved in mergers within the last year (Peoples, as part of the CNG-Dominion Resources merger; Equitable Resources' acquisition of Carnegie Natural Gas Company from USX Corporation; and PG Energy's acquisition by Southern Union) in order to take advantage of economic gains available in larger, integrated organizations.

2. External Audit refers to fees paid in connection with external auditing and other accounting services. These fees are currently shared among the combined utility business units. The outside services and the associated costs were reviewed in terms of the types and extent of

services which would be needed by NewGasCo. The additional costs associated with these services would be \$1.041 million annually. The calculation of this income statement adjustment is shown in attached Exhibit 1.2b.

3. Insurance expense refers to cost of premiums of property, general and excess liability, and directors and officers liability coverage. Property insurance was based on the cost of plant. Liability insurance was based on the number of employees. Insurance expense increased \$217,051 per annum over the pre-divestiture level. The calculation of this income statement adjustment is shown in attached Exhibit 1.2c.
4. Director's Fees refers to compensation for NewGasCo's Board of Directors. The increase here assumes that the current amount of director's fees would be paid by NewGasCo on a stand-alone basis. Since these costs would no longer be shared with PECO's electric operations, NewGasCo's amount would be higher than that allocated to PECO's gas operations. This increase equals \$581,831 on an annual basis. The calculation of this income statement adjustment is shown in attached Exhibit 1.2d.
5. Transportation expenses represents an annual increase of \$32,185 due to the increased number of administrative and general employees for which corporate vehicular expense would be incurred. The calculation of this income statement adjustment is shown in attached Exhibit 1.2e.
6. Transition costs are incurred to create the stand-alone company, including: internal/external communications, auditing and other accounting costs, investment banker's fees, legal fees, and human resources issues. The total transition costs are estimated to be \$5,674,404. A 10-year amortization period results in an annual cost increase of \$567,440. The calculation of this income statement adjustment is shown in attached Exhibit 1.2f. The incremental rate base impact of the unamortized transition costs were not incorporated into the analysis.
7. Meter Reading expenses refers to the expenses paid outside contractors to perform NewGasCo's meter reading function. PECO currently contracts its entire meter reading service to outside vendors which read both electric and gas meters at the same time. Divestiture would require NewGasCo to perform this function on its own. Stand-alone gas meter reading expense was estimated based on ratio of gas and electric customer numbers. The resulting annual increase for NewGasCo is \$2.868 million. The calculation of this income statement adjustment is shown in attached Exhibit 1.2g.

8. Postage increase was simply calculated as the increased level of postage expense caused by NewGasCo assuming a separate billing function that previously was performed jointly on behalf of both PECO's electric and gas operations. Total costs were offset against 1998 allocated costs to result in a \$602,732 net increase in postage expense. The calculation of this income statement adjustment is shown in attached Exhibit 1.2h.
9. Book Depreciation Expense for non-IT incremental plant refers to the increased level of depreciation expense associated with incremental plant (buildings, structures, office furniture, etc.) resulting from the divestiture. This level of expense was estimated at \$1.42 million per year. Discussion of the increased non-IT plant is found at No. 19 below. The calculation of this income statement adjustment is shown in attached Exhibit 1.2i, page 1 ($\$2,355,184 - \$935,000 = \$1,420,184$).
10. In conjunction with the increase level of depreciation expense for non-IT items, NewGasCo's deferred tax liability would increase \$1.235 million annually. The calculation of this income statement adjustment is shown in attached Exhibit 1.2i, page 1 ($\$1,242,271 - \$7,000 = \$1,235,271$).
11. A measure of incremental operating and maintenance expense for information technology was performed by PECO's IT department. These costs generally are in areas where only a small portion of overall costs are allocated to the gas operations. On a stand-alone basis, all costs to operate and maintain mainframe and other information systems used for billing, metering, and other purposes would be borne exclusively by NewGasCo. Incremental expenses were estimated at \$11.682 million per year, as discussed in No. 20 below. The calculation of this income statement adjustment is shown in attached Exhibit 1.2j.
12. Similarly, book depreciation associated with incremental IT system plant expenditures caused these expenses to increase by \$11875 million. Discussion of the increased IT capital plant is found at No. 21 below. The calculation of this income statement adjustment is shown in attached Exhibit 1.2j.
13. Partly offsetting book depreciation expense associated with incremental IT plant costs is the related reduction in income taxes. This value was estimated as \$7.281 million. The calculation of this income statement adjustment is shown in attached Exhibit 1.2j.

14. Deferred income taxes increases associated with incremental IT plant in service was estimated at \$6.074 million. The resulting income statement adjustment is shown in attached Exhibit 1.2j.
15. Tax savings resulting from increased debt interest expense caused by plant additions reduce income tax expense by \$7.976 million as shown in Exhibit 1.2k.
16. Shareholder services expense is incurred in the areas of outside services, annual reports, proxy reports, annual meeting expenses, and stock exchanges compliance. Sharing of costs between gas and electric operations will not occur with the creation of NewGasCo. The resulting increased expense associated with the loss of sharing was estimated to be \$2.585 million on an annual basis. The calculation of this income statement adjustment is shown in attached Exhibit 1.2l.
17. Capital stock and realty taxes associated with the increased amount of plant financed by preferred and common equity stock increased by \$59.05 million. Applying the statutory rate of 1.099% to that value results in an increase in capital stock tax of \$870,093 annually. The calculation of this income statement adjustment is shown in attached Exhibit 1.2m.
18. Uncollectible accounts expense is estimated to increase by more than \$1.43 million each year based on the increased revenue requirement of NewGasCo. The calculation of this income statement adjustment is shown in attached Exhibit 1.2n.

Rate Base Adjustments

19. Increase in Common Plant Exc IT refers to the incremental capital investment associated with new service and office buildings, warehouses, vehicles and other facilities needed to house and transport NewGasCo's employees, inventories, and operations that would be needed as a result of divestiture. The amount of this rate base adjustment is \$14.142 million. These applicable rate base values are set forth at attached Exhibit 1.2i, page 1 (\$73,688,905 - \$59,547,000 = \$14,142,000).
 - a. Effectively all buildings, vehicles, and facilities located outside Philadelphia are shared in common between the gas and electric operations. To determine NewGasCo's costs for these items, it was assumed that NewGasCo would require facilities at locations similar to the existing PECO common plant located outside Philadelphia. Next, it was assumed that NewGasCo would

construct rather than lease those facilities. Rather than determine the square footage needed to determine the replacement cost of the facilities, the replacement value of PECO's existing common facilities was determined and then apportioned to NewGasCo based on an appropriate measure (such as the relative number of employees or customers). The total plant arising from this figure was then compared to the existing allocation of common plant to the gas operations to determine the incremental capital investment in buildings, vehicles and other related facilities (office furniture, etc.)

- b. NewGasCo would need to construct or lease buildings and associated garages and parking areas for their field operations. PECO currently has two gas operating regions, each covering a two-county area (BucksMont and DelChester). Each of these regions have several buildings to house customer service, operations, and other field personnel serving executive, managerial, supervisory and technical professional, as well as non-exempt functions.
- c. Currently, two facilities are dedicated entirely to the gas operations, the LNG facility at West Conshohocken and the separate Propane-Air Facilities located in Chester, Pennsylvania and house the Gas Supply and Transportation group. All other facilities and vehicles are shared with PECO's electric operations, with a large percentage of corporate A&G personnel being housed in PECO's main headquarters in Philadelphia. Accordingly, NewGasCo would have to construct, purchase or lease new facilities and vehicles adequate for its employees, field, customer service, and corporate operations.
- d. NewGasCo would have to construct a Call Center, involving physical space and furniture.
- e. Corporate Offices would also be required for NewGasCo, including furniture. For the purpose of this study, it was conservatively assumed that corporate personnel would be absorbed into the service buildings constructed for NewGasCo rather than construct a singular centralized headquarters building. Practically, however, it would be reasonable to assume that NewGasCo would need to centrally house its corporate personnel to operate efficiently. The cost of that central location has not been included in this estimate.

20. Reduction in Book Reserve refers to the loss as a result of divestiture of the book depreciation reserve which has accumulated for PECO's existing common plan facilities. Book depreciation

reserve offset the original cost value of plant, resulting in a lower net plant cost for rate base purposes. Loss of the accumulated reserve benefit of being part of the combined PECO utility operations increases therefore, increases rate base in the amount of \$5.017 million. See Exhibit 1.2i and j.

21. Aside from increased Labor Costs, the incremental cost associated with Information Technology represents the single greatest cost increase caused by the divestiture. These additional costs are shown in attached Exhibit 1.2j
 - a. PECO's IT department provided the cost of new and modified IT systems, operating and maintaining NewGasCo's information systems on a stand-alone basis. The increase in IT plant was estimated conservatively at \$86.8 million. Depreciation expense increased by \$11.9 million annually. O&M expense increased by \$11.7 million annually. All of these costs would be necessary to enable NewGasCo to function on a stand-alone basis without support from PECO's common IT system. See, Exhibit 1.2j.
 - b. The largest cost driver for the incremental IT plant costs (\$20 million) would be incurred to extract and convert all existing gas related information into new data formats and storages. Following suit, costs to detach and build new Radio Dispatch (\$18 million), CIS (\$10 million), PAC (\$5 million), Passport (\$3.5 million), Enterprise (\$6.4 million), and Mainframe (\$2 million) assets and applications added substantially to the overall incremental cost levels. Significant plant cost increases would occur throughout almost every aspect of the entire operation.
 - c. The largest cost drivers for the incremental O&M expense would be incurred in the areas of Mainframe and 3Tier processing (\$7.125 million) and Enterprise Applications (\$1.0 million). As with IT plant, significant operating cost increases would occur throughout almost every aspect of the entire operation.
 - d. No effort was made to calculate the increased telephone expense associated with the larger number of employees, although this cost increase would be significant.
 - e. No effort was made to calculate the increase rate base effect associated with the loss of book depreciation reserve resulting from the divestiture similar to the increased rate base impact of the rate base adjustment for Reduction in Reserve Excl IT. See No. 19 above. As with the adjustment in No. 19 above, the impact would be substantial.

D. Capital Costs

The capital costs estimated for NewGasCo reflect the capital structure and debt financing currently embedded in PECO's balance sheet. The cost of common equity for NewGasCo of 10.70% reflects the level permitted in recent public utility commission decisions.

While it is likely that as a smaller stand-alone company, NewGasCo's cost of debt will exceed that of PECO as the buying power associated with the larger PECO enterprise will be lost and NewGasCo would not be able to participate in the lower cost markets in which PECO currently participates, this increased cost was not measured.

E. Additional Lost Economies

In addition to the economic losses measured above, NewGasCo would experience economic losses related to its inability to share in the economic efficiency gains to be derived in connection with PECO's merger with Unicom. These gains would come in the form of reductions to the level of corporate A&G, customer service, purchasing, information technology and other overhead costs which are likely to accrue as a result of the merger. These cost reductions are currently estimated in the \$100-180 million range over the first three years of the merger, with approximately 55% of those savings being experienced in regulated gas and electric transmission and distribution operations. While the gas business is relatively small in comparison to the electric side, the cost savings for gas operations would be significant. Finally, the cost of NewGasCo customers now being required to pay two bills rather than one is not insubstantial, at \$1,643,000 (415,000 customers x 12 bills per year x \$0.33 stamp per bill).

F. Total Lost Economies

Measurable operating and capital cost increases for a stand-alone NewGasCo approach \$72.901 million based on an analysis that extracts PECO's existing gas operations from its overall corporate structure. Recovering those lost economies from customer in a general rate request proceeding would also involve a request for additional income taxes and other costs associated with the increased cost of capital and capital financing requirements of the new business. Total increased revenue requirements that would have to be recovered from NewGasCo's customers are estimated at approximately \$123 million. Other lost economies would accrue to customers as a result of paying two utilities bills instead of one, providing meter reading access to two utilities rather than one, and dealing with two utility call centers rather than one for service related matters; the increased cost here has been measured only in terms of increased postage, at \$1,643,000. The measured value of lost economies associated with a divestiture of PECO's gas operations from PECO Energy Company

does not include significant lost future economies resulting from the PECO-Unicom merger.

VI. PECO-Electric Overview

Lost economies will also accrue for PECO's electric operations and customers as a result of a gas divestiture. Pre-divestiture cost synergy (cost sharing and purchasing economies) implicit in the every day business operations of almost every facet of the combination utility will be lost. See Exhibit 1.6. For example, PECO's cost of providing regulated electric service will increase in many areas, including the following:

- A. Increased outside services costs in the form of higher auditing expense, etc. (\$75,000).
- B. Increased Board of Director's Fees (\$42,000).
- C. Increase in shareholder's services expenses due to loss of cost sharing with gas operations (\$187,000).
- D. Increased depreciation expense due to the loss of common plant sharing with the gas operations (\$935,000).
- E. Increased postage expense due to the loss of shared costs with the gas operations (\$528,000).
- F. Related rate base increased caused by the loss of sharing with gas operations (\$81,040).

The revenue requirement impact on the electric business for just these items would be \$6,950. PECO does not consider the lost economies related to electric operations to result from a full and complete analysis and believes that such lost economies would be far greater. PECO offers the above analysis simply to provide examples of the types of lost economies that would occur as a result of forced divestiture of its gas operations.

EXHIBIT I

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Analysis for a Gas Stand Alone Company

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PECO Energy Company
Gas Operations
Year Ending December 31, 1998
(Thousand\$)

	Actual From Dec98 PAPUC ----- Quart Rep -----	Adjustments for Stand Alone -----	Adjusted to Stand Alone -----	Required Rate Increase -----	Adjusted with Rate Increase -----
Operating Revenues -----	\$399,642	\$ 0	\$ 399,642	\$120,998	\$520,640
Expenses -----					
O&M Expense	\$271,077	\$ 58,713	\$ 329,790		\$329,790
Annual Depreciation	\$ 31,708	\$ 13,295	\$ 45,003		\$ 45,003
Taxes- Other than Income	\$ 20,480	\$ 870	\$ 21,350	\$ 0	\$ 21,350
Total Operating Revenue Deductions -----	\$323,265	\$ 72,878	\$ 396,143	\$ 0	\$396,143
Gross Gas Income -----	\$ 76,377	(\$72,878)	\$ 3,499	\$120,998	\$124,497
Federal /State Income Taxes -----	\$ 17,871	(\$33,586)	(\$15,715)	\$ 50,207	\$ 34,492
Net Gas Income -----	\$ 58,506	(\$39,292)	\$ 19,214	\$ 70,791	\$ 90,005
Ratebase -----	\$839,135	\$ 100,866	\$ 940,001		\$940,001
Return on Ratebase -----	6.97%		2.04%		9.58%
Return On Equity Ratebase -----	5.03%		-5.70%		10.70%
Income Tax Rate=	41.494%	Gross Receipts Tax Rate=	0.00%		
Annual Effect of Lost Economies on Shareholders -----					
Lost Economies -----	\$ 72,878				
As a % of Revenues	18.24%				
As a % of Operating Revenue Deductions	22.54%				
As a % of Gross Income	95.42%				
As a % of Net Income	124.57%				
In the Absence of Rate Relief -----					
Return on Ratebase	2.04%				
Return on Net Plant	1.49%				
Annual Effect of Lost Economies on Customers -----					
Pre Spin-off	\$399,642				
Post Spin-off	\$520,640				
Dollar Increase	\$120,998				
Percent Increase	30.28%				

GASRATEBASE DATA

(Thousand\$)

Actual From December 31, 1998 Gas Quarterly Report

Ratebase	Actual	Adjustment	Stand Alone Ratebase
Gas Plant	\$1,131,996		\$1,131,996
Common Plant/Information Tech.	\$ 59,547	\$100,919	\$ 160,466
Total Plant	\$1,191,543	\$100,919	\$1,292,462
Gas Reserve	\$ 287,046		\$ 287,046
Alloc. Common Reserve incl Information Tech.	\$ 19,247	(\$5,017)	\$ 14,230
Total Reserve	\$ 306,293	(\$5,017)	\$ 301,276
Net Plant	\$ 885,250	\$105,936	\$ 991,186
Materials and Supplies	\$ 42,732		\$ 42,732
Cash Working Capital	\$ 13,494		\$ 13,494
Total Additions	\$ 56,226	\$ 0	\$ 56,226
Acc. Def Taxes-Lib Depn	\$ 101,179	\$ 5,070	\$ 106,249
Customer Deposits	\$ 393		\$ 393
Customer Advances	\$ 2,204		\$ 2,204
CIAC	(\$1,435)		(\$1,435)
Total Deductions	\$ 102,341	\$ 5,070	\$ 107,411
RATEBASE	\$ 839,135	\$100,866	\$ 940,001

Warehouse Data Allocation

Report to PUC for 1998

Electric Customers	1,494,356	78.25%
Gas Customers	415,437	21.75%
	-----	-----
Total	1,909,793	100.00%

Common Plant Allocation-Service Buildings, Centers

Report to PUC for 1998

Gas Customers	415,437	31.03%
Electric Customers Excl Philadelphia	923,584	68.97%
	-----	-----
Total	1,339,021	100.00%

Common Plant-Transportation Center

Based on Employees

Current=	7,029	
Gas Stand Alone=	1,031	14.67%

Common Call Center and Software

Based on Customers

Gas	415,437	27.80%
Total(No Double Count)	1,494,356	

Exhibit 1.2

Income Statement and Ratebase
Adjustments Based on 1998 Gas Operations

(Thousand\$)

Income Statement ----- Adjustments -----	Rate Base -----	Revenues -----	Expenses -----	0.41494 Income Taxes -----
I. Increase in Payroll Expenses			\$27,541	(\$11,428)
II. Increase in Benefits			\$ 9,565	(\$3,969)
III. Increase in External Audit Fees			\$ 1,041	(\$432)
IV. Increase in Insurance Expense			\$ 217	(\$90)
V. Increase in Board of Director's Fees			\$ 582	(\$241)
VI. Increase in Corporate Vehicles Expenses			\$ 32	(\$13)
VII. Amortization of Transition Costs			\$ 567	(\$235)
VIII. Increase in Meter Reading Expenses			\$ 2,868	(\$1,190)
IX. Increase in Postage Expenses			\$ 603	(\$250)
X. Increase in Book Depreciation Expense Excl Information Technology (IT)			\$ 1,420	
XI. Reduction in Taxes from Increase in Tax Depreciation Excl IT				(\$917)
XII. Increase in Deferred Taxes from Depreciation Expense Excl IT				\$ 1,235
XIII. Increase in Information Technology Expenses (IT)			\$11,682	(\$4,847)
XIV. Increase in IT Book Depreciation			\$11,875	
XV. Reduction in Income Taxes From IT Tax Depreciation				(\$7,281)
XVI. Increase in IT Deferred Taxes from Tax Deprn				\$ 6,074
XVII. Tax Savings on Ratebase Interest Adjustment				(\$7,976)
XVIII. Increase in Shareholder Services Expenses			\$ 2,585	(\$1,073)
XIX. Increase in Capital Stock and Realty Taxes			\$ 870	(\$361)
XX. Increase in Uncollectible Accounts Expense			\$ 1,430	(\$593)
			-----	-----
Total		\$0	\$72,878	(\$33,586)
Ratebase Adjustments				
I. Increase in Common Plant Excl IT	\$ 14,142			
II. Increase in Accumulated Deferred Taxes Excl IT	(\$1,004)			
III. Reduction in Reserve Incl IT	\$ 5,017			
IV. Increase in IT Plant	\$ 86,777			
V. Increase in IT Accumulated Deferred Taxes	\$ 6,074			

Total	\$100,866			

Exhibit 1.2a

Salaries and Benefits From Additional Employees

Combination Employees		582	Stand Alone Employees=	449	1031
Increase in Employees in Stand Alone				\$ 63,868	
Average Salary in 1998=					
	For Gas Stand Alone	Gas Stand Alone	Average Salaries		Total Salaries
	-----	-----	-----		-----
Salaries	Executive	13	\$ 130,000		\$ 1,690,000
	Managerial/Pofessional	403	\$ 80,000		\$32,240,000
	Non-Exempt	615	\$ 50,000		\$30,750,000
		-----			-----
		1031			\$64,680,000
	Actual 1998 Gas Salaries=				\$37,138,761
Increase in Salaries			\$27,541,239		
Benefits Loader at			34.73%		
Increase in Benefits			\$ 9,565,072		

Increase in Salaries and Benefits			\$37,106,312		

Exhibit 1.2b

	Stand Alone	Allocated Actual Gas	Increase for Stand Alone
	-----	-----	-----
External Audit Fees			

Audit	\$ 456,185	\$ 30,834	\$ 425,351
Acct Serv	\$ 660,000	\$ 44,610	\$ 615,390
	-----	-----	-----
Total	\$1,116,185	\$ 75,443	\$ 1,040,742
Basis 923 acct Outside Services employed			

electric=	\$29,258,641	gas= \$1,977,598	0.067590221

Exhibit 1.2c

		Unitcost	Increase for Stand Alone
		-----	-----
Property	based on \$M of Plant	\$380	\$ 38,349
General/Excess Liability/D&O		\$398	\$178,702
	based on employees		-----
			\$217,051
Combination Employees	582	Stand Alone Employees=	1031

Exhibit 1.2d

Director's Fees

Allocated Increase for
 Actual Gas Stand Alone

Number				
Fee	\$	56,728		

Cost	\$	624,008	\$42,177	\$ 581,831
Basis 923 acct Outside Services employed				

electric=	\$29,258,641	gas=	\$1,977,598	0.067590221

Corporate Vehicles Allowance

	\$228 per admin and general employee	
Increase in Corporate Vehicles Expenses=		\$32,185
Current A&G Employees=	58 Stand Alone A&G Employess=	

Exhibit 1.2f

Transition Costs

a. Internal/External Communications based on customers 1998 PUC Commission Report	\$5,000,000
Gas	415,437
Total PECO(assume electric customers incl gas) and Unicom	4,894,356

Estimate for Gas Stand alone	\$ 424,404
b. Audit and Other Accounting Costs for separation	\$1,000,000
c. Investment Banker Fees	\$2,500,000
d. Legal Fees	\$ 750,000
e. Internal Resources to Support Divestiture	\$ 500,000
f. Human Resource Divestiture Issues, establish benefits	\$ 500,000

Annual Amortization of Transition Costs over a ten year period=	\$5,674,404
	\$ 567,440
Assume a ten year writeoff	10

Exhibit 1.2g

Meter Reading Expenses

	1998	Year End Customers	Stand Alone Gas Cost	Increase for Stand Alone
	-----	-----	-----	-----
Electric	\$15,477,122	1,494,356		
Gas	\$ 1,987,054	415,437	\$4,855,111	\$2,868,057

Total	\$17,464,176			

Allocation based on gas customer/total customer on
total meter reading expense

Exhibit 1.2h

Postage Expense on Customer Bills

Presorted First Class		0.23	
Cumul. 1998 Customers		4,918,296	avg PUC Report x 12

Stand Alone Estimated Postage Expense for Gas Bills		\$ 1,131,208	
Cumulative Customers in 1998 Presorted First Class		17,866,980	avg PUC Report x 12
		0.23	

Estimated 1998 Postage for Bills		\$ 4,109,405	
Postage is in 903, 1903 Acct-Customer Records and Collection Expenses			
1998 Value for Electric	\$62,050,945	87.14%	\$3,580,929
1998 Value for Gas	\$ 9,157,514	12.86%	\$ 528,476
	-----	-----	-----
Total	\$71,208,459	100.00%	\$4,109,405
Increase in Postage Expense for Stand Alone Gas Bills		\$ 1,131,208	
	less:	\$ 528,476	

	Net	\$ 602,732	

Exhibit 1.2i

PECO Energy Distribution (PED) Common Plant, Depreciation
and Deferred Taxes at December 31, 1998

Replacement Calculated	Actual to Gas	
Reserve	\$ 2,355,184	\$19,247,000
Orig Cost Plant	\$73,688,905	\$59,547,000
Annual Book Depr	\$ 2,355,184	\$ 935,000
First Year Tax Savings	\$ 1,472,769	\$ 555,605
First Year Deferred Taxes	\$ 1,242,271	\$ 7,000
Accum Def Taxes	\$ 1,242,271	\$ 2,246,000

FERC	Plant Acct	Designation	Description	Value	Cost Escalation Factor
4303.0	106	601	GIS	\$ 764,045.00	\$ 764,045 1
4303.0	106	601	RISE	\$ 1,708,684.29	\$ 1,708,684 1
4303.0	106	601	RISE	\$ 7,214,735.77	\$ 7,214,736 1
4303.0	106	601	Work Mgt	\$ 6,001,370.22	\$ 6,001,370 1
4389.0	101	0397	Perkiomen Serv Ctr	\$ 6,667.23	\$ 6,667 2.43028565
4389.1	101	0357	Ardmore Serv Bldg	\$ 242,668.43	\$ 242,668 2.43028565
4389.1	101	0389	Ardmore Serv Bldg Parking Lot	\$ 42,219.61	\$ 42,220 2.43028565
4389.1	101	0328	Bryn Mawr Storage Yard	\$ 8,271.29	\$ 8,271 2.43028565
4389.1	101	0370	Central Storehouse	\$ 11,420.08	\$ 11,420 2.43028565
4389.1	101	0330	Chester Serv Bldg	\$ 19,878.66	\$ 19,879 2.43028565
4389.1	101	0334	Crosby Parking Lot	\$ 36,816.44	\$ 36,816 2.43028565
4389.1	101	0353	Doylestown Serv Bldg	\$ 61,320.78	\$ 61,321 2.43028565
4389.1	101	0396	Kennett Square Trouble station	\$ 164.01	\$ 164 2.43028565
4389.1	101	0380	Morton Serv Bldg	\$ 76,956.21	\$ 76,956 2.43028565
4389.1	101	0343	Morton Storage Yard	\$ 2,022.72	\$ 2,023 2.43028565
4389.1	101	0351	North wales Serv Bldg	\$ 25,738.68	\$ 25,739 2.43028565
4389.1	101	0356	Oreland Serv Bldg	\$ 10,847.54	\$ 10,848 2.43028565
4389.1	101	0345	Phoenixville Serv Bldg	\$ 17,556.24	\$ 17,556 2.43028565
4389.1	101	0337	Planebrook Service Ctr Replacement	\$ 38,300.35	\$ 38,300 2.43028565
4389.1	101	0346	Pottstown Serv Bldg	\$ 12,242.37	\$ 12,242 2.43028565
4389.1	101	0355	Transportation Ctr	\$ 182,076.73	\$ 182,077 2.43028565
4389.1	101	0339	Valley Forge Radio Substation	\$ 30,841.89	\$ 30,842 2.43028565
4389.1	101	0352	Warminster Serv Bldg	\$ 246,712.23	\$ 246,712 2.43028565
4389.1	101	0358	Wayne Storage Yard	\$ 1,800.07	\$ 1,800 2.43028565
4389.1	101	0359	West Chester Serv Bldg	\$ 706,472.31	\$ 706,472 2.43028565
4389.1	101	0388	West Grove Serv Bldg	\$ 12,103.38	\$ 12,103 2.43028565
4389.1	106	0390	Delaware County Serv Ctr	\$ 4,251,939.75	\$ 4,251,940 2.43028565
4389.2	101	0355	Transportation Ctr	\$ 4,088.40	\$ 4,088 2.43028565
4389.2	101	0339	Valley Forge Radio Substation	\$ 1,285.08	\$ 1,285 2.43028565
4389.2	101	0358	Wayne Storage Yard	\$ 100.00	\$ 100 2.43028565
4390.0	106	601	Christian Street Service Building	\$ 292,600.30	\$ 292,600 2.43028565
4390.0	106	601	DMACS - 1	\$ 193,971.41	\$ 193,971 2.43028565
4390.0	106	503	MOB Call Center construction	\$ 4,677,874.05	\$ 4,677,874 2.43028565
4390.0	106	601	Replacement of Gas Heaters	\$ 164,371.02	\$ 164,371 2.43028565
4390.0	106	601	Transportation	\$ 700.22	\$ 700 2.43028565
4390.0	101	0357	Ardmore Serv Bldg	\$ 2,856,593.06	\$ 2,856,593 2.43028565
4390.0	101	0389	Ardmore Serv Bldg Parking Lot	\$ 109,581.54	\$ 109,582 2.43028565
4390.0	101	0328	Bryn Mawr Storage Yard	\$ 10,070.34	\$ 10,070 2.43028565
4390.0	101	0370	Central Storehouse	\$ 3,808,078.18	\$ 3,808,078 2.43028565
4390.0	101	0330	Chester Serv Bldg	\$ 755,417.34	\$ 755,417 2.43028565
4390.0	101	0392	Concord Reporting Trailer	\$ 36,230.03	\$ 36,230 2.43028565
4390.0	101	0353	Doylestown Serv Bldg	\$ 427,506.62	\$ 427,507 2.43028565
4390.0	101	0391	Emilie Service Ctr	\$ 2,782.50	\$ 2,783 2.43028565
4390.0	101	0376	General Meter Shop	\$ 793,831.91	\$ 793,832 2.43028565
4390.0	101	0396	Kennett Square Trouble station	\$ 10,976.12	\$ 10,976 2.43028565
4390.0	101	0380	Morton Serv Bldg	\$ 2,339,523.04	\$ 2,339,523 2.43028565
4390.0	101	0343	Morton Storage Yard	\$ 2,782.52	\$ 2,783 2.43028565
4390.0	101	0351	North wales Serv Bldg	\$ 946,750.58	\$ 946,751 2.43028565
4390.0	101	0349	OHT Bldg	\$ 11,729.63	\$ 11,730 2.43028565
4390.0	101	0356	Oreland Serv Bldg	\$ 462,023.73	\$ 462,024 2.43028565
4390.0	101	0397	Perkiomen Serv Ctr	\$ 535,326.62	\$ 535,327 2.43028565
4390.0	101	0345	Phoenixville Serv Bldg	\$ 920,055.95	\$ 920,056 2.43028565
4390.0	101	0337	Planebrook Service Ctr Replacement	\$ 6,470,833.45	\$ 6,470,833 2.43028565
4390.0	101	0329	Plymouth Sub Training Yard	\$ 933,409.60	\$ 933,410 2.43028565
4390.0	101	0346	Pottstown Serv Bldg	\$ 190,666.56	\$ 190,667 2.43028565
4390.0	101	0355	Transportation Ctr	\$ 5,054,593.55	\$ 5,054,594 2.43028565
4390.0	101	0352	Warminster Serv Bldg	\$ 7,685,916.96	\$ 7,685,917 2.43028565
4390.0	101	0358	Wayne Storage Yard	\$ 1,061.52	\$ 1,062 2.43028565
4390.0	101	0359	West Chester Serv Bldg	\$ 2,096,981.67	\$ 2,096,982 2.43028565
4390.0	101	0629	West Conshohocken Gas Plant	\$ 938,798.01	\$ 938,798 2.43028565
4390.0	101	0388	West Grove Serv Bldg	\$ 819,292.25	\$ 819,292 2.43028565
4390.0	106	0357	Ardmore Serv Bldg	\$ 176,977.06	\$ 176,977 2.43028565
4390.0	106	0370	Central Storehouse	\$ 451,303.31	\$ 451,303 2.43028565
4390.0	106	0330	Chester Serv Bldg	\$ 10,768.00	\$ 10,768 2.43028565
4390.0	106	0373	Christian Street Serv Bldg	\$ 856,904.26	\$ 856,904 2.43028565
4390.0	106	0390	Delaware County Serv Ctr	\$ 7,139,064.88	\$ 7,139,065 2.43028565
4390.0	106	0353	Doylestown Serv Bldg	\$ 9,154.71	\$ 9,155 2.43028565
4390.0	106	0045	Eastern div	\$ 17,481.65	\$ 17,482 2.43028565
4390.0	106	0391	Emilie Service Ctr	\$ 2,200,860.19	\$ 2,200,860 2.43028565
4390.0	106	0376	General Meter Shop	\$ 95,214.39	\$ 95,214 2.43028565
4390.0	106	0321	Luzerne Serv Bldg	\$ 2,669.00	\$ 2,669 2.43028565
4390.0	106	0380	Morton Serv Bldg	\$17,850,189.75	\$ 17,850,190 2.43028565
4390.0	106	0345	Phoenixville Serv Bldg	\$ 5,247.50	\$ 5,248 2.43028565
4390.0	106	0337	Planebrook Service Ctr Replacement	\$ 5,944,299.74	\$ 5,944,300 2.43028565
4390.0	106	0355	Transportation Ctr	\$ 115,728.80	\$ 115,729 2.43028565

4390.0	106	4720	Tully Substation	\$	5,213.00	\$	5,213	2.43028565
4390.0	106	0352	Warminster Serv Bldg	\$	789,446.86	\$	789,447	2.43028565

FERC	Replacement Cost Value	Book Depreciation Rate	Annual Book Depreciation	Tax Depreciation Rate	First Year Tax Depreciation	0.41494 Income Tax Savings	0.35 First Year Deferred Taxes	Allocation to Gas Stand Alone
						27.80%		
4303.0	\$ 764,045.00	0.1143	\$ 87,330	0.2	\$ 152,809	\$ 63,407	\$ 53,483	27.80%
4303.0	\$ 1,708,684.29	0.1143	\$ 195,303	0.2	\$ 341,737	\$ 141,800	\$ 119,608	27.80%
4303.0	\$ 7,214,735.77	0.1143	\$ 824,644	0.2	\$ 1,442,947	\$ 598,736	\$ 505,031	27.80%
4303.0	\$ 6,001,370.22	0.1143	\$ 685,957	0.2	\$ 1,200,274	\$ 498,042	\$ 420,096	31.03%
4389.0	\$ 16,203.27	0	\$ 0	0	\$ 0	\$ 0	\$ 0	31.03%
4389.1	\$ 589,753.60	0	\$ 0	0	\$ 0	\$ 0	\$ 0	31.03%
4389.1	\$ 102,605.71	0	\$ 0	0	\$ 0	\$ 0	\$ 0	21.75%
4389.1	\$ 20,101.60	0	\$ 0	0	\$ 0	\$ 0	\$ 0	21.75%
4389.1	\$ 27,754.06	0	\$ 0	0	\$ 0	\$ 0	\$ 0	31.03%
4389.1	\$ 48,310.82	0	\$ 0	0	\$ 0	\$ 0	\$ 0	31.03%
4389.1	\$ 89,474.47	0	\$ 0	0	\$ 0	\$ 0	\$ 0	31.03%
4389.1	\$ 149,027.01	0	\$ 0	0	\$ 0	\$ 0	\$ 0	31.03%
4389.1	\$ 398.59	0	\$ 0	0	\$ 0	\$ 0	\$ 0	31.03%
4389.1	\$ 187,025.57	0	\$ 0	0	\$ 0	\$ 0	\$ 0	21.75%
4389.1	\$ 4,915.79	0	\$ 0	0	\$ 0	\$ 0	\$ 0	31.03%
4389.1	\$ 62,552.34	0	\$ 0	0	\$ 0	\$ 0	\$ 0	31.03%
4389.1	\$ 26,362.62	0	\$ 0	0	\$ 0	\$ 0	\$ 0	31.03%
4389.1	\$ 42,666.68	0	\$ 0	0	\$ 0	\$ 0	\$ 0	31.03%
4389.1	\$ 93,080.79	0	\$ 0	0	\$ 0	\$ 0	\$ 0	31.03%
4389.1	\$ 29,752.46	0	\$ 0	0	\$ 0	\$ 0	\$ 0	14.67%
4389.1	\$ 442,498.46	0	\$ 0	0	\$ 0	\$ 0	\$ 0	0.00%
4389.1	\$ 74,954.60	0	\$ 0	0	\$ 0	\$ 0	\$ 0	31.03%
4389.1	\$ 599,581.19	0	\$ 0	0	\$ 0	\$ 0	\$ 0	21.75%
4389.1	\$ 4,374.68	0	\$ 0	0	\$ 0	\$ 0	\$ 0	31.03%
4389.1	\$ 1,716,929.52	0	\$ 0	0	\$ 0	\$ 0	\$ 0	31.03%
4389.1	\$ 29,414.67	0	\$ 0	0	\$ 0	\$ 0	\$ 0	31.03%
4389.1	\$ 10,333,428.17	0	\$ 0	0	\$ 0	\$ 0	\$ 0	14.67%
4389.2	\$ 9,935.98	0	\$ 0	0	\$ 0	\$ 0	\$ 0	
4389.2	\$ 3,123.11	0	\$ 0	0	\$ 0	\$ 0	\$ 0	21.75%
4389.2	\$ 243.03	0	\$ 0	0	\$ 0	\$ 0	\$ 0	
4390.0	\$ 711,102.31	0.01967026	\$ 13,988	0.01587302	\$ 11,287	\$ 4,683	\$ 3,950	
4390.0	\$ 471,405.93	0.01967026	\$ 9,273	0.01587302	\$ 7,483	\$ 3,105	\$ 2,619	0.00%
4390.0	\$ 11,368,570.18	0.01967026	\$ 223,623	0.01587302	\$ 180,453	\$ 74,877	\$ 63,159	00.00%
4390.0	\$ 399,468.53	0.01967026	\$ 7,858	0.01587302	\$ 6,341	\$ 2,631	\$ 2,219	14.67%
4390.0	\$ 1,701.73	0.01967026	\$ 33	0.01587302	\$ 27	\$ 11	\$ 9	31.03%
4390.0	\$ 6,942,337.13	0.01967026	\$ 136,558	0.01587302	\$ 110,196	\$ 45,725	\$ 38,569	31.03%
4390.0	\$ 266,314.44	0.01967026	\$ 5,238	0.01587302	\$ 4,227	\$ 1,754	\$ 1,479	21.75%
4390.0	\$ 24,473.80	0.01967026	\$ 481	0.01587302	\$ 388	\$ 161	\$ 136	21.75%
4390.0	\$ 9,254,717.76	0.01967026	\$ 182,043	0.01587302	\$ 146,900	\$ 60,955	\$ 51,415	31.03%
4390.0	\$ 1,835,879.92	0.01967026	\$ 36,112	0.01587302	\$ 29,141	\$ 12,092	\$ 10,199	31.03%
4390.0	\$ 88,049.32	0.01967026	\$ 1,732	0.01587302	\$ 1,398	\$ 580	\$ 489	31.03%
4390.0	\$ 1,038,963.20	0.01967026	\$ 20,437	0.01587302	\$ 16,491	\$ 6,843	\$ 5,772	31.03%
4390.0	\$ 6,762.27	0.01967026	\$ 133	0.01587302	\$ 107	\$ 44	\$ 37	31.03%
4390.0	\$ 1,929,238.30	0.01967026	\$ 37,949	0.01587302	\$ 30,623	\$ 12,707	\$ 10,718	31.03%
4390.0	\$ 26,675.11	0.01967026	\$ 525	0.01587302	\$ 423	\$ 176	\$ 148	31.03%
4390.0	\$ 5,685,709.28	0.01967026	\$ 111,839	0.01587302	\$ 90,249	\$ 37,448	\$ 31,587	21.75%
4390.0	\$ 6,762.32	0.01967026	\$ 133	0.01587302	\$ 107	\$ 44	\$ 37	31.03%
4390.0	\$ 2,300,874.35	0.01967026	\$ 45,259	0.01587302	\$ 36,522	\$ 15,154	\$ 12,783	
4390.0	\$ 28,506.35	0.01967026	\$ 561	0.01587302	\$ 452	\$ 188	\$ 158	31.03%
4390.0	\$ 1,122,849.64	0.01967026	\$ 22,087	0.01587302	\$ 17,823	\$ 7,395	\$ 6,238	31.03%
4390.0	\$ 1,300,996.60	0.01967026	\$ 25,591	0.01587302	\$ 20,651	\$ 8,569	\$ 7,228	31.03%
4390.0	\$ 2,235,998.77	0.01967026	\$ 43,983	0.01587302	\$ 35,492	\$ 14,727	\$ 12,422	31.03%
4390.0	\$ 15,725,973.69	0.01967026	\$ 309,334	0.01587302	\$ 249,619	\$ 103,577	\$ 87,367	21.75%
4390.0	\$ 2,268,451.96	0.01967026	\$ 44,621	0.01587302	\$ 36,007	\$ 14,941	\$ 12,602	31.03%
4390.0	\$ 463,374.20	0.01967026	\$ 9,115	0.01587302	\$ 7,355	\$ 3,052	\$ 2,574	14.67%
4390.0	\$ 12,284,106.18	0.01967026	\$ 241,632	0.01587302	\$ 194,986	\$ 80,907	\$ 68,245	31.03%
4390.0	\$ 18,678,973.71	0.01967026	\$ 367,420	0.01587302	\$ 296,492	\$ 123,026	\$ 103,772	21.75%
4390.0	\$ 2,579.80	0.01967026	\$ 51	0.01587302	\$ 41	\$ 17	\$ 14	31.03%
4390.0	\$ 5,096,264.46	0.01967026	\$ 100,245	0.01587302	\$ 80,893	\$ 33,566	\$ 28,313	00.00%
4390.0	\$ 2,281,547.33	0.01967026	\$ 44,879	0.01587302	\$ 36,215	\$ 15,027	\$ 12,675	31.03%
4390.0	\$ 1,991,114.20	0.01967026	\$ 39,166	0.01587302	\$ 31,605	\$ 13,114	\$ 11,062	31.03%
4390.0	\$ 430,104.81	0.01967026	\$ 8,460	0.01587302	\$ 6,827	\$ 2,833	\$ 2,389	21.75%
4390.0	\$ 1,096,795.96	0.01967026	\$ 21,574	0.01587302	\$ 17,409	\$ 7,224	\$ 6,093	31.03%
4390.0	\$ 26,169.32	0.01967026	\$ 515	0.01587302	\$ 415	\$ 172	\$ 145	
4390.0	\$ 2,082,522.13	0.01967026	\$ 40,964	0.01587302	\$ 33,056	\$ 13,716	\$ 11,570	31.03%
4390.0	\$ 17,349,966.94	0.01967026	\$ 341,278	0.01587302	\$ 275,396	\$ 114,273	\$ 96,389	31.03%
4390.0	\$ 22,248.56	0.01967026	\$ 438	0.01587302	\$ 353	\$ 146	\$ 124	31.03%
4390.0	\$ 42,485.40	0.01967026	\$ 836	0.01587302	\$ 674	\$ 280	\$ 236	31.03%
4390.0	\$ 5,348,718.94	0.01967026	\$ 105,211	0.01587302	\$ 84,900	\$ 35,228	\$ 29,715	31.03%
4390.0	\$ 231,398.17	0.01967026	\$ 4,552	0.01587302	\$ 3,673	\$ 1,524	\$ 1,286	
4390.0	\$ 6,486.43	0.01967026	\$ 128	0.01587302	\$ 103	\$ 43	\$ 36	31.03%
4390.0	\$ 43,381,060.03	0.01967026	\$ 853,317	0.01587302	\$ 688,588	\$ 285,723	\$ 241,006	31.03%
4390.0	\$ 12,752.92	0.01967026	\$ 251	0.01587302	\$ 202	\$ 84	\$ 71	31.03%
4390.0	\$ 14,446,346.37	0.01967026	\$ 284,163	0.01587302	\$ 229,307	\$ 95,149	\$ 80,257	14.67%
4390.0	\$ 281,254.04	0.01967026	\$ 5,532	0.01587302	\$ 4,464	\$ 1,852	\$ 1,562	
4390.0	\$ 12,669.08	0.01967026	\$ 249	0.01587302	\$ 201	\$ 83	\$ 70	31.03%
4390.0	\$ 1,918,581.38	0.01967026	\$ 37,739	0.01587302	\$ 30,454	\$ 12,637	\$ 10,659	

(From Replaced and Allocated PED Common Plant)

FERC	Gas Stand Alone Original Cost Plant	Gas Stand Alone Annual Book Depreciation	Gas Stand Alone Income Tax Savings	Gas Stand Alone First Year Deferred Taxes
4303.0	\$ 212,408	\$ 24,278	\$ 17,627	\$ 14,868
4303.0	\$ 475,021	\$ 54,295	\$ 39,421	\$ 33,252
4303.0	\$ 2,005,726	\$ 229,254	\$ 166,451	\$ 140,401
4303.0	\$ 1,668,405	\$ 190,699	\$ 138,458	\$ 116,788

4389.0	\$	5,027	\$	0	\$	0	\$	0
4389.1	\$	182,974	\$	0	\$	0	\$	0
4389.1	\$	31,834	\$	0	\$	0	\$	0
4389.1	\$	4,373	\$	0	\$	0	\$	0
4389.1	\$	6,037	\$	0	\$	0	\$	0
4389.1	\$	14,989	\$	0	\$	0	\$	0
4389.1	\$	27,760	\$	0	\$	0	\$	0
4389.1	\$	46,236	\$	0	\$	0	\$	0
4389.1	\$	124	\$	0	\$	0	\$	0
4389.1	\$	58,025	\$	0	\$	0	\$	0
4389.1	\$	1,069	\$	0	\$	0	\$	0
4389.1	\$	19,407	\$	0	\$	0	\$	0
4389.1	\$	8,179	\$	0	\$	0	\$	0
4389.1	\$	13,238	\$	0	\$	0	\$	0
4389.1	\$	28,879	\$	0	\$	0	\$	0
4389.1	\$	9,231	\$	0	\$	0	\$	0
4389.1	\$	64,907	\$	0	\$	0	\$	0
4389.1	\$	0	\$	0	\$	0	\$	0
4389.1	\$	186,023	\$	0	\$	0	\$	0
4389.1	\$	952	\$	0	\$	0	\$	0
4389.1	\$	532,685	\$	0	\$	0	\$	0
4389.1	\$	9,126	\$	0	\$	0	\$	0
4389.1	\$	3,205,990	\$	0	\$	0	\$	0
4389.2	\$	1,457	\$	0	\$	0	\$	0
4389.2	\$	0	\$	0	\$	0	\$	0
4389.2	\$	53	\$	0	\$	0	\$	0
4390.0	\$	0	\$	0	\$	0	\$	0
4390.0	\$	0	\$	0	\$	0	\$	0
4390.0	\$	0	\$	0	\$	0	\$	0
4390.0	\$	399,469	\$	7,858	\$	2,631	\$	2,219
4390.0	\$	250	\$	5	\$	2	\$	1
4390.0	\$	2,153,890	\$	42,368	\$	14,186	\$	11,966
4390.0	\$	82,625	\$	1,625	\$	544	\$	459
4390.0	\$	5,324	\$	105	\$	35	\$	30
4390.0	\$	2,013,177	\$	39,600	\$	13,260	\$	11,184
4390.0	\$	569,590	\$	11,204	\$	3,752	\$	3,164
4390.0	\$	27,318	\$	537	\$	180	\$	152
4390.0	\$	322,343	\$	6,341	\$	2,123	\$	1,791
4390.0	\$	2,098	\$	41	\$	14	\$	11
4390.0	\$	598,554	\$	11,774	\$	3,942	\$	3,325
4390.0	\$	8,276	\$	163	\$	55	\$	46
4390.0	\$	1,764,016	\$	34,699	\$	11,618	\$	9,800
4390.0	\$	1,471	\$	29	\$	10	\$	8
4390.0	\$	713,856	\$	14,042	\$	4,702	\$	3,966
4390.0	\$	0	\$	0	\$	0	\$	0
4390.0	\$	348,369	\$	6,853	\$	2,294	\$	1,935
4390.0	\$	403,640	\$	7,940	\$	2,659	\$	2,243
4390.0	\$	693,728	\$	13,646	\$	4,569	\$	3,854
4390.0	\$	4,879,051	\$	95,972	\$	32,135	\$	27,106
4390.0	\$	493,456	\$	9,706	\$	3,250	\$	2,741
4390.0	\$	143,764	\$	2,828	\$	947	\$	799
4390.0	\$	1,801,873	\$	35,443	\$	11,868	\$	10,010
4390.0	\$	5,795,232	\$	113,994	\$	38,169	\$	32,196
4390.0	\$	561	\$	11	\$	4	\$	3
4390.0	\$	1,581,138	\$	31,101	\$	10,414	\$	8,784
4390.0	\$	2,281,547	\$	44,879	\$	15,027	\$	12,675
4390.0	\$	617,752	\$	12,151	\$	4,069	\$	3,432
4390.0	\$	133,442	\$	2,625	\$	879	\$	741
4390.0	\$	238,586	\$	4,693	\$	1,571	\$	1,325
4390.0	\$	8,119	\$	160	\$	53	\$	45
4390.0	\$	0	\$	0	\$	0	\$	0
4390.0	\$	5,382,902	\$	105,883	\$	35,454	\$	29,905
4390.0	\$	6,903	\$	136	\$	45	\$	38
4390.0	\$	13,181	\$	259	\$	87	\$	73
4390.0	\$	1,659,463	\$	32,642	\$	10,930	\$	9,219
4390.0	\$	71,792	\$	1,412	\$	473	\$	399
4390.0	\$	0	\$	0	\$	0	\$	0
4390.0	\$	13,459,160	\$	264,745	\$	88,647	\$	74,773
4390.0	\$	3,957	\$	78	\$	26	\$	22
4390.0	\$	4,482,041	\$	88,163	\$	29,520	\$	24,900
4390.0	\$	41,255	\$	811	\$	272	\$	229
4390.0	\$	0	\$	0	\$	0	\$	0
4390.0	\$	595,248	\$	11,709	\$	3,921	\$	3,307

				Value		Replacement Cost Escalation Factor		Replacement Cost Value	
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4393.0	101	0359	West Chester Serv Bldg		(\$4,313.00)		(\$4,313)	1.46034359	(\$6,298.46)
4393.0	106	0370	Central Storehouse	\$	19,574.26	\$	19,574	1.46034359	\$ 28,585.15
4393.0	106	0349	OHT Bldg	\$	12,087.32	\$	12,087	1.46034359	\$ 17,651.64
4394.1	106	601	DELCHESTER Capital Tools and Equipment	\$	13,609.89	\$	13,610	1.01944328	\$ 13,874.51
4394.3	106	601	Replace shop equipment.	\$	535,154.73	\$	535,155	1.02434332	\$ 548,182.17
4394.3	101	0357	Ardmore Serv Bldg	\$	389,930.70	\$	389,931	1.02434332	\$ 399,422.91
4394.3	101	0330	Chester Serv Bldg	\$	61,114.22	\$	61,114	1.02434332	\$ 62,601.94
4394.3	101	0373	Christian Street Serv Bldg	\$	55,987.60	\$	55,988	1.02434332	\$ 57,350.52
4394.3	101	0353	Doylestown Serv Bldg	\$	80,169.21	\$	80,169	1.02434332	\$ 82,120.79
4394.3	101	0313	Gaul T&D	\$	21,644.00	\$	21,644	1.02434332	\$ 22,170.89
4394.3	101	0316	Germantown Serv Bldg	\$	82,139.33	\$	82,139	1.02434332	\$ 84,138.87
4394.3	101	0321	Luzerne Serv Bldg	\$	203,607.31	\$	203,607	1.02434332	\$ 208,563.79
4394.3	101	0380	Morton Serv Bldg	\$	406,389.08	\$	406,389	1.02434332	\$ 416,281.94
4394.3	101	0351	North wales Serv Bldg	\$	67,485.62	\$	67,486	1.02434332	\$ 69,128.44
4394.3	101	0349	OHT Bldg	\$	5,136.32	\$	5,136	1.02434332	\$ 5,261.36
4394.3	101	0356	Oreland Serv Bldg	\$	61,174.28	\$	61,174	1.02434332	\$ 62,663.47
4394.3	101	0397	Perkiomen Serv Ctr	\$	41,533.79	\$	41,534	1.02434332	\$ 42,544.86
4394.3	101	0345	Phoenixville Serv Bldg	\$	205,845.25	\$	205,845	1.02434332	\$ 210,856.21
4394.3	101	0337	Planebrook Service Ctr Replacement	\$	322,131.97	\$	322,132	1.02434332	\$ 329,973.73
4394.3	101	0315	Shunk Serv Bldg	\$	23,539.10	\$	23,539	1.02434332	\$ 24,112.12
4394.3	101	0355	Transportation Ctr	\$	371,037.85	\$	371,038	1.02434332	\$ 380,070.14
4394.3	101	0352	Warminster Serv Bldg	\$	176,245.59	\$	176,246	1.02434332	\$ 180,535.99
4394.3	101	0359	West Chester Serv Bldg	\$	117,766.60	\$	117,767	1.02434332	\$ 120,633.43
4394.3	101	0629	West Conshohocken Gas Plant	\$	69,047.55	\$	69,048	1.02434332	\$ 70,728.40
4394.3	101	0388	West Grove Serv Bldg	\$	61,604.82	\$	61,605	1.02434332	\$ 63,104.49
4394.3	106	0390	Delaware County Serv Ctr	\$	361,289.72	\$	361,290	1.02434332	\$ 370,084.71
4394.3	106	0355	Transportation Ctr	\$	1,450,864.43	\$	1,450,864	1.02434332	\$ 1,486,183.29
4396.1	101	0368	Transportation Ctr	\$	55,285.66	\$	55,286	2.00949607	\$ 111,096.32
4396.2	101	0372	Tools and Work Equipment	\$	937.91	\$	938	3.64925373	\$ 3,422.67
4397.0	106	601	Fiber for Cromby\Whitpain\North Wales	\$	203,524.78	\$	203,525	1.04311419	\$ 212,299.59
4397.0	106	601	Interactive voice response system	\$	2,956,908.27	\$	2,956,908	1.04311419	\$ 3,084,392.99
4397.0	106	601	Static wire for Morton\Mcdade\Eddystone	\$	304,567.83	\$	304,568	1.04311419	\$ 317,699.03
4397.0	101	0270	Amquip Inc Tower Site	\$	72,608.08	\$	72,608	1.04311419	\$ 75,738.52
4397.0	101	0271	Amram Tower Site	\$	86,290.68	\$	86,291	1.04311419	\$ 90,011.03
4397.0	101	0274	AT&T Tower Site	\$	114,668.97	\$	114,669	1.04311419	\$ 119,612.83
4397.0	101	0273	AT&T Tower Site	\$	137,368.82	\$	137,369	1.04311419	\$ 143,291.37
4397.0	101	0272	Delta Tower Site	\$	143,474.49	\$	143,474	1.04311419	\$ 149,660.28
4397.0	101	0276	Micro TV Tower	\$	71,531.53	\$	71,532	1.04311419	\$ 74,615.55
4397.0	101	0380	Morton Serv Bldg	\$	28,893.25	\$	28,893	1.04311419	\$ 30,138.96
4397.0	101	0337	Planebrook Service Ctr Replacement	\$	300,427.38	\$	300,427	1.04311419	\$ 313,380.06
4397.0	101	0277	USTS Tower Site	\$	89,727.07	\$	89,727	1.04311419	\$ 93,595.58
4397.0	101	0339	Valley Forge Radio Substation	\$	16,014.99	\$	16,015	1.04311419	\$ 16,705.46
4397.0	101	0275	WKSZ Tower Site	\$	103,906.76	\$	103,907	1.04311419	\$ 108,386.62
4398.0	106	601	EM Electric Field Tech	\$	77,895.00	\$	77,895	1.17898805	\$ 91,837.27

Total PED Common Plant

\$156,558,242

\$283,617,897.20

Book Depreciation Rate	Annual Book Depreciation	Tax Depreciation Rate	First Year Tax Depreciation	0.41494 Income Tax Savings	0.35 First Year Deferred Taxes				
-----	-----	-----	-----	-----	-----				
4393.0	0.04350409	(\$274)	0.2	(\$1,260)	(\$523)	(\$441)	31.03%	(\$1,9540)	(\$85)
4393.0	0.04350409	\$ 1,244	0.2	\$ 5,717	\$ 2,372	\$ 2,001	21.75%	\$ 6,218	\$ 271
4393.0	0.04350409	\$ 768	0.2	\$ 3,530	\$ 1,465	\$ 1,236	0.00%	\$ 0	\$ 0
4394.1	0.0478635	\$ 664	0.2	\$ 2,775	\$ 1,151	\$ 971	21.75%	\$ 3,018	\$ 144
4394.3	0.0435957	\$ 23,898	0.2	\$ 109,636	\$ 45,492	\$ 38,373	21.75%	\$ 119,246	\$ 5,199
4394.3	0.0435957	\$ 17,413	0.2	\$ 79,885	\$ 33,147	\$ 27,960	31.03%	\$ 123,923	\$ 5,402
4394.3	0.0435957	\$ 2,729	0.2	\$ 12,520	\$ 5,195	\$ 4,382	31.03%	\$ 19,423	\$ 847
4394.3	0.0435957	\$ 2,500	0.2	\$ 11,470	\$ 4,759	\$ 4,015		\$ 0	\$ 0
4394.3	0.0435957	\$ 3,580	0.2	\$ 16,424	\$ 6,815	\$ 5,748	31.03%	\$ 25,478	\$ 1,111
4394.3	0.0435957	\$ 967	0.2	\$ 4,434	\$ 1,840	\$ 1,552		\$ 0	\$ 0
4394.3	0.0435957	\$ 3,668	0.2	\$ 16,828	\$ 6,983	\$ 5,890		\$ 0	\$ 0
4394.3	0.0435957	\$ 9,092	0.2	\$ 41,713	\$ 17,308	\$ 14,600		\$ 0	\$ 0
4394.3	0.0435957	\$ 18,148	0.2	\$ 83,256	\$ 34,546	\$ 29,140	31.03%	\$ 129,153	\$ 5,630
4394.3	0.0435957	\$ 3,014	0.2	\$ 13,826	\$ 5,737	\$ 4,839	31.03%	\$ 21,447	\$ 935
4394.3	0.0435957	\$ 229	0.2	\$ 1,052	\$ 437	\$ 368		\$ 0	\$ 0
4394.3	0.0435957	\$ 2,732	0.2	\$ 12,533	\$ 5,200	\$ 4,387	31.03%	\$ 19,442	\$ 848
4394.3	0.0435957	\$ 1,855	0.2	\$ 8,509	\$ 3,531	\$ 2,978	31.03%	\$ 13,200	\$ 576
4394.3	0.0435957	\$ 9,192	0.2	\$ 42,171	\$ 17,498	\$ 14,760	31.03%	\$ 65,419	\$ 2,852
4394.3	0.0435957	\$ 14,385	0.2	\$ 65,995	\$ 27,384	\$ 23,098	31.03%	\$ 102,376	\$ 4,463
4394.3	0.0435957	\$ 1,051	0.2	\$ 4,822	\$ 2,001	\$ 1,688	0.00%	\$ 0	\$ 0
4394.3	0.0435957	\$ 16,569	0.2	\$ 76,014	\$ 31,541	\$ 26,605	14.67%	\$ 55,750	\$ 2,430
4394.3	0.0435957	\$ 7,871	0.2	\$ 36,107	\$ 14,982	\$ 12,637	31.03%	\$ 56,012	\$ 2,442
4394.3	0.0435957	\$ 5,259	0.2	\$ 24,127	\$ 10,011	\$ 8,444	31.03%	\$ 37,427	\$ 1,632
4394.3	0.0435957	\$ 3,083	0.2	\$ 14,146	\$ 5,870	\$ 4,951	100.00%	\$ 70,728	\$ 3,083
4394.3	0.0435957	\$ 2,751	0.2	\$ 12,621	\$ 5,237	\$ 4,417	31.03%	\$ 19,578	\$ 854
4394.3	0.0435957	\$ 16,134	0.2	\$ 74,017	\$ 30,713	\$ 25,906	31.03%	\$ 114,820	\$ 5,006
4394.3	0.0435957	\$ 64,791	0.2	\$ 297,237	\$ 123,336	\$ 104,033	14.67%	\$ 217,998	\$ 9,504
4396.1	0.00034367	\$ 38	0.2	\$ 22,219	\$ 9,220	\$ 7,777	14.67%	\$ 16,296	\$ 6
4396.2	0.1	\$ 342	0.2	\$ 685	\$ 284	\$ 240	21.75%	\$ 745	\$ 74
4397.0	0.04066793	\$ 8,634	0.2	\$ 42,460	\$ 17,618	\$ 14,861		\$ 0	\$ 0
4397.0	0.04066793	\$ 125,436	0.2	\$ 616,879	\$ 255,968	\$ 215,908	14.67%	\$ 452,429	\$ 18,399
4397.0	0.04066793	\$ 12,920	0.2	\$ 63,540	\$ 26,365	\$ 22,239	0.00%	\$ 0	\$ 0
4397.0	0.04066793	\$ 3,080	0.2	\$ 15,148	\$ 6,286	\$ 5,302		\$ 0	\$ 0
4397.0	0.04066793	\$ 3,661	0.2	\$ 18,002	\$ 7,470	\$ 6,301		\$ 0	\$ 0
4397.0	0.04066793	\$ 4,864	0.2	\$ 23,923	\$ 9,927	\$ 8,373		\$ 0	\$ 0
4397.0	0.04066793	\$ 5,827	0.2	\$ 28,658	\$ 11,891	\$ 10,030		\$ 0	\$ 0

Start Up/Incremental IT Infrastructure Gas Costs

Plant, OandM, Depreciation, Deferred Taxes	Start Up	O&M/Yr	Capital/Yr	Book Dep	Tax Dep	Start Up	Start Up
0.41494	Capital	(Thousand\$)	(Thousand\$)	Rate	Rate	Capital	Capital
0.35	(Thousand\$)				(Thousand\$)		Tax Dep
							(Thousand\$)
Asset Requirement							
Servers (Apps, Database, File, Print)	\$ 750	\$ 250	\$ 100	0.379046	0.2	\$ 284	\$ 150
Servers (DHCP/DNS, Firewall)	\$ 400	\$ 100	\$ 50	0.379046	0.2	\$ 152	\$ 80
WAN (Router & Hub Network)	\$ 1,000	\$ 200	\$ 150	0.379046	0.2	\$ 379	\$ 200
Personal Computer Hardware	\$ 2,750	\$ 0	\$ 300	0.379046	0.2	\$ 1,042	\$ 550
Deskside Management Services	\$ 0	\$ 100	\$ 0	0.379046	0.2	\$ 0	\$ 0
Printer Hardware	\$ 200	\$ 50	\$ 50	0.379046	0.2	\$ 76	\$ 40
Client Software / Desktop Apps	\$ 1,500	\$ 50	\$ 250	0.379046	0.2	\$ 569	\$ 300
Telephone Systems	\$ 600	\$ 400	\$ 250	0.040668	0.2	\$ 24	\$ 120
Call Center Telephone Systems	\$ 300	\$ 50	\$ 250	0.040668	0.2	\$ 12	\$ 60
Dispatch Radio (Trunked Radio System)	\$ 18,000	\$ 1,000	\$ 300	0.040668	0.2	\$ 732	\$ 3,600
Other Wireless Services (Cellular & Paging)	\$ 100	\$ 300	\$ 0	0.040668	0.2	\$ 4	\$ 20
DOC Infrastructure Systems	\$ 400	\$ 100	\$ 0	0.379046	0.2	\$ 152	\$ 80
Video Systems	\$ 200	\$ 50	\$ 0	0.379046	0.2	\$ 76	\$ 40
Server Software / Apps	\$ 250	\$ 100	\$ 100	0.379046	0.2	\$ 95	\$ 50
Network Data Facilities	\$ 100	\$ 200	\$ 0	0.379046	0.2	\$ 38	\$ 20
Network Voice Facilities	\$ 100	\$ 250	\$ 0	0.379046	0.2	\$ 38	\$ 20
Other IT User & Infrastructure Hardware	\$ 300	\$ 100	\$ 100	0.379046	0.2	\$ 114	\$ 60
ISP Services	\$ 250	\$ 100	\$ 0	0.379046	0.2	\$ 95	\$ 50
Power & Environmental Conditioning Systems	\$ 1,000	\$ 50	\$ 0	0.379046	0.2	\$ 379	\$ 200
Cabling / Transport Infrastructure	\$ 400	\$ 750	\$ 0	0.040668	0.2	\$ 16	\$ 80
Demand Labor	\$ 2,500	\$ 200	\$ 0	0.379046	0.2	\$ 948	\$ 500
Helpdesk Services	\$ 250	\$ 400	\$ 0	0.379046	0.2	\$ 95	\$ 50
Outside Consulting Services	\$ 750	\$ 250	\$ 0	0.379046	0.2	\$ 284	\$ 150
Asset Requirements Subtotal	\$ 32,100	\$ 5,050	\$ 1,900			\$ 5,603	\$ 6,420
Applications							
City Gate Solutions	\$ 500	\$ 0	\$ 0	0.0988	0.2	\$ 49	\$ 100
Gastar III	\$ 600	\$ 0	\$ 0	0.0988	0.2	\$ 59	\$ 120
Gas SCADA (Valmet)	\$ 500	\$ 0	\$ 0	0.0988	0.2	\$ 49	\$ 100
DeltaV	\$ 100	\$ 0	\$ 0	0.0988	0.2	\$ 10	\$ 20
Gate Station	\$ 300	\$ 0	\$ 0	0.0988	0.2	\$ 30	\$ 60
Leak Tracking System	\$ 100	\$ 17	\$ 0	0.0988	0.2	\$ 10	\$ 20
Corrosion Control System	\$ 50	\$ 11	\$ 0	0.0988	0.2	\$ 5	\$ 10
Gas Regulator Stations	\$ 100	\$ 0	\$ 0	0.0988	0.2	\$ 10	\$ 20
Stoner Load Study Workstation	\$ 300	\$ 16	\$ 0	0.0988	0.2	\$ 30	\$ 60
Optimain	\$ 50	\$ 0	\$ 0	0.0988	0.2	\$ 5	\$ 10
Oil in the Main	\$ 50	\$ 0	\$ 0	0.0988	0.2	\$ 5	\$ 10
Mercury Instruments	\$ 50	\$ 0	\$ 0	0.0988	0.2	\$ 5	\$ 10
GMI Meter Docking Station	\$ 100	\$ 0	\$ 0	0.0988	0.2	\$ 10	\$ 20
SAMS	\$ 300	\$ 0	\$ 0	0.1143	0.2	\$ 34	\$ 60
CIS	\$ 10,000	\$ 1,510	\$ 0	0.1143	0.2	\$ 1,143	\$ 2,000
PAC	\$ 5,000	\$ 197	\$ 0	0.1143	0.2	\$ 572	\$ 1,000
RMS	\$ 400	\$ 0	\$ 0	0.1143	0.2	\$ 46	\$ 80
Passport	\$ 3,500	\$ 345	\$ 0	0.1143	0.2	\$ 400	\$ 700
Payment Processing	\$ 400	\$ 0	\$ 0	0.1143	0.2	\$ 46	\$ 80
FOD(gas trouble system)	\$ 1,000	\$ 0	\$ 0	0.0988	0.2	\$ 99	\$ 200
RISE(CS Work)	\$ 1,000	\$ 13	\$ 0	0.1143	0.2	\$ 114	\$ 200
UCAD(dispatching)	\$ 500	\$ 90	\$ 0	0.1143	0.2	\$ 57	\$ 100
CAD	\$ 500	\$ 0	\$ 0	0.1143	0.2	\$ 57	\$ 100
Metratek	\$ 100	\$ 0	\$ 0	0.0988	0.2	\$ 10	\$ 20
AMS	\$ 100	\$ 0	\$ 0	0.1143	0.2	\$ 11	\$ 20
Dispute Tracking	\$ 0	\$ 10	\$ 0	0.1143	0.2	\$ 0	\$ 0
Pitney Bowes	\$ 0	\$ 6	\$ 0	0.1143	0.2	\$ 0	\$ 0
Service Order System	\$ 0	\$ 134	\$ 0	0.1143	0.2	\$ 0	\$ 0
TMS	\$ 0	\$ 41	\$ 0	0.1143	0.2	\$ 0	\$ 0
FACTS	\$ 0	\$ 501	\$ 0	0.1143	0.2	\$ 0	\$ 0
CLAIMS	\$ 0	\$ 23	\$ 0	0.1143	0.2	\$ 0	\$ 0
Company Damage	\$ 0	\$ 5	\$ 0	0.1143	0.2	\$ 0	\$ 0
EERS	\$ 0	\$ 18	\$ 0	0.1143	0.2	\$ 0	\$ 0
Customer Refund	\$ 0	\$ 19	\$ 0	0.1143	0.2	\$ 0	\$ 0
Customer Theft	\$ 0	\$ 10	\$ 0	0.1143	0.2	\$ 0	\$ 0
Internet Explorer	\$ 0	\$ 20	\$ 0	0.1143	0.2	\$ 0	\$ 0
UBET-Gas	\$ 0	\$ 20	\$ 0	0.1143	0.2	\$ 0	\$ 0
Enterprise Applications (G/L,A/P,Time and Labor)	\$ 6,400	\$ 1,000	\$ 0	0.1143	0.2	\$ 732	\$ 1,280
Mainframe & 3Tier Processing	\$ 2,000	\$ 7,125	\$ 0	0.1143	0.2	\$ 229	\$ 400
Data Conversion Overall - a large data conversion effort would be required to extract and build into new data formats and data storages.	\$ 20,000	\$ 0	\$ 0	0.1143	0.2	\$ 2,286	\$ 4,000
Applications Subtotal	\$ 54,000	\$11,131	\$ 0			\$ 6,112	\$10,800
Total Standalone Costs	\$ 86,100	\$16,181	\$ 1,900			\$11,715	\$17,220

Start Up/Incremental IT Infrastructure Gas Costs

Plant, OandM, Depreciation, Deferred Taxes	Start Up	Start Up	Capital/Yr	Capital/Yr	Capital/Yr	Capital/Yr
-----	Capital	Capital	Book Dep	Tax Dep	Tax Saving	Taxes
0.41494	Tax Savings	Def Taxes	(Thousand\$)	(Thousand\$)	(Thousand\$)	(Thousand\$)
0.35	(Thousand\$)	(Thousand\$)				
Asset Requirement						

Servers (Apps, Database, File, Print)	\$ 62	\$ 53	\$ 38	\$ 20	\$ 8	\$ 7
Servers (DHCP/DNS, Firewall)	\$ 33	\$ 28	\$ 19	\$ 10	\$ 4	\$ 4
WAN (Router & Hub Network)	\$ 83	\$ 70	\$ 57	\$ 30	\$ 12	\$ 11
Personal Computer Hardware	\$ 228	\$ 193	\$114	\$ 60	\$ 25	\$ 21
Deskside Management Services	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Printer Hardware	\$ 17	\$ 14	\$ 19	\$ 10	\$ 4	\$ 4
Client Software / Desktop Apps	\$ 124	\$ 105	\$ 95	\$ 50	\$ 21	\$ 18
Telephone Systems	\$ 50	\$ 42	\$ 10	\$ 50	\$ 21	\$ 18
Call Center Telephone Systems	\$ 25	\$ 21	\$ 10	\$ 50	\$ 21	\$ 18
Dispatch Radio (Trunked Radio System)	\$1,494	\$1,260	\$ 12	\$ 60	\$ 25	\$ 21
Other Wireless Services (Cellular & Paging)	\$ 8	\$ 7	\$ 0	\$ 0	\$ 0	\$ 0
DOC Infrastructure Systems	\$ 33	\$ 28	\$ 0	\$ 0	\$ 0	\$ 0
Video Systems	\$ 17	\$ 14	\$ 0	\$ 0	\$ 0	\$ 0
Server Software / Apps	\$ 21	\$ 18	\$ 38	\$ 20	\$ 8	\$ 7
Network Data Facilities	\$ 8	\$ 7	\$ 0	\$ 0	\$ 0	\$ 0
Network Voice Facilities	\$ 8	\$ 7	\$ 0	\$ 0	\$ 0	\$ 0
Other IT User & Infrastructure Hardware	\$ 25	\$ 21	\$ 38	\$ 20	\$ 8	\$ 7
ISP Services	\$ 21	\$ 18	\$ 0	\$ 0	\$ 0	\$ 0
Power & Environmental Conditioning Systems	\$ 83	\$ 70	\$ 0	\$ 0	\$ 0	\$ 0
Cabling / Transport Infrastructure	\$ 33	\$ 28	\$ 0	\$ 0	\$ 0	\$ 0
Demand Labor	\$ 207	\$ 175	\$ 0	\$ 0	\$ 0	\$ 0
Helpdesk Services	\$ 21	\$ 18	\$ 0	\$ 0	\$ 0	\$ 0
Outside Consulting Services	\$ 62	\$ 53	\$ 0	\$ 0	\$ 0	\$ 0
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Asset Requirements Subtotal	\$2,664	\$2,247	\$449	\$380	\$158	\$133
Applications						

City Gate Solutions	\$ 41	\$ 35	\$ 0	\$ 0	\$ 0	\$ 0
Gastar III	\$ 50	\$ 42	\$ 0	\$ 0	\$ 0	\$ 0
Gas SCADA (Valmet)	\$ 41	\$ 35	\$ 0	\$ 0	\$ 0	\$ 0
DeltaV	\$ 8	\$ 7	\$ 0	\$ 0	\$ 0	\$ 0
Gate Station	\$ 25	\$ 21	\$ 0	\$ 0	\$ 0	\$ 0
Leak Tracking System	\$ 8	\$ 7	\$ 0	\$ 0	\$ 0	\$ 0
Corrosion Control System	\$ 4	\$ 4	\$ 0	\$ 0	\$ 0	\$ 0
Gas Regulator Stations	\$ 8	\$ 7	\$ 0	\$ 0	\$ 0	\$ 0
Stoner Load Study Workstation	\$ 25	\$ 21	\$ 0	\$ 0	\$ 0	\$ 0
Optimain	\$ 4	\$ 4	\$ 0	\$ 0	\$ 0	\$ 0
Oil in the Main	\$ 4	\$ 4	\$ 0	\$ 0	\$ 0	\$ 0
Mercury Instruments	\$ 4	\$ 4	\$ 0	\$ 0	\$ 0	\$ 0
GMI Meter Docking Station	\$ 8	\$ 7	\$ 0	\$ 0	\$ 0	\$ 0
SAMS	\$ 25	\$ 21	\$ 0	\$ 0	\$ 0	\$ 0
CIS	\$ 830	\$ 700	\$ 0	\$ 0	\$ 0	\$ 0
PAC	\$ 415	\$ 350	\$ 0	\$ 0	\$ 0	\$ 0
RMS	\$ 33	\$ 28	\$ 0	\$ 0	\$ 0	\$ 0
Passport	\$ 290	\$ 245	\$ 0	\$ 0	\$ 0	\$ 0
Payment Processing	\$ 33	\$ 28	\$ 0	\$ 0	\$ 0	\$ 0
FOD(gas trouble system)	\$ 83	\$ 70	\$ 0	\$ 0	\$ 0	\$ 0
RISE(CS Work)	\$ 83	\$ 70	\$ 0	\$ 0	\$ 0	\$ 0
UCAD(dispatching)	\$ 41	\$ 35	\$ 0	\$ 0	\$ 0	\$ 0
CAD	\$ 41	\$ 35	\$ 0	\$ 0	\$ 0	\$ 0
Metratek	\$ 8	\$ 7	\$ 0	\$ 0	\$ 0	\$ 0
AMS	\$ 8	\$ 7	\$ 0	\$ 0	\$ 0	\$ 0
Dispute Tracking	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Pitney Bowes	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Service Order System	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
TMS	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
FACTS	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
CLAIMS	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Company Damage	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
EERS	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Customer Refund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Customer Theft	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Internet Explorer	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
UBET-Gas	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Enterprise Applications (G/L,A/P,Time and Labor)	\$ 531	\$ 448	\$ 0	\$ 0	\$ 0	\$ 0
Mainframe & 3Tier Processing	\$ 166	\$ 140	\$ 0	\$ 0	\$ 0	\$ 0
Data Conversion Overall - a large data conversion effort would be required to extract and build into new data formats and data storages.	\$1,660	\$1,400	\$ 0	\$ 0	\$ 0	\$ 0
	-----	-----	----	----	----	----
Applications Subtotal	\$4,481	\$3,780	\$ 0	\$ 0	\$ 0	\$ 0
Total Standalone Costs	\$7,145	\$6,027	\$449	\$380	\$158	\$133

Exhibit 1.2j

Start Up/Incremental IT Infrastructure Gas Costs

Plant, OandM, Depreciation, Deferred Taxes	Start Up	O&M/Yr	Capital/Yr	Book Dep	Tax Dep	Start Up	Start Up
	Capital	(Thousand\$)	(Thousand\$)	Rate	Rate	Capital	Capital
	(Thousand\$)				(Thousand\$)		Tax Dep
							(Thousand\$)
0.41494							
0.35							
Total 1998 FERC IT Costs	\$ 0	\$ 4,499	\$1,223				
Incremental IT Costs	\$ 86,100	\$11,682	\$ 677			\$11,715	\$17,220

Start Up/Incremental IT Infrastructure Gas Costs

Plant, OandM, Depreciation, Deferred Taxes	Start Up	Start Up	Capital/Yr	Capital/Yr	Capital/Yr	Capital/Yr
	Capital	Capital	Book Dep	Tax Dep	Tax Saving	Taxes
	Tax Savings	Def Taxes	(Thousand\$)	(Thousand\$)	(Thousand\$)	(Thousand\$)
	(Thousand\$)	(Thousand\$)				
0.41494						
0.35						
Total 1998 FERC IT Costs			\$ 289	\$ 245	\$ 101	\$ 86
Incremental IT Costs	\$7,145	\$6,027	\$ 160	\$ 135	\$ 56	\$ 47

Capital	Incremental IT	
	(Thousand\$)	
\$ 1,841	O&M	\$11,682
\$ 1,803	Depreciation	\$11,875
\$ 4,570	Tax Savings	\$ 7,281
\$ 32,190	Deferred Taxes	\$ 6,074
\$214,138	O. C. Plant	\$86,777
\$203,586	Acc Def Taxes	\$ 6,074
\$ 67,631	O. C. Reserve	\$11,875

PECO Energy Company
Utilities
Eleven Months Ended November 30, 1999

Twelve Month Figure

\$520,799

ACCOUNTNO	NAME	ADDRESS1	METERNO	Eleven Months Ended 11/30/99 SumOfREVENUE	Allocation Percentage	Gas Stand Alone located 11 Month Revenue
2001010001	Richmond Gen. Station	3901 N. Delaware Ave.	3B26PD-10012	\$ 30,008.42	0	\$ 0
2001010001	Richmond Gen. Station	3901 N. Delaware Ave.	525MC-10	\$ 110,805.90	0	\$ 0
2001010001	Richmond Gen. Station	3901 N. Delaware Ave.	530MC-1	\$ 130,268.40	0	\$ 0
2001010001	Richmond Gen. Station	3901 N. Delaware Ave.	NO METER	\$ 786.21	0	\$ 0
2001010003	Pennsbury Power Plant	Bordentown Rd &	3B19PS-10427	\$ 4,737.45	0	\$ 0
2001010005	Chester Station	Front & Ward St.	219M-602	\$ 30,399.27	0	\$ 0
2001010005	Chester Station	Front & Ward St.	219M-603	\$ 7,544.39	0	\$ 0
2001010005	Chester Station	Front & Ward St.	42-346345	\$ 0.00	0	\$ 0
2001010005	Chester Station	Front & Ward St.	921MC-124	\$ 2,972.00	0	\$ 0
2001010005	Chester Station	Front & Ward St.	NO METER	\$ 297.25	0	\$ 0
2001010006	Oreland	Gate Station	109PLS-743	\$ 1,613.50	1	\$ 1,614
2001010007	Ivyland	Gate Station	9ML-5	\$ 2,255.21	1	\$ 2,255
2001010008	Pottstown	Gate Station	6-1410223	\$ 2,181.31	1	\$ 2,181
2001010009	Coatesville	Gate Station	6-1657883	\$ 1,675.71	1	\$ 1,676
2001010010	Kenneth Square	Gate Station	6-1033375	\$ 1,759.99	1	\$ 1,760
2001010011	Parkesburg	Gate Station	109PLS-652	\$ 1,443.72	1	\$ 1,444
2001010012	Planebrook	Gate Station	109PLS-14768	\$ 2,160.76	1	\$ 2,161
2001010013	Morrisville	Gate Station	109PLS-15225	\$ 2,876.56	1	\$ 2,877
2001010014	Upper Providence	Gate Station	109PLS-17007	\$ 1,975.06	1	\$ 1,975
2001010015	Buckingham	Gate Station	9MLD-16697	\$ 8,858.67	1	\$ 8,859
2001010015	Buckingham	Gate Station	9MLD-16732	\$ 9,606.67	1	\$ 9,607
2001010016	Hershey Mills	Chester & Wineberry La	9-8099512	\$ 1,609.19	0	\$ 0
2001010017	Brookhaven	Gate Station	9-8322292	\$ 2,736.53	1	\$ 2,737
2002010001	Bedminster Gauging Sta	E. Perkiomen Creek	9-4281390	\$ 9,028.86	0	\$ 0
2002010002	Perkiomen Pump Station	Rt 29 & Perkiomen Creek	528PC-1	\$ 665,556.20	0	\$ 0
2002010002	Perkiomen Pump Station	Rt 29 & Perkiomen Creek	528PC-2	\$ 634,936.30	0	\$ 0
2002010003	Bedminster Chiller Site	Lot #6 Apple Butter Rd.	3B22PD-10683	\$ 65,721.13	0	\$ 0
2002010004	Bradshaw Pump Station	N/W Cor Point Pleasant Pk	3B29P-10001	\$ 271,132.80	0	\$ 0
2002010004	Bradshaw Pump Station	N/W Cor Point Pleasant Pk	3B29P-10002	\$ 104,102.60	0	\$ 0
2002010005	Fricks Lock Sampling Sta	Fricks Lock Rd. &	NO METER	\$ 250.23	0	\$ 0
2002010006	PECO Sampling Station	Church St.N/O Spring City	NO METER	\$ 250.23	0	\$ 0
2002010007	PECO Sampling Station	Keen Rd. E/O Longview Rd.	NO METER	\$ 9,056.38	0	\$ 0
2107623097	Oregon Maintenance Shop	2610 S. Delaware Ave.	913M-5	\$ 85,732.60	0	\$ 0
2107623097	Oregon Maintenance Shop	2610 S. Delaware Ave.	913M-6	\$ 6,968,529.90	0	\$ 0
2110481269	Christian Street Park Lot	2820 Grays Ferry Ave	9-4216883	\$ 42.54	0	\$ 0
2117981500	Christian St Serv Bldg	830 Schuylkill Ave	19STS-5730	\$ 0.00	0	\$ 0
2117981500	Christian St Serv Bldg	830 Schuylkill Ave	9-8165387	\$ 76.33	0	\$ 0
2117981500	Christian St Serv Bldg	830 Schuylkill Ave	911MD-10015	\$ 173,438.82	0	\$ 0
2117981500	Christian St Serv Bldg	830 Schuylkill Ave	911MD-10076	\$ 0.00	0	\$ 0
2119031162	PECO	E.S. Wellacoe St W/O	NO METER	\$ 1,177.95	0	\$ 0
2119201486	Shunk Service Center	1316 Shunk St.	NO METER	\$ 1,302.40	0	\$ 0

PECO Energy Company
Utilities
Eleven Months Ended November 30, 1999

Twelve Month Figure

\$520,799

ACCOUNTNO	NAME	ADDRESS1	METERNO	Eleven Months Ended 11/30/99 SumOfREVENUE	Allocation Percentage	Gas Stand Alone located 11 Month Revenue
2211980200	PECO Main Office Bldg	2301 Market St.	922MC-10071	\$ 772,090.20	0	\$ 0
2211980200	PECO Main Office Bldg	2301 Market St.	922MC-10072	\$ 905,101.20	0	\$ 0
2211980200	PECO Main Office Bldg	2301 Market St.	922QMC-10032	\$ 0.00	0	\$ 0
2211980200	PECO Main Office Bldg	2301 Market St.	922QMC-10033	\$ 0.00	0	\$ 0
2211980210	Main Office Bldg Lot	2201 Market St	6-1537229	\$ 0.00	0	\$ 0
2211980210	Main Office Bldg Lot	2201 Market St	9-8310833	\$ 569.13	0	\$ 0
2211980210	Main Office Bldg Lot	2201 Market St	NO METER	\$ 880.15	0	\$ 0
2518150517	Fairmont Dam Monitor	W/S Schuylkill River	9SS-450518	\$ 0.00	0	\$ 0
2710010001	PECO	F & Luzerne St.	508PD-10107	\$ 39,644.01	0	\$ 0
2710890655	Byberry Sub Station	1229 Byberry Rd.	NO METER	\$ 614.52	0	\$ 0
2710897100	PECO	701 E. Luzerne St.	NO METER	\$ 409.64	0	\$ 0
3503400001	West Chester Serv Bldg	Eachus Mill & Bolmar Rds.	122PD-10099	\$ 28,359.47	31.03%	\$ 8,799
3503400001	West Chester Serv Bldg	Eachus Mill & Bolmar Rds.	20-589420	\$ 1,481.16	31.03%	\$ 460
3503400001	West Chester Serv Bldg	Eachus Mill & Bolmar Rds.	20-589924	\$ 0.00	31.03%	\$ 0
3505400001	Coatesville Microware Tow	100 Reeseville Rd.	9-8146643	\$ 1,513.83	0	\$ 0
3505400001	Coatesville Microware Tow	100 Reeseville Rd.	9SD-818296	\$ 2,626.75	0	\$ 0
3505400002	Coatesville Pumping Sta	100 Reeseville Rd.	6-1657883	-\$ 489.18	0	\$ 0
3508400001	Faces Microware Station	Limestone & Russenville	9-8145142	\$ 1,710.87	0	\$ 0
3509400001	Oxford Microware Station	Mt Olivet N/O Chrome Rds	9-2211750	\$ 2,104.28	0	\$ 0
3510920005	OHT Headquarters	1040 W. Swedesford Rd.	19STD-10033	\$ 2,150.65	0	\$ 0
3510920005	OHT Headquarters	1040 W. Swedesford Rd.	3B19PD-10542	\$ 56,876.41	0	\$ 0
3510920009	Berwyn Transportation Ctr	1050 W. Swedesford Rd.	19STS-5078	\$ 961.80	14.67%	\$ 141
3510920009	Berwyn Transportation Ctr	1050 W. Swedesford Rd.	28-680427	\$ 2,891.25	14.67%	\$ 424
3510920009	Berwyn Transportation Ctr	1050 W. Swedesford Rd.	28-680429	\$ 2,737.97	14.67%	\$ 402
3510920009	Berwyn Transportation Ctr	1050 W. Swedesford Rd.	3B15PD-10016	\$ 1,110.65	14.67%	\$ 163
3510920009	Berwyn Transportation Ctr	1050 W. Swedesford Rd.	46-345837	\$ 41,521.00	14.67%	\$ 6,090
3510920009	Berwyn Transportation Ctr	1050 W. Swedesford Rd.	515PDC-38531	\$ 157,141.99	14.67%	\$ 23,050
3510920009	Berwyn Transportation Ctr	1050 W. Swedesford Rd.	9-9297410	\$ 363.37	14.67%	\$ 53
3510920009	Berwyn Transportation Ctr	1050 W. Swedesford Rd.	9SD-55378	\$ 234.62	14.67%	\$ 34
3510920009	Berwyn Transportation Ctr	1050 W. Swedesford Rd.	9SD-816515	\$ 234.17	14.67%	\$ 34
3510920013	Central Stores Bldg.	1060 W. Swedesford Rd.	511PC-10001	\$ 130,821.06	21.75%	\$ 28,457
3510920013	Central Stores Bldg.	1060 W. Swedesford Rd.	64-344605	\$ 31,201.25	21.75%	\$ 6,787
3511400001	West Grove Serv Bldg	225 Willow St.	119P-10002	\$ 14,313.11	31.03%	\$ 4,441
3511400001	West Grove Serv Bldg	225 Willow St.	42-345213	\$ 5,760.13	31.03%	\$ 1,787
3512906000	Valley Forge Center	1111 Old Eagle School Rd.	43-347690	\$ 43,635.51	0	\$ 0
3512906000	Valley Forge Center	1111 Old Eagle School Rd.	515P-10002	\$ 255,053.17	0	\$ 0
3513400001	Kenneth Sq. Sub Station	W. Cedar & Center St.	26-214652	\$ 768.86	31.03%	\$ 239
3513400001	Kenneth Sq. Sub Station	W. Cedar & Center St.	6-1449507	\$ 382.65	31.03%	\$ 119
3515447126	Phoenixville Serv Bldg	1101 W. Bridge St.	122P-23	\$ 20,721.46	31.03%	\$ 6,429
3515447126	Phoenixville Serv Bldg	1101 W. Bridge St.	28-680556	\$ 490.51	31.03%	\$ 152
3515447126	Phoenixville Serv Bldg	1101 W. Bridge St.	28-680633	\$ 507.94	31.03%	\$ 158
3515447126	Phoenixville Serv Bldg	1101 W. Bridge St.	3B15PD-10441	\$ 165.93	31.03%	\$ 51
3515447126	Phoenixville Serv Bldg	1101 W. Bridge St.	64-344036	\$ 5,905.67	31.03%	\$ 1,832

PECO Energy Company
Utilities
Eleven Months Ended November 30, 1999

Twelve Month Figure

\$520,799

ACCOUNTNO	NAME	ADDRESS1	METERNO	Eleven Months Ended 11/30/99 SumOfREVENUE	Allocation Percentage	Gas Stand Alone located 11 Month Revenue
3515447126	Phoenixville Serv Bldg	1101 W. Bridge St.	9SD-816891	\$ 90.10	31.03%	\$ 28
3515900200	Coatesville Serv Bldg	175 Caln Rd.	129P-1001	\$ 43,257.83	31.03%	\$ 13,421
3515900200	Coatesville Serv Bldg	175 Caln Rd.	129P-1002	\$ 42,672.01	31.03%	\$ 13,239
3515900200	Coatesville Serv Bldg	175 Caln Rd.	27-663252	\$ 442.11	31.03%	\$ 137
3515900200	Coatesville Serv Bldg	175 Caln Rd.	27-663263	\$ 404.85	31.03%	\$ 126
3515900200	Coatesville Serv Bldg	175 Caln Rd.	27-680247	\$ 1,003.02	31.03%	\$ 311
3515900200	Coatesville Serv Bldg	175 Caln Rd.	3B15PD-10398	\$ 161.00	31.03%	\$ 50
3515900200	Coatesville Serv Bldg	175 Caln Rd.	63-344208	\$ 9,023.63	31.03%	\$ 2,800
3515900200	Coatesville Serv Bldg	175 Caln Rd.	9MLD-13584	\$ 1,912.50	31.03%	\$ 593
3515900200	Coatesville Serv Bldg	175 Caln Rd.	9SD-814709	\$ 343.30	31.03%	\$ 107
3515900210	Coatesville Emer OperFac	175 Caln Rd.	3B26PD-10339	\$ 29,879.78	31.03%	\$ 9,270
3517417880	Cromby Generating Station	Spring City Rd & Twp Line	109PLS-11338	\$ 3,547.59	0	\$ 0
4002062761	Gas System Control Ctr	124 King of Prussia Rd.	119P-16	\$ 16,480.89	1	\$ 16,481
4002062761	Gas System Control Ctr	124 King of Prussia Rd.	20-434951	\$ 820.20	1	\$ 820
4002700001	Peco Energy	PA Turnpike & Rt 202	3B15PD-38693	\$ 2,150.41	0	\$ 0
4002700001	Peco Energy	PA Turnpike & Rt 202	62-348534	\$ 20,485.84	0	\$ 0
4003123197	Resource Recovery Warehse	411 Yerkes Rd.	27-493673	\$ 7,125.23	0	\$ 0
4003123197	Resource Recovery Warehse	411 Yerkes Rd.	27-493822	\$ 5,057.92	0	\$ 0
4003123197	Resource Recovery Warehse	411 Yerkes Rd.	3B19PD-10473	\$ 982.57	0	\$ 0
4003172068	North Wales Serv Bldg	420 Sumneytown Pk.	11-10037	\$ 5,817.67	31.03%	\$ 1,805
4003172068	North Wales Serv Bldg	420 Sumneytown Pk.	119P-14	\$ 10,832.06	31.03%	\$ 3,361
4003172068	North Wales Serv Bldg	420 Sumneytown Pk.	20-419793	\$ 855.90	31.03%	\$ 266
4003172068	North Wales Serv Bldg	420 Sumneytown Pk.	20-419829	\$ 1,299.78	31.03%	\$ 403
4003172068	North Wales Serv Bldg	420 Sumneytown Pk.	20-626281	\$ 4,756.26	31.03%	\$ 1,476
4004071101	PECO	Colwell Rd & 6th Ave.	106-107638	-\$ 4.69	0	\$ 0
4004081624	Plymouth Serv Bldg	680 Ridge Pk.	20-553899	\$ 2,382.41	31.03%	\$ 739
4004081624	Plymouth Serv Bldg	680 Ridge Pk.	41-346283	\$ 6,284.51	31.03%	\$ 1,950
4004081624	Plymouth Serv Bldg	680 Ridge Pk.	43-345731	\$ 9,559.61	31.03%	\$ 2,966
4004081624	Plymouth Serv Bldg	680 Ridge Pk.	911MD-10077	\$157,011.05	31.03%	\$ 48,713
4004081624	Plymouth Serv Bldg	680 Ridge Pk.	9MLD-13921	\$ 1,111.27	31.03%	\$ 345
4004081624	Plymouth Serv Bldg	680 Ridge Pk.	9MLS-15626	\$ 4,890.38	31.03%	\$ 1,517
4004081624	Plymouth Serv Bldg	680 Ridge Pk.	NO METER	\$ 2,502.00	31.03%	\$ 776
4006130271	Graterford Microwave Sta	300 Ryanford Rd.	9SD-804726	\$ 3,038.70	0	\$ 0
4009081426	TeleComm Vaults 1 & 2	215 Everett Ave.	9-4225345	\$ 5,652.52	0	\$ 0
4009081426	TeleComm Vaults 1 & 2	215 Everett Ave.	9-4225374	\$ 7,018.19	0	\$ 0
4012127116	Plymouth Mtg Complex	2001 Gallager Rd.	122PD-10133	\$ 3,056.04	0	\$ 0
4012127116	Plymouth Mtg Complex	2001 Gallager Rd.	122PDPD-54794	\$ 4,031.50	0	\$ 0
4012127116	Plymouth Mtg Complex	2001 Gallager Rd.	19ST-3490	\$ 1,045.51	0	\$ 0
4012127116	Plymouth Mtg Complex	2001 Gallager Rd.	219MD-10689	\$ 16,429.06	0	\$ 0
4012127116	Plymouth Mtg Complex	2001 Gallager Rd.	41-346505	-\$ 6.76	0	\$ 0
4012127116	Plymouth Mtg Complex	2001 Gallager Rd.	9SD-404419	\$ 0	0	\$ 0
4012127116	Plymouth Mtg Complex	2001 Gallager Rd.	NO METER	\$ 616.49	0	\$ 0
4013027377	Barbadoes Generating Sta	Barbadoes Island	11-6730	\$ 1,164.78	0	\$ 0

PECO Energy Company
Utilities
Eleven Months Ended November 30, 1999

Twelve Month Figure

\$520,799

ACCOUNTNO	NAME	ADDRESS1	METERNO	Eleven Months Ended 11/30/99 SumOfREVENUE	Allocation Percentage	Gas Stand Alone located 11 Month Revenue
4013027377	Barbadoes Generating Sta	Barbadoes Island	530M-23	\$ 93.40	0	\$ 0
4013027377	Barbadoes Generating Sta	Barbadoes Island	530M-4	\$ 22,617.10	0	\$ 0
4013069341	Oreland Serv Bldg	Roesch Ave. & Anderson Av	20-361381	\$ 0.00	31.03%	\$ 0
4013069341	Oreland Serv Bldg	Roesch Ave. & Anderson Av	20-434758	\$ 0.00	31.03%	\$ 0
4013069341	Oreland Serv Bldg	Roesch Ave. & Anderson Av	9MLS-14942	\$ 2,275.31	31.03%	\$ 706
4013069341	Oreland Serv Bldg	Roesch Ave. & Anderson Av	9SS-210262	\$ 0.00	31.03%	\$ 0
4014076331	Pottstown Serv Bldg	Conrail RR + York St.	20-554133	\$ 0.00	31.03%	\$ 0
4014076331	Pottstown Serv Bldg	Conrail RR + York St.	9MLS-12901	\$ 4,229.70	31.03%	\$ 1,312
4014076331	Pottstown Serv Bldg	Conrail RR + York St.	9MLS-13013	\$ 3,737.01	31.03%	\$ 1,159
4014931250	Vincent Dam Monitor	Schuylkill River & Dam	9-2157780	\$ 0.00	0	\$ 0
4014931300	Limerick Atomic Station	341 Longview Rd.	3B19PS-10047	\$ 55,463.31	0	\$ 0
4014931300	Limerick Atomic Station	341 Longview Rd.	3B22PC-333	\$ 172,557.04	0	\$ 0
4014931420	Limerick Atomic Station	Limerick Rd.	222M-10001	\$ 5,492.39	0	\$ 0
4014931430	Limerick Atomic Station	Evergreen & Sanatoga Rds.	3B32P-10001	\$ 254,654.20	0	\$ 0
4014931440	Limerick Atomic Station	Evergreen & Sanatoga Rds.	3B29PD-10034	\$ 122,631.11	0	\$ 0
4014931445	Limerick Atomic Station	Evergreen & Sanatoga Rds	3B29PQEC10016	\$ 10,331.82	0	\$ 0
4014931445	Limerick Atomic Station	Evergreen & Sanatoga Rds	3b29pqxc54792	\$ 87,643.51	0	\$ 0
4014931450	Limerick Atomic Station	298 S. Longview Rd.	119P-51	\$ 14,816.98	0	\$ 0
4014931460	Limerick Atomic Station	299 Longview Rd.	9-8110412	\$ 192.02	0	\$ 0
4014931500	Limerick Atomic Station	Possom Hollow Rd.	3B26P-10005	\$ 69,153.48	0	\$ 0
4014931600	Limerick Atomic Station	Sub #10	3B26P-10003	\$ 30,875.90	0	\$ 0
4014931600	Limerick Atomic Station	Sub #10	3B26P-10004	\$ 45,603.90	0	\$ 0
4014931600	Limerick Atomic Station	Sub #10	3B26P-10006	\$ 24,911.80	0	\$ 0
4014931700	Limerick Atomic Station	Evergreen & Sanatoga Rds	3B26P-10001	\$ 47,142.20	0	\$ 0
4014931700	Limerick Atomic Station	Evergreen & Sanatoga Rds	3B26P-10002	\$ 3,981.10	0	\$ 0
4014931820	Limerick Atomic Station	Evergreen & Sanatoga Rds.	NO METER	\$ 5,284.20	0	\$ 0
4017932300	General Meter Shop	950 Pulaski Rd.	126PD-10086	\$ 44,237.50	31.03%	\$ 13,725
4017932300	General Meter Shop	950 Pulaski Rd.	27-493831	\$ 0.00	31.03%	\$ 0
4017932300	General Meter Shop	950 Pulaski Rd.	27-729099	\$ 2,897.36	31.03%	\$ 899
4501010001	PECO Energy	2950 River RD	NO METER	\$ 1,568.17	0	\$ 0
4501010001	PECO Energy	2950 River RD	NO METER-I	\$ 190.63	0	\$ 0
4502850001	Amquip Tower Site	777 Winks La.	9SD-801370	\$ 2,489.99	0	\$ 0
4503900900	Croydon Gen. Station	955 River Rd.	3B26PC-51	\$ 2,376.56	0	\$ 0
4503900900	Croydon Gen. Station	955 River Rd.	919MC-188	\$ 392.60	0	\$ 0
4503900900	Croydon Gen. Station	955 River Rd.	9SS-455600	\$ 703.99	0	\$ 0
4505140010	Emilie Servive Center	3200 Edgely Rd.	219MD-11341	\$ 16,519.07	31.03%	\$ 5,125
4505140010	Emilie Servive Center	3200 Edgely Rd.	222STD-10533	\$ 13,177.05	31.03%	\$ 4,088
4516850006	AT & T Tower Site	25 Old Limekiln Rd.	9SD-802962	\$ 3,035.88	0	\$ 0
4517850001	Doylestown Serv Bldg	210 W. Ashland St.	19STD-11456	\$ 6,273.38	31.03%	\$ 1,946
4517850001	Doylestown Serv Bldg	210 W. Ashland St.	20-361417	\$ 2,241.38	31.03%	\$ 695
4517850001	Doylestown Serv Bldg	210 W. Ashland St.	9MLD-14877	\$ 569.21	31.03%	\$ 177
4519900100	Warminster Serv Bldg	400 Park Ave.	27-493907	\$ 1,603.61	31.03%	\$ 498
4519900100	Warminster Serv Bldg	400 Park Ave.	27-518135	\$ 1,620.34	31.03%	\$ 503

PECO Energy Company
Utilities
Eleven Months Ended November 30, 1999

Twelve Month Figure

\$520,799

ACCOUNT NO	NAME	ADDRESS 1	METER NO	Eleven Months Ended 11/30/99 Sum Of REVENUE	Allocation Percentage	Gas Stand Alone Allocated 11 Month Revenue
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4519900100	Warminster Serv Bldg	400 Park Ave.	3B15PD-35853	\$ 649.58	31.03%	\$ 202
4519900100	Warminster Serv Bldg	400 Park Ave.	511PC-1634	\$ 69,598.73	31.03%	\$ 21,593
4519900100	Warminster Serv Bldg	400 Park Ave.	511PC-1635	\$ 77,587.95	31.03%	\$ 24,072
4519900100	Warminster Serv Bldg	400 Park Ave.	511PD-58120	\$ 9,209.24	31.03%	\$ 2,857
4519900100	Warminster Serv Bldg	400 Park Ave.	511PD-58121	\$ 14,262.18	31.03%	\$ 4,425
4519900100	Warminster Serv Bldg	400 Park Ave.	63-340222	\$ 13,589.81	31.03%	\$ 4,216
4519900100	Warminster Serv Bldg	400 Park Ave.	63-344356	\$ 15,000.14	31.03%	\$ 4,654
4519900100	Warminster Serv Bldg	400 Park Ave.	9-6150032	\$ 0.00	31.03%	\$ 0
4519900100	Warminster Serv Bldg	400 Park Ave.	9SD-0047322	\$ 67.58	31.03%	\$ 21
4519900100	Warminster Serv Bldg	400 Park Ave.	9SD-401089	\$ 302.06	31.03%	\$ 94
5006930250	Ardmore Serv Bldg	213 W. County Line Rd.	515P-10001	\$ 35,066.80	31.03%	\$ 10,880
5006930250	Ardmore Serv Bldg	213 W. County Line Rd.	515P-32	\$ 73,671.09	31.03%	\$ 22,857
5006930250	Ardmore Serv Bldg	213 W. County Line Rd.	59-348508	\$ 315.76	31.03%	\$ 98
5006930250	Ardmore Serv Bldg	213 W. County Line Rd.	63-344944	\$ 24,633.11	31.03%	\$ 7,643
5006930250	Ardmore Serv Bldg	213 W. County Line Rd.	9MLD-17297	\$ 135.34	31.03%	\$ 42
5006930250	Ardmore Serv Bldg	213 W. County Line Rd.	NO METER	\$ 677.58	31.03%	\$ 210
5006930250	Ardmore Serv Bldg	213 W. County Line Rd.	NO METER-2	\$ 126.49	31.03%	\$ 39
5006930250	Ardmore Serv Bldg	213 W. County Line Rd.	NO METER-3	\$ 54.82	31.03%	\$ 17
5014050048	Bishop Hollow Tower	397 Bishop Hollow Rd.	109PLD-17891	\$ 3,009.98	0	\$ 0
5014050048	Bishop Hollow Tower	397 Bishop Hollow Rd.	109PLD-18029	\$ 354.44	0	\$ 0
5014050048	Bishop Hollow Tower	397 Bishop Hollow Rd.	9-8249709	\$ 1.83	0	\$ 0
5014901640	Morton Service Building	200 Yale Avenue	15-665044	\$ 1,086.89	31.03%	\$ 337
5014901640	Morton Service Building	200 Yale Avenue	3B29PQEC-10013	\$ 50,386.43	31.03%	\$ 15,633
5014901640	Morton Service Building	200 Yale Avenue	3B29PQEC-10014	\$ 117,817.88	31.03%	\$ 36,554
5014901640	Morton Service Building	200 Yale Avenue	59-348506	\$ 450.40	31.03%	\$ 140
5014901640	Morton Service Building	200 Yale Avenue	64-348391	\$ 0.00	31.03%	\$ 0
5014901640	Morton Service Building	200 Yale Avenue	NO METER	\$ 283.91	31.03%	\$ 88
5014901640	Morton Service Building	200 Yale Avenue	NO METER-2	\$ 92.50	31.03%	\$ 29
5014901640	Morton Service Building	200 Yale Avenue	NO METER-3	\$ 42.17	31.03%	\$ 13
5014901640	Morton Service Building	200 Yale Avenue	NO METER-4	\$ 440.85	31.03%	\$ 137
5015124657	Baldwin Service Center	1500 Chester Pk.	20-418945	\$ 2,202.41	31.03%	\$ 683
5015124657	Baldwin Service Center	1500 Chester Pk.	20-626796	\$ 2,508.64	31.03%	\$ 778
5015124657	Baldwin Service Center	1500 Chester Pk.	27-680362	\$ 2,596.92	31.03%	\$ 806
5015124657	Baldwin Service Center	1500 Chester Pk.	27-680364	\$ 3,211.23	31.03%	\$ 996
5015124657	Baldwin Service Center	1500 Chester Pk.	28-703020	\$ 911.42	31.03%	\$ 283
5015124657	Baldwin Service Center	1500 Chester Pk.	28-703023	\$ 7,588.23	31.03%	\$ 2,354
5015124657	Baldwin Service Center	1500 Chester Pk.	3B15PD-10361	\$ 12,943.88	31.03%	\$ 4,016
5015124657	Baldwin Service Center	1500 Chester Pk.	3B26PD-10467	\$ 74,473.92	31.03%	\$ 23,106
5015124657	Baldwin Service Center	1500 Chester Pk.	NO METER	\$ 3,070.44	31.03%	\$ 953
5017191267	PECO ENVIRONMENTAL	3 Jeffrey St.	3B15PD-38054	\$ 4,499.36	0	\$ 0
5017390031	Chester Service Bldg	Highland Ave.	122P-10003	\$ 8,898.23	31.03%	\$ 2,761
5017390031	Chester Service Bldg	Highland Ave.	62-340464	\$ 6,545.44	31.03%	\$ 2,031
5017390031	Chester Service Bldg	Highland Ave.	9-6109038	\$ 0.00	31.03%	\$ 0

PECO Energy Company
Utilities
Eleven Months Ended November 30, 1999

Twelve Month Figure

\$520,799

ACCOUNT NO	NAME	ADDRESS 1	METER NO	Eleven Months Ended 11/30/99 Sum Of REVENUE	Allocation Percentage	Gas Stand Alone Allocated 11 Month Revenue
-----				-----	-----	-----
5509801542	Delta Service Bldg	Main & Baptist St.	9-2060745	\$ 0.00	0	\$ 0
5509801542	Delta Service Bldg	Main & Baptist St.	9-4110599	\$ 3,540.59	0	\$ 0
5509801707	Delta Storage Yard	Main St.	6-1426358	\$ 1,072.12	0	\$ 0
5509803213	Peach Bottom Atomic Sta.	River Rd.	519PW-1	\$ 18,866.46	0	\$ 0
5509803216	Peach Bottom Atomic Sta.	Atom Rd.	3B29PD-10003	\$ 134,891.38	0	\$ 0
5509803219	Peach Bottom Atomic Sta.	Quarry Rd.	9-4198096	\$ 1,900.30	0	\$ 0
5509803221	Peach Bottom Atomic Sta.	Boat House & WellHouse Rd	9-6203533	\$ 0.00	0	\$ 0
5509803223	Peach Bottom Atomic Sta	Lay Rd.	9-8272772	\$ 2,456.09	0	\$ 0
5509803226	Peach Bottom Atomic Sta.	Sirens at all locations	NO METER	\$ 2,377.90	0	\$ 0
5509803227	Peach Bottom Atomic Sta.	Lay Rd.	9-6166300	\$ 583.89	0	\$ 0
5509803228	Peach Bottom Atomic Sta.	Atom Rd.	3B19PD-10760	\$ 3,919.75	0	\$ 0
5509803229	Peach Bottom Atomic Sta.	Atom Rd.	3B22PD41277	\$ 14,159.44	0	\$ 0
5509803230	Peach Bottom Atomic Sta.	Atom Rd.	109PLD-24579	\$ 1,414.88	0	\$ 0
-----				-----	-----	-----
Total-11 months Ended November 1999				\$14,223,792.22		\$477,399
-----				-----	-----	-----
Ratioed Upward for 12 months						\$520,799
-----				-----	-----	-----

Exhibit 1.2k

Tax Savings on Interest Adjusted Ratebase

	(Thousand\$)

Ratebase at Dec 31, 1998=	\$839,135
Stand Alone Ratebase=	\$940,001
Debt Capitalization=	45.61%
Preferred Securities Capitalization=	5.25%
Debt Interest Rate=	8.67%
Preferred Securities Return Rate=	9.08%
Calculated Interest on Stand Alone Ratebase	
	\$ 41,652
Estimated Interest Used to Compute State and Federal Taxes=	\$ 22,430
Increase in Interest Expense=	\$ 19,222
Tax Rate=	41.494%

Reduction in Income Taxes=	\$ 7,976

Exhibit 1.21

Shareholder Services-No Labor

	Total	Allocated Actual Gas	Increase for Stand Alone
	-----	-----	-----
Outside Services	\$1,241,000	\$ 83,879	\$ 1,157,121
Annual Report	\$ 381,312	\$ 25,773	\$ 355,539
Proxy Expense	\$ 393,000	\$ 26,563	\$ 366,437
Annual Meeting	\$ 430,587	\$ 29,103	\$ 401,484
Stock Exchange	\$ 105,000	\$ 7,097	\$ 97,903
Other	\$ 221,102	\$ 14,944	\$ 206,158
	-----	-----	-----
	\$2,772,001	\$ 187,360	\$ 2,584,641

If assume spin this off to our shareholders, same number
of shareholders

Basis 923 acct Outside Services employed

electric= \$29,258,641 gas= \$1,977,598 0.067590221

Exhibit 1.2m

Increase in Capital Stock Tax and Realty Taxes from Common Plant and IT

New Common Plant and IT Less Reserve=	\$160,466,212
Current Common Plant less Reserve=	\$ 40,300,000

Increase in Common Plant and IT	\$120,166,212
Percent Financed by Preferred and Common Equity=	49.14%
Preferred and Common Equity Portion of Increased Common Plant and IT=	\$ 59,049,677
Capital Stock Tax Rate=	1.099%
Increase in Capital Stock Tax=	\$ 648,956

Realty Tax on Common Plant Increase	
Allocated Current Common Plant-Land=389 account	
Land=	\$6,050,510
Allocated to Gas=	15.705%

Common Stand Alone=	\$ 950,233
	\$4,458,575
Increase in Land=	\$3,508,342
Realty Tax Rate=	6.30319%

Increase in Realty Tax=	\$ 221,137
Increase in Capital Stock and Realty Taxes=	\$ 870,093

Exhibit 1.2n

Increase in Uncollectible Accounts Expense

Increases as a stand alone entity to average of other state
 gas utilities

	Uncoll Expense (Thousand\$) -----	Residential Revenue (Thousand\$) -----	Comml & Indust Rev (Thousand\$) -----	Total (Thousand\$) -----
PECO Gas Revenue 1998	\$ 4,439	\$249,438	\$126,107	\$375,545
Uncollectible as Percent of Revenue	1.18%			
Rate Increase	\$120,998			
Increase in Uncollectibles	\$ 1,430			

Exhibit 1.3

 Gas Stand Alone Company

 Proposed Employees

	Executive -----	Managerial, Supervisory, Professional -----	Non-Exempt -----	Total -----
Production	0	13	12	25
Gas Supply and Storage	1	19	1	21
Distribution	2	162	441	605
Customer Accts, Service, and Sales	1	63	111	175
A and G	7	146	46	199
Executive	2	0	4	6
	--	---	---	----
Total	13	403	615	1031

Exhibit 1.3

 Stand Alone Gas Organization

Employee Counts

	Executive -----	Managerial, Supervisory, Professional -----	Non-Exempt -----	Total -----
Chief Executive Officer	1			1
Administrative Assistant/Secy			1	1
Chief Operating Officer	1			1
Administrative Assistant/Secy			1	1
Support			2	2
Total	2	0	4	6
VP Finance and Accounting	1			1

Administrative Assistant/Secy			1	1
Controller	1			1
Administrative Assistant/Secy			1	1
Manager-Plant Acctg		1		1
Administrative Assistant/Secy			1	1
Analysts		3		3
Manager-General Acctg		1		1
Analysts		5		5
Manager-Reporting		1		1
Administrative Assistant/Secy			1	1
Analysts		2		2
Manager-Taxes		1		1
Analysts/Compliance/Liasons		4		4
Director-Business Services		1		1
Administrative Assistant/Secy			1	1
Supervisor-Accts Payable		1		1
Analysts		1		1
Clerks			3	3
Supervisor-Payroll		1		1
Administrative Assistant/Secy			1	1
Analysts		2		2
Clerks			3	3
Supervisor-Office Services		1		1
Graphics Designers			2	2
Office Machine Operators			2	2
Clerk			1	1
Treasurer	1			1
Administrative Assistant/Secy			1	1
Analysts		6		6
Manager-Shareholder Relations		1		1
Analysts		1		1
Manager-Budgeting		1		1
Administrative Assistant/Secy			1	1
Analysts		4		4
Manager-Planning and Performance		1		1

Exhibit 1.3

Stand Alone Gas Organization

Employee Counts

	Executive -----	Managerial, Supervisory, Professional -----	Non-Exempt -----	Total -----
Administrative Assistant/Secy Analysts		3	1	1 3
Director-Rates		1		1
Administrative Assistant/Secy Tariff Coordinator			1	1
Manager-Tariff and Analysis		1		1
Rate Engineers		4		1 4
Regulatory Liason		1		1
Total	3	49	22	74
VP-Information Services -----	1			1
Administrative Assistant/Secy Operations Area Lead		1	1	1 1
Manager-Support		1		1
Project Leaders		2		1 2
Analysts/Programmers		2		2
Manager-Systems		1		2
Administrative Assistant/Secy Project Leaders		2	1	1 1
Analysts/Programmers		11		2 11
Manager-Information Center Analysts		1		1 4
Manager-Operations		1		1 4
Administrative Assistant/Secy Supervisors		2	1	1 1
Analysts/Operators		6		2 6
Manager-Data Administration Analysts		1		1 3
Manager-Applications		3		1 3
Project Leaders		1		1
Analysts/Programmers		3		3 10
Total	1	52	3	56
VP-General Counsel/Corporate Secretary -----	1			1
Administrative Assistant/Secy Administrator		1	1	1 1
Supervising Attorney-Corporate Operations Attorney		1		1 1
Supervising Attorney-Regulatory Attorney		1		1 2
Attornies-Litigation/Claims		2		2

Exhibit 1.3

Stand Alone Gas Organization

Employee Counts

	Executive -----	Managerial, Supervisory, Professional -----	Non-Exempt -----	Total -----
Paralegals			2	2
Administrative Assistant/Secy			4	4
Manager-Environmental Affairs		1		1
Administrative Assistant/Secy			1	1
Staff Personnel		1		1
Environmental Coordinators		2		2
Manager-Claims		1		1
Administrative Assistant/Secy			1	1
Supervisor		1		1
Field Investigators		4		4
Support Personnel			2	2
Manager-Audit Services		1		1
Administrative Assistant/Secy			1	1
Auditors		2		2
Total	1	21	12	34
VP-Human Resources	1			1

Administrative Assistant/Secy			1	1
Manager		1		1
Analyst		1		1
Human Resources Generalist		1		1
Labor Relations Representative		1		1
Benefits Representative		1		1
Staffing Representative		1		1
Payroll Representative		2		2
Data Entry			1	1
Test Administrator			1	1
Retirement Management Representative			1	1
Compensation and Benefits Administrators		2		2
Manager-Occupational Health and Safety		1		1
Administrative Assistant/Secy			1	1
Counselors		3		3
Nurses		1		1
Total	1	15	5	21
VP-Corporate & Public Affairs	1			1

Administrative Assistant/Secy			2	2
Regional Affairs Representatives		2		2
Manager-Corporate Communications		1		1

Exhibit 1.3

Stand Alone Gas Organization

Employee Counts

	Executive -----	Managerial, Supervisory, Professional -----	Non-Exempt -----	Total -----
Representatives		2		2
Administrative Assistant/Secy			1	1
Manager-Corporate Policy and Programs		1		1
Representatives		3		3
Administrative Assistant/Secy			1	1
Total	1	9	4	14
VP-Gas Supply and Transportation	1			1

Operations Area Lead		1		1
Administrative Assistant/Secy			1	1
Manager-Acquis & Planning		1		1
Supply and Transportation Analysts		5		5
Manager-System Control/Transportation		1		1
Analysts		2		2
Operators		6		6
Manager-Gas Regulation		1		1
Analysts		2		2
Manager-Plant Operations		1		1
Supervisor		1		1
Analysts/Specialists/Operators/Mechanics		11	12	23
Total	1	32	13	46
VP-Contractor & Supply Management	1			1

Administrative Assistant/Secy			1	1
Operations Area Lead		1		1
Director-Contractor & Project Management		1		1
Administrative Assistant/Secy			1	1
Manager-Project Mgmt		1		1
Project Managers		3		3
Lead Engineers		2		2
Manager-Constr. & Maintenance		1		1
Contract Administrators		2		2
Sourcing/Quality Specialists		2		2
QC Inspectors		3		3
Paving		3		3
Manager-Tech & General Services		1		1
Contract Administrators		2		2
Sourcing Specialists		1		1
Manager-Business Programs		1		1
Analysts		3		3
Estimator			2	2
Director-Material Management		1		1
Administrative Assistant/Secy			1	1
Manager-Materials & Logistics		1		1

Exhibit 1.3

Stand Alone Gas Organization

Employee Counts

	Executive -----	Managerial, Supervisory, Professional -----	Non-Exempt -----	Total -----
Supervisors-Warehouse		2		2
Materials Providers			4	4
Supervisors-Transportation Operations		1		1
Equipment Operators			6	6
Dispatchers			3	3
Supervisors-Material Providers		2		2
Material Providers			4	4
Manager-Inventory Alternatives		1		1
Project Leader		2		2
Commodity Analysts		2		2
Material Coordinator		1		1
Clerk			1	1
Manager-Commodities & Engin Matls		1		1
Buyers/Analysts		2		2
Material Coordinator		1		1
Clerk			1	1
Manager-Work Mgmt/Bus Process		1		1
Analysts		2		2
Material Coordinator			1	1
Manager-Logistics and Support		1		1
Administrative Assistant/Secy			1	1
Supervisor-Transportation Operations		1		1
Equipment Operators			6	6
Supervisor-Transportation Planning		1		1
Dispatchers			4	4
Chauffeurs			1	1
Supervisor-Delchester		1		1
Materials Providers			3	3
Supervisor-Bucksmont		1		1
Materials Providers			3	3
Supervisor-Warehouse Operations		1		1
Materials Providers			6	6
Manager-Fleet Management		1		1
Administrative Assistant/Secy			1	1
Supervisors		4		4
Mechanics			11	11
Analysts		2		2
Tool Repair			2	2
Design Specialists			1	1
Carpenter			1	1
Support Technician			1	1
Manager-Performance Improvement		1		1
Administrative Assistant/Secy			1	1
Methods/Training/Safety Instructors		2		2
Analysts/Specialists			6	6
Manager-Real Estate and Facilities		1		1
Administrative Assistant/Secy			1	1

Exhibit 1.3

 Stand Alone Gas Organization

Employee Counts

	Executive -----	Managerial, Supervisory, Professional -----	Non-Exempt -----	Total -----
Facilities/Leasing Analyst		1		1
Representatives			2	2
Manager-Meter Services		1		1
Administrative Assistant/Secy			1	1
Engineer		2		2
Supervisor-Shop Service		1		1
Analyst		1		1
Meter Technicians			3	3
Clerk			1	1
Supervisor-Field Services		1		1
Engineer		1		1
Meter Technicians			7	7
Clerk			1	1
Total	1	72	89	162
VP-Customer and Marketing Services	1			1

Administrative Assistant/Secy			1	1
Operations Area Lead		1		1
Director-Marketing		1		1
Administrative Assistant/Secy			1	1
Market Managers		2		2
Business Developer		2		2
Applications Support Engineer		2		2
Marketing Research Specialist		2		2
Administrative Assistant/Secy			1	1
Manager-Account Management		1		1
Account Executives		5		5
Manager-Service Center		1		1
Account Teams			8	8
Manager-Billing Team		1		1
Billing Team		1		1
Billing Team			3	3
Manager-Credit and Collections		1		1
Account Representatives			3	3
Manager-Regulatory Performance		1		1
Regulatory Assessors			2	2
Clerks			2	2
Manager-Support Services		1		1
Support Specialists		2		2
Analysts			1	1
Manager-Economic Development		1		1
Administrative Assistant/Secy			1	1
Regional Directors		3		3
Director-Call Center and Billing		1		1
Administrative Assistant/Secy			1	1

Exhibit 1.3

 Stand Alone Gas Organization

Employee Counts

	Executive -----	Managerial, Supervisory, Professional -----	Non-Exempt -----	Total -----
Senior Analyst		1		1
Manager-Operations Supervisors		1		1
Supervisors		6		6
Operations Representatives			50	50
Supervisor-High Bill Field Representatives		1		1
Representatives			4	4
Manager-Resource Management Analysts		1		1
Analysts		3	1	4
Manager-Billing Representatives		1		1
Representatives		2		2
Representatives			7	7
Manager-Vendor Operations		1		1
Manager-Energy Usage		1		1
Administrative Assistant/Secy Program Lead		1	1	1
Analysts		2		2
Supervisor-Back Office		1		1
Consultants			2	2
Supervisor-Revenue Protection		1		1
Protection Technicians			4	4
Support			3	3
Manager-Accounts Receivable		1		1
Administrative Assistant/Secy			1	1
Supervisor-Revenue Control		1		1
Analysts		2		2
Analysts			3	3
Supervisor-Payment Processing		1		1
Analysts		1		1
Analysts			6	6
Manager-Community Services		1		1
Analysts		1		1
Analysts			2	2
Program Manager-Call Center		1		1
Analysts		2		2
Analysts			3	3
			0	0
Total	1	63	111	175
VP-Operations	1			1

Administrative Assistant/Secy			1	1
Operations Area Lead		1		1
Analysts		2		2
Director-Customer Response		1		1
Administrative Assistant/Secy			1	1
Manager-Planning and Analysis		1		1

Exhibit 1.3

Stand Alone Gas Organization

Employee Counts

	Executive	Managerial, Supervisory, Professional	Non-Exempt	Total
Project Manager		1		1
Work Management		1		1
Analysts		1		1
Clerks			2	2
Manager-Field Services		1		1
Shift Managers		3		3
System Dispatchers		18		18
Supervisors		6		6
Energy Technicians			90	90
Supervisors		2		2
Foremen			6	6
Distribution Mechanics			30	30
Director-BucksMont Region		1		1
Administrative Assistant/Secy			1	1
Manager-Contractor&Builder Services		1		1
Contractor Liasons			4	4
Design/Construction Consultants			5	5
Supv Engineer-Engineering&Design		1		1
Engineers		2		2
Gas Designers			5	5
Technical Assistant			1	1
Manager-Work Management		1		1
Scheduler		1		1
Work Week Managers		2		2
Clerks			4	4
Manager-Maintenance		1		1
Technical Assistant			1	1
Gas Supervisors		4		4
Gas Foremen			12	12
Gas Mechanics			64	64
Director-DelChester Region		1		1
Administrative Assistant/Secy			1	1
Manager-Contractor&Builder Services		1		1
Contractor Liasons			4	4
Design/Construction Consultants			4	4
Supv Engineer-Engineering&Design		1		1
Engineers		2		2
Gas Designers			6	6
Technical Assistant			1	1
Manager-Work Management		1		1
Scheduler		1		1
Work Week Managers		2		2
Clerks			4	4
Manager-Maintenance		1		1
Technical Assistant			1	1
Gas Supervisors		4		4
Gas Foremen			13	13

Exhibit 1.3

Stand Alone Gas Organization

Employee Counts

	Executive	Managerial, Supervisory, Professional	Non-Exempt	Total
Gas Mechanics			67	67
Director-Engineering Services		1		1
Administrative Assistant/Secy			1	1
Manager-Mapping and Document Services		1		1
Supervisor-CAD Support		1		1
Analysts		1		1
Supervisor-Gas Map		1		1
Drafter/Clerks			4	4
Supervisor-Document Control		1		1
Analysts		1		1
Clerks			3	3
Manager-System Planning&Customer Engineering		1		1
Senior Engineer		2		2
Engineer		2		2
Clerk			1	1
Manager-Corrosion Control		1		1
Administrative Assistant/Secy			1	1
Analyst		1		1
Technical Analysts		2		2
Corrosion Control Mechanics			12	12
Manager-Gas Engineering		1		1
Engineer		7		7
Designer			1	1
Clerk			1	1
Total	1	90	352	443
Total Employee Count	13	403	615	1031

Exhibit 1.4

PECO Energy Company-1998 Payroll Data

Payroll \$448,915,051
 ff198
 avg employees 7029
 1998 qr

Avg98payroll \$ 63,868
 Other Accounts \$ 25,572,605

	Direct	Clearing	Total	Employee Alloc Based on Avg Payroll
1998 Electric				
Production	\$175,699,570	\$ 7,641,604	\$183,341,174	2870.6
Transmission	\$ 10,279,102	\$ 447,063	\$ 10,726,165	167.9
Distribution	\$ 46,862,634	\$ 2,038,171	\$ 48,900,805	765.6
Customer Accounts	\$ 24,119,106	\$ 1,048,999	\$ 25,168,105	394.1
Cust Serv/Info	\$ 6,745,843	\$ 293,393	\$ 7,039,236	110.2
Sales	\$ 2,971,361	\$ 129,232	\$ 3,100,593	48.5
A and G	\$ 59,832,735	\$ 2,602,272	\$ 62,435,007	977.6
Total	\$326,510,351	\$14,200,734	\$340,711,085	5334.6
Plant Construction	\$ 45,909,840	\$ 1,676,644	\$ 47,586,484	745.1
Plant Removal	\$ 28,831		\$ 28,831	0.5
Other Accounts	\$ 23,449,890		\$ 23,449,890	367.2
Total Electric	\$395,898,912	\$15,877,378	\$411,776,290	6447.3
1998 Gas				
Prod-Manuf Gas	\$ 176,855	\$ 7,006	\$ 183,861	2.9
Prod-Nat Gas		\$ 0	\$ 0	0.0
Other Gas Supply	\$ 2,400,854	\$ 95,114	\$ 2,495,968	39.1
Storage, LNG, Process	\$ 979,091	\$ 38,788	\$ 1,017,879	15.9
Distribution	\$ 10,085,768	\$ 399,564	\$ 10,485,332	164.2
Customer Accounts	\$ 4,369,815	\$ 173,117	\$ 4,542,932	71.1
Cust Serv/Info	\$ 910,405	\$ 36,067	\$ 946,472	14.8
Sales	\$ 404,043	\$ 16,007	\$ 420,050	6.6
A and G	\$ 3,553,234	\$ 140,767	\$ 3,694,001	57.8
Total	\$ 22,880,065	\$ 906,430	\$ 23,786,495	372.4
Plant Construction	\$ 10,817,086	\$ 395,044	\$ 11,212,130	175.6
Plant Removal	\$ 17,421		\$ 17,421	0.3
Other Accounts	\$ 2,122,715		\$ 2,122,715	33.2
Total Gas	\$ 35,837,287	\$ 1,301,474	\$ 37,138,761	581.5
	\$431,736,199	\$17,178,852	\$448,915,051	7028.8

Exhibit 1.5

Gas Comparison Data
 Calendar Year 1998
 Employee Counts

Pennsylvania Utilities	Employee Count	Customers	Measure: Customers per Employee	Distribution Mains (M.Ft.)	Measure: Distribution Mains (M.Ft.) per Employee
People's	935	349,487	374	29,591	31.65
Columbia Gas of PA	876	383,921	438	36,398	41.55
PG Energy	554	148,873	269	12,351	22.29
Equitable Gas	770	203,952	265	18,532	24.07
Simple Average			336		29.89
Current PECO PECO Employee Count if at Average of the Measure	582	415,437	714 1,235	31,030	53.32 1,038
PECO Measure at Stand Alone Values	1031	415,437	403	31,030	30.10

Exhibit 1.6

Income Statement and Ratebase
Adjustments to Electric Operations Based on Gas Stand Alone

(Thousand\$)

Income Statement ----- Adjustments -----	Rate Base -----	Revenues -----	Taxes and Expenses -----	Effect on Revenue Requirements -----
Increase in External Audit Fees			\$ 75	\$ 79
Increase in Board of Director's Fees			\$ 42	\$ 44
Increase in Postage Expenses			\$ 528	\$ 553
Increase in Common Plant Book Deprec. Expense			\$ 935	\$ 1,672
Reduction in Taxes from Inc. in Common Tax Depreciation			(\$556)	(\$993)
Increase in Deferred Taxes from Common Depreciation Exp.			\$ 7	\$ 13
Increase in Shareholder Services Expenses			\$ 187	\$ 196
Increase in Capital Stock Taxes			\$ 218	\$ 228
Ratebase ----- Adjustments -----				
Increase in Common Plant	\$59,547			\$ 8,070
Increase in Reserve from Common Plant	\$19,247			(\$2,608)
Increase in Acc. Def Taxes from Common Plant	\$ 2,246			(\$304)

Total Increased Revenue Requirements for Electric Operations Due to Gas Stand Alone				\$ 6,950

 Effect on Electric Operations

(From Dec 98 PAPUC Quarterly Report)

Ratebase Effect from Common Plant

Increase in Common Plant \$59,547,000
 Increase in Reserve \$19,247,000

Increase in Net Plant \$40,300,000

Increase in Accumulated Def Taxes \$ 2,246,000

Net Increase in Ratebase \$38,054,000

Effect on Depreciation from Common Plant

Increase in Book Depreciation \$ 935,000
 Reduction in Income Taxes \$ 555,605
 Increase in Deferred Income Taxes \$ 7,000

Net Effect on Income \$ 386,395

Total Additional Revenue Requirements

Cost of Capital-December 1998 Quarterly Report

	Capitalization	Return	Weighted Return	After Tax Return
	-----	-----	-----	-----
Debt	45.61%	8.67%	3.95%	2.31%
Pref Secur	5.25%	9.08%	0.48%	0.28%
Pref Stock	3.21%	7.24%	0.23%	0.23%
Common	45.93%	10.36%	4.76%	4.76%
	-----		-----	-----
	100.00%		9.42% revreq factor	7.58%
Tax Rate		41.494%		
Gross Receipts		4.400%		

Increase in External Audit Fees

Allocated to Gas from Gas Expense Assumptions Data= \$ 75,443

Shareholder Services, No Labor

Allocated to Gas from Gas Expense Assumptions Data= \$187,360

Director's Fees

Allocated to Gas from Gas Expense Assumptions Data= \$ 42,177

Postage Expenses on Customer Bills

Allocated to Gas from Gas Expense Assumptions Data=	\$ 528,476

Increase in Capital Stock Tax from Additional Common Plant	

Additional Common Plant less Reserve Previously Allocated to Gas=	\$40,300,000
Percent Financed by Preferred and Common Equity=	49.14%

Preferred and Common Equity Portion of Additional Common Plant=	\$19,803,420
Capital Stock Tax Rate=	1.099%

Increase in Capital Stock Taxes from Additional Common Plant=	\$ 217,640

Analysis of How
The Interconnection Requirement
Of PUHCA
Is Satisfied by OATTs and OASIS

March, 2000

This document describes the legal, regulatory and operating aspects of the current interstate electric transmission system in the United States in support of the assertion by Applicant in the accompanying Application-Declaration that the electric utility companies of Exelon Corporation ("Exelon") will be "interconnected" for purposes of satisfying one of the four elements of the "single integrated public-utility system" requirement of the Public Utility Holding Company Act of 1935 (the "Act"). The Application-Declaration presents the facts which demonstrate that Exelon will meet each of the four requirements for integration, in that the Exelon public-utility system will be:

- . physically interconnected or capable of physical interconnection;
- . economically operated under normal conditions as a single interconnected and coordinated system;
- . confined in its operations to a single area or region, in one or more States; and
- . not so large as to impair (considering the state of the art and the area or region affected) the advantages of localized management, efficient operation, and the effectiveness of regulation.

This document addresses only the interconnection requirement and provides additional facts to support the legal conclusions regarding the integration test presented in the Application-Declaration.

This document is divided into two parts:

- . Part 1: The Development of Interstate Transmission -- Legal, Regulatory and Operating Changes Resulting in Non-discriminatory, Open Access to the System
- . Part 2: A Practical Guide to Moving Power -- How Open Access Transmission Tariffs (OATTs) and Open Access Same-time Information Systems (OASIS) Work

Part 1:

The Development of Interstate Transmission -- Legal, Regulatory and Operating

Changes Resulting in Non-discriminatory, Open Access to the System

This part will briefly trace the development of the interstate electric transmission network. Legislative, regulatory and technological developments, and the increasingly competitive structure of the electric utility industry, have fundamentally changed the way in which utilities which are not geographically adjacent may be "interconnected" so as to be able to engage in coordinated operations.

Traditional Integration and Interconnection.

Utilities have long exchanged electricity for economic and reliability purposes. Energy generated by one utility can be sold to another utility which is not geographically adjacent because the energy can be transported across the nation's transmission system - an interconnected network of high voltage electric lines that run for hundreds and sometimes thousands of miles. The principal reason it now can be economic to sell energy generated in one area to another is that the cost of generation, plus the cost of transmission, is less than the cost of generation in the receiving area. In the past, one of the principal reasons for allowing two utilities to merge or be controlled by a single holding company under the Act was the economies and efficiencies that would result primarily from combining their generation. These efficiencies could be obtained if lower cost generation of utility "A" could be used to serve utility "B's" customers when available.

The use of the lowest cost generation to meet demand was traditionally accomplished through "central economic dispatch."^{1/} Generation was brought on line in economic order -- starting with the least expensive and continuing through the available resources adding more expensive generation as demand increased. To accomplish this, the commonly controlled utilities had to be able to transmit utility A's more economic generation to utility B's service area rather than run utility B's more expensive generation. Because intervening utilities were generally not required to "wheel" -- that is, transmit -- third party energy over their transmission systems, however, central dispatch was usually possible only for utilities physically interconnected through owned transmission facilities. In limited circumstances, central economic dispatch was possible if utility A and B had a contractual right to use a third-party's transmission line. Historically under the Act, therefore, for two separate utility companies to be "integrated" they had to be, for legal and practical reasons described briefly below, adjacent or at least in very close proximity.

The Energy Policy Act of 1992 ("EPACT") changed the legal framework for the interstate transmission of electricity.^{2/} EPACT changed the conditions under which utilities could

1 See American Electric Power Company, Inc., Holding Co. Act Release No. 20633 (July 21, 1978) ("AEP").

2 Pub. L. No. 102-486, 106 Stat. 2776 (1992).

request transmission service over the systems of others, and thus expanded the circumstances in which two remote utilities could economically move power from one to the other. FERC initially implemented EPACT on a case-by-case basis, ordering individual utilities to enter into specific transactions. Later it used its authority under EPACT, and its authority to remedy discriminatory conduct under the Federal Power Act (FPA), to require all utilities to file open access tariffs, and to encourage those not under its jurisdiction to do so as well. This ruling came in Order No. 888/3/ which opened the transmission grid to all market participants, including transmission owners, on comparable terms. This development greatly facilitated the growth in transmission transactions. Order No. 888's key provision was the requirement that utilities file standard transmission tariffs (called "OATTs" -- open access transmission tariff) under which a transmission provider must offer service. OATTs provided utilities and power marketers for the first time with a generally available right to use the transmission systems of others to move power at tariffed rates.

In a companion ruling, Order No. 889,/4/ FERC also mandated that transmission owners establish a comprehensive information system regarding the availability and price of their transmission service on Internet sites called Open Access Same-Time Information System ("OASIS"). OASIS sites provide the information necessary for utilities to use the interstate transmission system to coordinate their operations.

Through the use of the OATT and OASIS system, it has become routine for utilities that are not adjacent to one another to move electricity between each other as if they were adjacent. By reserving capacity through the OASIS sites, utilities may operate their various generating assets on an economic basis and otherwise act as an integrated public utility company. As a means to achieve the interconnections necessary to establish integration, these legal and practical circumstances have only become available in recent years -- in fact

only since about 1997./5/

Development of the Physical Infrastructure -----

The early administration of the Act transformed the electric utility industry from a small number of very large companies, many of them including properties scattered across the nation and operated with little regard for efficient or coordinated operation, into a larger number of smaller companies operating in clearly defined, compact and contiguous service areas. The principal drivers of efficiency in this period were the economies of scale derived from larger, centrally located generating units and transmission systems designed and constructed by an individual utility to serve the needs of its own service area. Utilities operated in relative electric isolation.

/3/ Promoting Wholesale Competition Through Open Access Non-Discriminatory Transmission Service by Public Utilities; Recovery of Stranded Costs by Public Utilities and Transmitting Utilities, FERC Stats. and Regs., Regulations Preambles, (P) 31,036 (1996) ("Order No. 888"), order on rehearing, FERC Stats. & Regs., Regulations Preambles, (P) 31,048 (1997) ("Order No. 888-A"), order on rehearing, 81 FERC (P) 61,248 (1997) ("Order No. 888-B"), order on rehearing, 82 FERC (P) 61,046 (1998) ("Order No. 888-C").

/4/ Open Access Same-Time Information System (formerly Real-Time Information

Network) and Standards of Conduct, Order No. 889, [1991-1996 Transfer Binder]

FERC Stats. & Regs., Regs. Preambles (P) 31,035, at 31,585 (1996), order on

reh'g, Order No. 889-A, III FERC Stats. & Regs., Regs. Preambles (P) 61,253

(1997).

/5/ The requirement to file an OATT was effective in 1996. OASIS went into operation in 1997.

The decades following the enactment of the Act, however, saw the significant expansion of the transmission sector of the electric utility industry. The total miles of high voltage (230 kV and above) transmission lines tripled in the 1950s, and tripled again in the 1960s./6/ While utilities had originally constructed transmission facilities to transmit power from their own plants to their customers, in the 1940s, 1950's and 1960s, utilities increasingly developed interconnections with their neighboring utilities to obtain and provide mutual assistance in emergency situations, to improve reliability, and to reduce the costs of power supply through long-term capacity and economy transactions with their neighbors./7/ Technological advances in transmission have also occurred, making it possible to transmit electric power economically over long distances at higher voltages. In today's world, "improved transmission and monitoring technologies have increased the feasible geographic bounds for supply choice; a geographic radius of 1,000 miles or more is currently considered reasonable for choosing among supply options."/8/

Advances in telecommunications and computer technology have improved the ability to economically dispatch power systems and control power flow across such systems. Improvements in telecommunication technology have allowed for the quick and reliable transfer of data, providing system operators an almost real time ability to monitor and control the power system and dispatch, from a single location, generation that can be located throughout a large geographic area./9/ The OASIS of each utility is a site on the Internet -- a communications technology which has dramatically changed many aspects of business operations -- including facilitating virtually instantaneous wholesale electric power transactions.

The interconnection of the transmission grid has proven so beneficial that every utility in the continental United States is interconnected with one of three Interconnections: the Eastern Interconnection, which encompasses utilities in the eastern United States and Canada from the Atlantic Ocean to the High Plains; the Western Interconnection, which encompasses utilities from the High Plains/Rocky Mountain region to the Pacific Ocean; and ERCOT, which encompasses most of the State of Texas. FERC has described the present state of the transmission sector of the electric utility industry:

/6/ There were 2,974 miles of high voltage transmission in 1940, 8,174 miles in 1950, 22,379 miles in 1960, and 65,370 miles in 1970. Peter Fox-Penner, Electric Utility Restructuring, A Guide to the Competitive Era (1997) at 130.

In 1998, there were 200,000 miles of high voltage transmission. Electric Power Annual 1998 Volume I, Energy Information Administration, Department of Energy (1999) available at <http://www.eia.doe.gov/cneaf/electricity/epav1/epav1.sum.html>

/7/ See William J. Baumol & J. Gregory Sidak, Transmission Pricing and Stranded Costs in the Electric Power Industry (1995) at 13.

/8/ Electricity: Innovation and Competition, Hearing Before the Subcomm. of Energy and Power of the House Comm. on Commerce, 105th Cong. 38 (1997)

(statement of Robert B. Schainker, Manager, Substations, Transmissions and Substation Business Area Power Delivery Group, Electric Power Research Institute). Philadelphia is about 760 miles from Chicago. Technological advances in the "size" of transmission lines (345 kV to 765 kV lines) have allowed for the transfer of large amounts of power over great distances. Technological advances have also occurred in the "type" of transmission lines. High-voltage direct current ("HVDC") technology enables the transmission of bulk power over longer distances with less energy loss than traditional alternating current ("AC") transmission lines. New flexible AC technology can increase the capacity of existing transmission lines by approximately 20 to 40 percent. Such technology "help[s] electric utilities operate their bulk power networks closer to their inherent thermal limits, while maintaining and/or improving network security and reliability." Id.

/9/ Leslie Lamarre, The Digital Revolution, EPRI Journal, (Jan./Feb. 1998).

The transmission facilities of any one utility in a region are part of a larger, integrated transmission system. From an electric engineering perspective, each of the three interconnections in the United States (the Eastern, the Western and ERCOT) operates as a single "machine."/10/

Development of a Competitive Generation Sector

Although the United States has been "electrically interconnected" through the interstate grid for decades, only in the past few years has the grid been operated in a way that would constitute "interconnection" as defined in the Act. Two developments were necessary to achieve such "interconnected" status -- legal and practical changes that allow practical access for all to the interstate transmission grid and the resulting development of an independent, competitive generation market.

Today's generation sector of the electric utility industry is very different than it was in 1935. In the late 1970s, concern over the nation's energy future, in conjunction with other factors, led to the first significant legislative development at the federal level affecting the electric utility industry since the adoption of the Act and the Federal Power Act: the enactment of the Public Utility Regulatory Policies Act of 1978 ("PURPA"). PURPA encouraged the development of electric generating facilities separate from the traditional integrated utility. Various types of entities -- independent power producers ("IPPs") and qualifying facilities ("QFs")/11/, sometimes generically grouped as non-utility generators ("NUGs") appeared on the scene. These generators operate without a franchised service territory or an established customer base in many cases and seek to sell some or all of the output of their generating facilities in the wholesale market./12/ The effect of these developments was to foster the start of the separation of generation from the transmission and distribution functions of utility operations. Further, in some parts of the country, traditional integrated electric operations increasingly began to include power purchases from third parties in their supply options, rather than only for short-term emergency or opportunity purposes.

The development of non-traditional generators was inhibited by their lack of access to essential transmission facilities to reach a broad customer base, as well as ownership restrictions effectively created by the integration requirements of the Act. Recognizing these obstacles and desiring to promote greater development of wholesale power markets generally, Congress passed EPACT which amended the Federal Power Act to permit any entity selling power at wholesale to

/10/ Regional Transmission Organization, Notice of Proposed Rulemaking, IV FERC Stats. & Regs. (P)32,541 (1999) ("RTO NOPR") at 33,697. FERC has noted that "the entire Eastern interconnection is, as the name indicates, interconnected." North American Electric Reliability Council, 87 FERC (P) (1999). This quotation

uses the term "integrated" in the sense of interconnected and not with the technical meaning of "integrated" under the Act.

/11/ A "QF" is a qualifying facility that meets the energy efficiency standards of PURPA. QF's are not public utility companies under the Act.

/12/ The earliest QFs and IPPs in the 1980's typically sold all their output to the incumbent vertically integrated utility that served the area where their generation was located. This arrangement was typical because the QF or IPP did not have a means of obtaining transmission service to sell to more distant customers.

request FERC to order a transmission-owning utility to provide transmission services./13/ With the passage of EPACT, for the first time the owner of electric generation had a means to require an unaffiliated owner of

transmission to transmit power to the generation owner's wholesale customers. Subsequent FERC action has led to the rapid development of wholesale markets and the general availability of transmission services for all generators, IPPs and traditional integrated utilities.

Development of True "Open Access"

Following enactment of EPACT, FERC soon concluded that transmission access was not yet sufficiently available to allow a fully competitive market in electric generation to develop. To address this concern, within three years after the enactment of EPACT, FERC commenced its so-called "Mega-NOPR" proceeding./14/ This notice of proposed rulemaking culminated approximately a year later with FERC's issuance of Order No. 888.

Order No. 888 requires all FERC jurisdictional transmission owners to:

- . offer comparable open-access transmission service
- . for wholesale and unbundled retail open access transactions
- . under a tariff of general applicability on file at FERC; and
- . take transmission service for their own wholesale sales under their open-access tariff.

Each element listed above is important. All transmission owners under FERC jurisdiction are required to offer open-access service. The service must be "comparable." FERC defines comparability as: "an open access tariff that is not unduly discriminatory or anticompetitive should offer third parties access on the same or comparable basis, and under the same or comparable terms and conditions, as the transmission provider's uses of its system."/15/ To ensure that a transmission owner makes its facilities available on a fair basis to all, it must offer service to others on the same terms as are available to itself. All wholesale transactions are eligible for the open access service, which must be provided at a FERC approved tariff rate.

/13/ PURPA also included a provision that allowed the Commission to order wheeling for power generated by a third party; but only under certain narrowly-defined circumstances. Furthermore, FERC quickly interpreted this already limited authority very conservatively. See *Southeastern Power Administration v.*

Kentucky Utilities Co., 25 FERC (P) 61,204 (1983). EPACT amended sections 211

and 212 of the Federal Power Act to expand the Commission's authority to order wheeling upon application. 16 U.S.C. (S)(S) 824j, 824k. EPACT also created a new exemption under Section 32 of the 1935 Act for exempt wholesale generators ("EWGs"). The EWG exemption ensures that the Act's integration requirements will not thwart the development of IPPs participating in the wholesale market, an implicit acknowledgment that the economic operation of a utility system depends on contractual relationships as well as facilities ownership.

/14/ Promoting Wholesale Competition Through Open Access Non-

discriminatory Transmission Services by Public Utilities; Recovery of Stranded

Costs by Public Utilities and Transmitting Utilities, 70 FERC (P) 61,357 (1995).

/15/ 67 FERC at 61,490.

Order No. 888 was intended to facilitate third-party utilization of the transmission grid as the vehicle for developing a competitive wholesale bulk power market. Prior to EPACT and Order No. 888, the only way to obtain transmission service was through negotiation with the transmission owner -- who was under no obligation to provide service./16/ While many agreements for transmission service were entered into, transmission owners often did not have an incentive to provide attractive pricing or reasonable terms and conditions. There was no open market for transmission services.

Under Order No. 888, a utility must wheel power for third parties upon their request, on either a firm or a non-firm basis. The transmission owner must offer reasonable, non-discriminatory, FERC-approved pricing. If the transmission owner has capacity, it must be made available on a generally first come first served basis./17/ If the transmitting utility does not have sufficient transmission capacity to transmit on a firm basis, it must either offer to expand its transmission system to accommodate the request, or, if appropriate, redispatch its own generation to relieve constraints thereby making transmission capacity available./18/ In the interim, the transmission user may seek non-firm transmission on the same basis as other users. Thus, Order No. 888 provides a mechanism for expanding the capacity of the transmission system to accommodate users' needs./19/

Prior to Order No. 888, electric utilities typically had to construct direct interconnections to facilitate capacity and energy transfers. Although the country was electrically interconnected for many years, it was not until EPACT and Order No. 888 that an electric generator (an IPP or traditional utility) had a legal right to access that system of interconnected transmission

for its own use. Order No. 888 does not distinguish the type of generator. Open access is available to, and is in fact used by, independent generators and traditional utility generators. Importantly, as a matter of right under Order No. 888, two utilities can now arrange for interconnection. By using the OATTs, they can acquire either a firm or a non-firm path that allows power transfers between the two systems. As will be shown below, based on reasonable evaluation of available transmission capacity, a combined operation like Exelon can safely rely on a mixed portfolio of firm and non-firm transmission reservations to satisfy its needs to transfer power within its system to achieve efficient coordinated operations. While it might have been difficult to show that a single "contract path" of the old, pre-Order No. 888 industry would have been sufficient to establish that ComEd and PECO could be part of an "integrated public utility system" under the Act, with the transmission capacity available under Order No. 888 a finding of interconnection and, therefore, integration is easily established under the traditional standards of the Act./20/

/16/ Under PURPA, FERC had authority to order a utility to provide transmission service but only in very limited services. See Note 13 above.

/17/ See below for a discussion of the process for "reserving" capacity.

/18/ Whether the customer or the transmission owner must pay for upgrades is determined in accordance with FERC rules.

/19/ One of the principal reasons for FERC's encouragement of regional transmission organizations ("RTO's") is to make the process of system development more efficient. See below under "Further Developments from RTOs."

/20/ The legal analysis under the Act is included in the Application-Declaration. By the "traditional standards of the Act," Applicant means not the traditional "interconnection" analysis, but the "coordination" analysis

OASIS.

At the time FERC began its mega-NOPR proceeding leading to issuance of Order No. 888, it recognized that transmission users would need substantially improved, easily accessible and publicly available information about what type of transmission capacity might be available. Consequently, FERC began a companion rulemaking proceeding that led to issuance of Order No. 889. In summary, Order No. 889 requires transmission owners to identify the total transmission capacity on their system as well as the transmission capacity available for third party users, and to post that information on an Internet site.

Specifically, FERC Order No. 889 requires each transmission owning public utility to develop and maintain an Open Access Same-Time Information System to give transmission users access to information regarding available transmission capacity.^{/21/} The OASIS, which is accessible to all eligible transmission users through the Internet, provides the day to day information necessary for a transmission user to plan for the movement of its generation from one area to the other. OASIS makes possible the "nuts-and-bolts" daily operation of the open access system.

(i.e., that the system is sufficiently interconnected so that under normal conditions it can function as a coordinated public utility system.)

^{/21/} See Note 4 above.

Part 2:

A Practical Guide to Moving Power --
How Open Access Transmission Tariffs (OATTs)
and
Open Access Same-time Information Systems (OASIS) Work

This part will show how the statutory and regulatory changes described in Part 1 are put to use by electric utilities today. The following is a step by step guide to how, from an actual operating perspective, OATTs and OASIS can be used to establish electrical interconnection and therefore allow Exelon to engage in coordinated operations.

Use of OATTs and OASIS.

The process of transferring energy between unaffiliated utilities occurs continually and involves three steps; the first two steps of which can occur in either order depending on the circumstances:

- . Buyer and Seller Agree to Energy Transaction
- . Buyer or Seller Reserves Transmission
- . Schedule Transaction -- actual movement of power

Exelon will follow this same pattern. The first step described above for typical wholesale transactions, however, will not be a part of the Exelon model. Unlike most other registered holding company systems which are made up of two or more separate utility entities owning generation, all of Exelon's generation assets will be centralized in a single Genco./22/ This entity will be able to determine the most efficient and economical use of all the generation subject to Exelon's control and use that generation to most efficiently meet the traditional bundled service or provider of last resort obligations of ComEd and PECO. Genco will effectuate its decisions -- for example to use a generating source in the Midwest to meet a load requirement in the East -- through the second and third steps listed above. These steps use the OATT/OASIS system summarized in the following discussion.

On-Going Transmission Reservation -- Long-term; Short-term; Firm and Non-Firm.

In order to be assured of the interconnection capacity sufficient to coordinate the use of its various generation assets, Exelon will procure transmission service to transport that power from the source - the Illinois generating station in this example-- to the ultimate sink or delivery point, which in this case would be a delivery point on the PJM transmission system, because PECO's provider-of-last resort customers are located within the PJM transmission system. This would require reservation of transmission along what is called a contract path, made up of

/22/ As more fully described in the Application-Declaration, if it is not feasible for regulatory, tax or other reasons to transfer generating facilities to Genco, Genco will nevertheless perform the coordination function for Exelon described herein.

transmission systems that link the source in Illinois to the sink in Pennsylvania. Currently, there are at least three alternate paths that could be used:

1. ComEd to American Electric Power (AEP) to Allegheny Power to PJM
2. ComEd to AEP to FirstEnergy to PJM; or
3. ComEd to AEP to Virginia Electric Power to PJM.

As can be seen, each of the three alternatives involves the same parties for three of the four segments -- ComEd, AEP and PJM. The middle link can be completed over one of three companies. Thus, Exelon will have flexibility to use any one of the three available paths to meet its needs. Exelon likely will use all three simultaneously at times, and in any event will procure the most cost effective path available./23/

Each of these transmission systems referred to above has an OATT on file with FERC./24/ The OATT provides all eligible users, such as the new Exelon, the right to purchase transmission, if available, at tariffed rates. As will be detailed below, transmission capacity in the amounts likely to be needed for the coordinated operations of Exelon is expected to be available for the foreseeable future./25/

Transmission service is reserved for a specific time period for a specific amount of power measured in megawatts (MW). Transmission service may be reserved for as short as one hour or for as long as several years. Transmission service may be requested and reserved far in advance of the date the transmission is to be used. Once the transmission service is reserved, the user has the right -- to the exclusion of others based on a priority system explained below -- to use that amount of capacity during the specified time period.

Based on the considerable experience of PECO and ComEd in wholesale energy transactions, Exelon will likely forecast its anticipated need for transmission service for a one to five year planning period./26/ Then, based on public data as to available transmission and its

/23/ Other paths are also available but require going over additional systems.

/24/ Allegheny Power System, Inc., et al., 80 FERC (P) 61,143 (1997),

order on reh'g, 85 FERC (P) 61,235(1998); American Electric Power. Service

Corp., 78 Corp., 78 FERC (P) 61,070, orders on reh'g, 79 FERC (P) 61,061 (1997)
and 82 FERC (P) 61,204 (1998); Commonwealth Edison Co., 88 FERC (P) 61,296

(1999); Commonwealth Edison Co., 90 (P) FERC 61,121 (2000); First Energy

Operating Companies, 85 FERC (P) 61,392 (1998); PJM Interconnection, L.L.C., 88

FERC (P) 61,039 (1999); Virginia Electric and Power Company, 87 FERC (P) 61,082

(1999).

/25/ Furthermore, as noted above, the transmission owner is obligated under its OATT to expand capacity in accordance with FERC rules if Exelon desires long-term firm transmission that would otherwise be unavailable. According to the Pro Forma OATT, if the transmission provider determines that a System Impact Study is required to assess whether or not system expansion is required, it must use due diligence to complete the study within sixty (60) days upon receipt of an executed System Impact Study Agreement. FERC Pro Forma Open Access Transmission Tariff, Section 19.0, Additional Study Procedures for Firm Point-to-Point Transmission Service Requests.

/26/ There is a great deal of public information available to help Exelon's planning. In addition to available transmission capacity ("ATC") which is posted on each transmission provider's OASIS site, other

evaluation of the likely future markets, it will make the reservations it believes, based on its business judgement, are necessary to ensure continued integrated and coordinated operations./27/

Transmission service is reserved through the provider's Internet OASIS site. Each provider must post on its OASIS all its available transmission capacity ("ATC") -- what it has available to sell -- for long-term and short-term reservations. A user will determine when it needs transmission service, check the OASIS listings to ensure sufficient ATC is available for the required time period on each leg of the transfer, and then place the reservation./28/ Reservation requests are submitted by inputting the request directly to the OASIS site./29/ The transmission provider must respond to the request within the time period specified under the OATT -- the longer the term of the reservation, the longer the allowed response time. Within the time allowed, the provider must either accept the reservation or provide a reason permitted under the OATT for denying the request./30/ Exelon will have entered into standard transmission service agreements with each potential provider and the specific transaction reserved will be subject to that agreement. Reserving transmission capacity is an on-going, normal, day-to-day operation. Exelon will periodically assess its long-term needs and will adjust its specific reservations as needed on a short-term basis./31/

The transmission capacity reservations thus procured by Exelon may be either firm or non-firm. Under the OATTs, there is a hierarchy of service -- and a corresponding variation in cost. "Firm" service is the most reliable. Firm service is available for long-term (i.e., one year or more), monthly, weekly and daily periods. The transmission provider may "cut" (i.e., refuse to initiate or curtail use of the transmission for energy deliveries notwithstanding the firm reservation) only when the reliability of the system is threatened -- in short, in emergency situations. All users of firm service -- including the owner of the transmission facilities with respect to its "native load" -- must be treated equally when service is cut..

information is available on the Internet and elsewhere. Information regarding transmission system conditions and projected changes is available from the regional reliability councils, and from the North American Electric Reliability Council ("NERC"). For example, NERC makes available information on "TLRs" -- Transmission Line-loading Relief events. These are circumstances when system conditions required curtailment or cutting of transmission transactions. Analysis of this information can indicate where, and for what periods, firm reservations would be prudent. As RTO's develop, they likely also will be a source of information for planning purposes.

/27/ Significant improvements in transmission and resource planning have also occurred since 1935. There are several software packages available today that enable the system planner to model the operation of most of the equipment used on a power system. Studies can be performed that not only evaluate power transfer capabilities, but also allow the system planner to add different types of equipment to determine their impact on increasing power transfer capabilities. Leslie Lamarre, The Digital Revolution, EPRI Journal, (Jan./Feb. 1998).

/28/ This is done over the Internet. The user places a "query" on the OASIS site for the path, amount and time desired. The OASIS software will perform a search and return results of what transmission is available within those parameters.

/29/ Long-term reservations (for a period of one year or more) must be made at least 60 days in advance of the start date but can be requested and confirmed before that 60 day period. Short-term, non-firm reservations can be made on shorter notice -- monthly, on 60 days notice; daily, on 48 hours notice and hourly, by noon of the day before.

/30/ Other than rejections for technical non-compliance with the terms of the OATT in the request, which can be corrected by the user, the transmission provider, in general, may only reject a reservation request based on insufficient transmission capacity to fully meet the request in the amount and for the time period specified.

/31/ Under the OATT, most transmission providers allow users to "rollover" a long-term reservation of a year or more, which in effect this gives the user a right of first refusal on future reservations of transmission capacity at the end of the period of a long-term reservation.

situations./32/ All users of firm service -- including the owner of the transmission facilities with respect to its "native load" -- must be treated equally when service is cut./33/

Firm service is generally more costly than non-firm service. Transmission providers may offer non-firm users a discount off the providers' tarriffed rate for firm service. Exelon will mix its firm service reservations, which carry a higher relative cost, with non-firm service. Non-firm is available for monthly, weekly, daily and hourly periods. Although non-firm service is, of course, subject to being cut before firm service (and the shorter the period, the lower its priority), based on experience, Exelon will be able to determine when and where non-firm service will be economical and reliable./34/

Many periods and places of peak usage of the transmission system can be accurately forecast. In the hot summer months, areas that typically must import power may put a strain on the transmission system. If Exelon forecasts a need to move power through a congested area to meet its own coordination needs, it likely would reserve firm transmission at that point and for the time periods of expected heavy demand. The service reserved can be tailored to Exelon's needs. Available transmission products allow a user like Exelon to most efficiently use its firm reservations and afford considerable flexibility for last minute changes in reservations to meet changing market conditions. Importantly, Exelon would not necessarily have to reserve firm transmission service for a long-term period in order to ensure availability of transmission service in the peak period. Exelon's experience will indicate when and where firm is needed and when reliance on short-term, non-firm reservations will suffice./35/

By establishing a basic level of long-term, firm reservations over those portions of the path where deemed necessary, Exelon will be able to establish with a high degree of reliability that service will be available to it when needed because it will be able to supplement this "base" amount with short-term products to meet other needs as they develop. Development of a package of reservations, on various paths and for various time periods, is a dynamic process, not a static, one time event. By constantly monitoring its needs and the capacity it has reserved, Exelon will be able to maintain its coordinated operations.

This description of the transmission reservation process under OATTs and OASIS shows that reserving firm transmission service, over one entire contract path between Exelon's eastern and western areas for all hours of the day, 365 days a year would almost certainly result in times when Exelon would not need to use that service, or in times when it could easily have arranged

/32/ The experience of ComEd and PECO is that firm transmission is only rarely cut and uncontrollable events such as storm damage is the usual cause.

/33/ FERC Pro Forma Open Access Transmission Tariff, Section 13.6, Curtailment of Firm Transmission Service.

/34/ Non-firm reservations of equal duration are cut on a pro-rata basis.

/35/ Under the OATT, a confirmed firm reservation may be cancelled in certain circumstances if the transmission provider receives a later request for transmission service having a longer duration in an overlapping period. Transmission users are protected from last minute cancellations under the OATT (e.g., a one-week firm reservation may be cancelled only up to one week before it begins.) This is one of many factors that must be considered when making long-range plans regarding what transmission capacity should be reserved to provide reasonably reliable transmission service for anticipated needs.

transmission on a short term basis and not incurred the cost of the long-term reservation. In other words, a single, long-term firm contract path is not the most cost effective means to establish the interconnection necessary to meet the integration requirement.

Furthermore, the development of regional organizations will expand the geographic reach of the entity controlling the reservation process. As larger areas come under the control of a single entity, that entity's OASIS site will give users a "one-stop" ability to make reservations over multiple transmission systems for long-distance transactions.

PECO is a member of the PJM Independent System Operator (ISO). The PJM ISO operates the transmission systems of the members in the PJM power pool. ComEd is a member of the Midwest ISO (MISO) approved by FERC in September 1998./36/ MISO is scheduled to commence operation by mid to late 2001.

In December 1999, the FERC conditionally approved the formation of the Alliance Regional Transmission Organization (Alliance)./37/ AEP, FirstEnergy, Virginia Electric and Power (and others) are members of the Alliance. Thus, the MISO, Alliance, which expects to begin operations in 2001, and PJM form a continuous contract path between the ComEd and PECO systems./38/

Scheduling Actual Movements of Power. -----

The third step in the process of moving power - the one that actually makes the power move -- is scheduling the delivery of the energy to be moved from generation in one area of the Exelon system to the customer, or load, in another area. Scheduling means notifying the transmission providers on whose systems reservations have been made (either many months ago, or just the day before) of the amount of power that will be flowing -- where the power is originating and when, where it is going or sinking, what hours it will flow, how many MWS will flow, how line losses will be provided for and other necessary information. With this notification the transmission providers will know where the power is coming from, where it is going and which transmission reservation is being used. A transmission customer must also let the transmission provider know the other control areas or systems the transmission customer will use for the particular transaction. Much of this information is provided through posting to the OASIS site.

Scheduling is a continuous process. It will be coordinated for Exelon by Genco using the real-time information concerning the status of all generating facilities controlled by Exelon. Genco will use that information, and the information about the transmission capacity available to Exelon, to economically match supply and demand. Although the description may appear complex, much of the scheduling process is automated and routine.

/36/ 84 FERC (P) 61,231, order on reconsideration, 85 FERC (P) 61,250, order on reh'g, 85 FERC (P) 61,372 (1998)

/37/ 89 FERC (P) 61,298 (1999).

/38/ FERC Order 2000 imposes additional requirements on ISOs in order for them to become regional transmission organizations designed to enhance further the efficiency and operation of interstate wholesale electric markets.

The physical control of the transmission grid is accomplished through "control areas"./39/ The operator of a control area makes sure that generation and demand is balanced in the control area. Power moving across a control area in a wholesale transaction must be taken into account in this balancing process. The scheduling process informs the control area operators to enter the transaction in their control computers so that the system will be adjusted to accommodate the transaction. The transmission provider's control computers will adjust generation within the control area in accordance with the North American Electric Reliability Council ("NERC") Operating Guidelines to balance the actual flow to match the scheduled flow, thus effectuating the transaction in real-time. This process is the normal and long-standing method by which the electric power system of North America is controlled to maintain a constant frequency and ensure the interchange of energy between areas.

Actual Experience.

The feasibility of transmitting power between the ComEd electric system and the PECO electric system is clearly demonstrated by the actual recent operations of the companies. ComEd and PECO have had in place a 300 MW firm power sales arrangement from ComEd to PECO since 1996. PECO has been able to move this power to Pennsylvania for its use through a portfolio of open access transmission arrangements. With regard to the 300 MW transaction, non-firm transmission has been the primary vehicle used for moving this power, with firm segments used only where necessary to avoid potential congestion. Historically, there has been no need to procure end-to-end firm transmission over the entire path for this transaction and no need is anticipated in the foreseeable future./40/

PECO has not historically experienced difficulty in moving power or interruptions of its transmission service notwithstanding its partial use of non-firm transmission arrangements./41/ Data for calendar year 1999 indicate that an average of about 48% of the power supplied under the 300 MW contract during "off-peak" periods was transmitted to PJM for use by PECO load./42/ This percentage ranged from a high of 73% in October 1999 to a low of 25% in March 1999. Furthermore, a significant amount of the power moved from ComEd to PECO under the 300 MW contract has moved during periods of "peak" usage. The average amount delivered to PECO was about 37% with the highest amount being 61% in September 1999 and the lowest 13% in March 1999. The experience for 1999 is typical of that experienced over the life of the contract.

/39/ Generally, a control area is the same as the service area of a single utility. For example, ComEd's transmission system constitutes a single control area as does AEP's. As RT0's develop, they will assume much of the control area functions.

/40/ This information is given by way of example and does not mean that a 300 MW transfer from ComEd to PECO will necessarily be a part of how Exelon conducts its coordinated operations.

/41/ PECO does not believe there has ever been a failure to deliver the power from ComEd to PECO when it was scheduled to be delivered to PECO.

/42/ The 300 MW purchase agreement was procured by PECO partially in anticipation of its native load requirements and partially to support PECO's competitive marketing business. The balance of the power not used by PECO was sold to wholesale customers.

In light of this operating history, an increase in the use of "firm" transmission products for this sale would not be economic, and would only result in added expense with no incremental gain in the ability to deliver power from ComEd to PECO and vice-versa./43/

To demonstrate that there is adequate transmission capacity over the alternative paths that Exelon would use to coordinate its operations between ComEd and PECO, Exelon determined the ATC for the year 2000 as of February 2000 on the systems forming the contract path between ComEd and PECO. The following chart summarizes this information. ComEd and PECO believe, based on their experience in conducting their wholesale electric businesses, that sufficient interconnection capacity will be available for the foreseeable future to satisfactorily coordinate the operations of Exelon.

ATC as of February, 2000

Period January 1, 2000 through January 1, 2001

System -----	Path ----	Lowest ATC Posted
		On OASIS -----
CE	CE - AEP	3000 MW
AEP	CE - VP	2000 MW
AEP	CE - APS	3000 MW
AEP	CE - FE	0 MW (6/00, 7/00 & 8/00) >3000 MW in all other periods
VP	AEP-PJM	1210 MW
APS	AEP-PJM	1000 MW
FE	AEP-PJM	893 MW.

The amount of power that can be moved over the contract paths described above is, of course, limited to the smallest amount available on any point of the path. The "bottleneck" determines the real ability to move power. As shown above, one leg of the path from ComEd to PECO -- the AEP system path from ComEd to FirstEnergy-- is showing zero ATC for June, July and August of 2000. As an alternative, however, Exelon will be able to use the path of AEP to either Virginia Power (VP) or Allegheny Power (APS) in place of the connection to FirstEnergy.

/43/ In addition to the 300 MW long-term, firm sales contract, ComEd and PECO have engaged in short-term or "spot" transactions, moving both ways, from time to time. Power purchased on a spot basis has also moved between the utilities in the same manner.

/44/ Source: OASIS sites of each of the following transmission providers:

CE	Commonwealth Edison	VP	Virginia Power
AEP	American Electric Power	APS	Allegheny Power
FE	FirstEnergy		

As shown in the chart, those paths show ATC of 2,000 and 3,000 MW, respectively. Finally, while the last leg of the path -- to PJM -- has only 893 MW of ATC over the FirstEnergy system, the alternates of VP and APS have higher amounts./45/

As another way to measure the reliability of the approach PECO has taken to move power under the 300 MW contract, and thus infer the reliability with which Exelon will be interconnected, Applicant has done an analysis to determine the likelihood that a hypothetical transmission of 300 MW between ComEd and PECO using 100% non-firm reservations would have been cut by reason of transmission

constraints. This analysis covered the period of October 1, 1998 to September 30, 1999. It assumed that 300 MW would be transferred from ComEd to PECO all hours of each day (which is a highly unlikely requirement). Using publicly reported data regarding TLRs (i.e., incidents where transmission was curtailed) over the possible paths that a 300 MW transaction would take, Applicant determined that this hypothetical non-firm reservation transaction would have been cut from a low of 0.7% of the time to a high of 3.3% of the time depending on the path used. This analysis further showed that the same 300 MW transaction all hours of each day on firm transmission reservation would never have been

cut. These data show that obtaining costly firm transmission adds only a very small percentage increase in reliability which, in Exelon's view is not worth the incremental cost. Rather, the use of a combination of firm and non-firm open access transmission as a means to establish the necessary interconnections to coordinate the activities of Exelon is economical and highly reliable.

/43/ Exelon cannot forecast at this time the amounts of transmission capacity it may need but believes these data indicate that there will be more than a sufficient amount of capacity to be able to efficiently conduct coordinated operations.

Conclusion

Further Developments from RTOs

The open access transmission available today under OATTs and OASIS and Order No. 888 is fully sufficient to establish an effective and economical means of interconnection for the Exelon system. This method of interconnection does not depend on the further development of interstate transmission markets. Although the current system is sufficient to establish interconnection, FERC has recognized that improvements can be made. FERC is seeking further efficiency in operation of the interstate transmission grid by encouraging transmission owners to join a regional transmission organization ("RTO") that would have certain specified characteristics. On December 15, 1999, FERC issued Order No. 2000 providing that each public utility that owns, operates, or controls transmission facilities must make certain filings with respect to forming and participating in an RTO -- i.e., a properly constituted ISO or transmission company

("TRANSCO").

FERC expects that properly configured RTOs, through control over a larger, regional grid, will:

- . improve transmission congestion management on the grid;/46/
- . improve efficiency by providing more accurate estimates of available transfer capability than those currently provided by individual systems;/47/

/46/ As FERC explains:

The scheduling of power by multiple utilities over a regional grid can lead to unexpected overloads on constrained facilities. This can be a serious barrier to competitive power trading because some power sale transactions may have to be curtailed. With a regional scope, an RTO would be better able to manage congestion. An RTO would be in a better position to prevent congestion or control it through application of appropriate region wide congestion pricing to ration use of the grid if necessary. An RTO would also more readily identify schedules that could lead to congestion, and relieve congestion through regional redispatch authority.

RTO NOPR at 33,716.

/47/ The FERC explains this benefit as follows:

Conditions on all parts of the regional grid affect ATC on individual utility systems. Factors such as load estimates, generation and transmission outages, generation dispatch orders and transactions on individual systems can affect the determination of ATC. An individual utility may not have complete or timely information regarding such factors and may apply assumptions and criteria in its ATC estimates that are different from those of neighboring transmission operators, leading to wide variations in ATC values for the same transmission path.

An RTO would produce better ATC estimates because it would have access to complete regional usage information, would have current information because the RTO will be the security coordinator as well as the OASIS site

- . allow for more effective management of parallel path flows by internalizing such flows within the RTO-controlled system;/48 and
- . allow for more efficient planning for transmission or generation investments needed to increase transmission capacity./49/

Among other benefits, an RTO price structure further reduces "rate pancaking," allowing power on the most distant edges of the region to be transmitted at market price with no additional cost for transmission than would exist for a nearby transaction or even the generation-to-end-user within a utility's own service area. RTOs will thus increase the efficiency of using open access as a means of interconnection.

Because RTOs will offer service to customers on a system-wide basis under a single FERC-approved tariff, customers will have available "'one stop shopping' for regional transmission service . . . resulting in simpler and more efficient procedures for transmission users to transmit power over greater distances."/50/ The emergence of RTOs, with the encouragement of FERC, will further facilitate wholesale competition, moving the industry further from the vertically-integrated utility model under which utilities relied substantially on their own resources to serve their loads.

As can be seen, each of the advances sought through the development of RTOs will improve the efficiency of a basic system that is already in place. There is no essential part of the open access system that remains to be developed in order for it to be used as a means to establish the interconnection necessary to meet the integration test under the Act.

The Exelon System Will be Interconnected

Due to these and other developments at the federal level, the landscape of the electric industry has changed dramatically in recent years. Wholesale power markets have developed from a balkanized, utility specific, cost-based structure to a more competitive market-based structure./51/ The development of the OATT/OASIS regime has provided important new means of achieving interconnection and integration under the Act. The Commission already has recognized many of these changes in its decisions in UNITIL Corp., Holding Co. Act Release No.

25524 (April 24, 1992) and Conectiv, Inc., Holding Co. Act Release No. 26832

(February 25, 1998). The Commission should find that, in the case of the Exelon system, open access transmission as described herein constitutes interconnection within the meaning of the Act.

administrator, and would calculate ATC values on a consistent region-wide basis using a regional flow model.

RTO NOPR at 33,716.

/48/ RTO NOPR at 33,717.

/49/ "One advantage of an RTO that is helpful in planning is that it will be able to see the 'big picture.' Planning and expansion of grid facilities will no longer be done on a piecemeal basis."

/50/ RTO NOPR at 33,717.

/51/ Indeed, FERC in Order No. 888 invoked the widely-differing cost of utility-generated electricity across the major regions of the country as evidence of the need for reform. Order No. 888 at 31,651-52.