QuickLinks -- Click here to rapidly navigate through this document

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended December 31, 2002

OR

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

Commission File Number	Name of Registrant; State of Incorporation; Address of Principal Executive Offices; and Telephone Number	IRS Employer Identification Number
1-16169	EXELON CORPORATION (a Pennsylvania corporation) 10 South Dearborn Street — 37th Floor P.O. Box 805379 Chicago, Illinois 60680-5379 (312) 394-7398	23-2990190
1-1839	COMMONWEALTH EDISON COMPANY (an Illinois corporation) 10 South Dearborn Street — 37th Floor P.O. Box 805379 Chicago, Illinois 60680-5379 (312) 394-4321	36-0938600
1-1401	PECO ENERGY COMPANY (a Pennsylvania corporation) P.O. Box 8699 2301 Market Street Philadelphia, Pennsylvania 19101-8699 (215) 841-4000	23-0970240
333-85496	EXELON GENERATION COMPANY, LLC (a Pennsylvania limited liability company) 300 Exelon Way Kennett Square, Pennsylvania 19348 (610) 765-6900	23-3064219

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
EXELON CORPORATION: Common Stock, without par value	New York, Chicago and Philadelphia
COMMONWEALTH EDISON COMPANY: Company-Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trust Holding Solely Commonwealth Edison Company's 8.48% Subordinated Debt Securities and unconditionally guaranteed by Commonwealth Edison Company	New York
PECO ENERGY COMPANY: First and Refunding Mortgage Bonds: $6^3/8$% Series due 2005, and $6^1/2$% Series due 2003	New York
Cumulative Preferred Stock, without par value: $4.68 Series, $4.40 Series, $4.30 Series and $3.80 Series	New York
Trust Receipts of PECO Energy Capital Trust II, each representing an 8.00% Cumulative Monthly Income Preferred Security, Series C, $25 stated value, issued by PECO Energy Capital, L.P. and unconditionally guaranteed by PECO Energy Company	New York
Trust Receipts of PECO Energy Capital Trust III, each representing a 7.38% Cumulative Preferred Security, Series D, $25 stated value, issued by PECO Energy Capital, L.P. and unconditionally guaranteed by PECO Energy Company	New York

Securities registered pursuant to Section 12(g) of the Act:

COMMONWEALTH EDISON COMPANY:
Common Stock Purchase Warrants, 1971 Warrants and Series B Warrants

PECO ENERGY COMPANY:
Cumulative Preferred Stock, $7.48 Series without par value

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrants' knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).

Exelon Corporation	Yes ☒	No o
Commonwealth Edison Company	Yes o	No ☒
PECO Energy Company	Yes o	No ☒
Exelon Generation Company, LLC	Yes o	No ☒

The estimated aggregate market value of the voting and non-voting common equity held by nonaffiliates of each registrant as of June 28, 2002, was as follows:

Exelon Corporation Common Stock, without par value	$16,886,511,503
Commonwealth Edison Company Common Stock, $12.50 par value	No established market
PECO Energy Company Common Stock, without par value	None
Exelon Generation Company, LLC	Not applicable

The number of shares outstanding of each registrant's common stock as of February 28, 2003 was as follows:

Exelon Corporation Common Stock, without par value	324,068,637
Commonwealth Edison Company Common Stock, $12.50 par value	127,016,425
PECO Energy Company Common Stock, without par value	170,478,507
Exelon Generation Company, LLC	Not applicable

Other

Exelon Generation Company, LLC meets the conditions set forth in General Instruction (I)(1)(a) and (b) of Form 10-K and is therefore filing this form with the reduced disclosure format.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of Exelon Corporation's Current Report on Form 8-K dated February 21, 2003 containing consolidated financial statements and related information for the year ended December 31, 2002, are incorporated by reference into Parts II and IV of this Annual Report on Form 10-K. Portions of Exelon Corporation's definitive Proxy Statement filed on March 13, 2003 relating to its annual meeting of shareholders, are incorporated by reference into Part III of this Annual Report on Form 10-K.

Portions of Commonwealth Edison Company's definitive Information Statement to be filed prior to April 30, 2003, relating to its annual meeting of shareholders, are incorporated by reference into Part III of this Annual Report on Form 10-K.

Portions of PECO Energy Company's definitive Information Statement to be filed prior to April 30, 2003, relating to its annual meeting of shareholders, are incorporated by reference into Part III of this Annual Report on Form 10-K.

This combined Form 10-K is separately filed by Exelon Corporation, Commonwealth Edison Company, PECO Energy Company and Exelon Generation Company, LLC (Registrants). Information contained herein relating to any individual registrant is filed by such registrant in its own behalf. No registrant makes any representation as to information relating to any other registrant.

TABLE OF CONTENTS

FORWARD-LOOKING STATEMENTS

Except for the historical information contained herein, certain of the matters discussed in this Report are forward-looking statements that are subject to risks and uncertainties. The factors that could cause actual results to differ materially from the forward-looking statements made by a registrant include those discussed herein, including those discussed in (a) ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Business Outlook and the Challenges in Managing Our Business for Exelon, ComEd, PECO and Generation, (b) ITEM 8. Financial Statements and Supplementary Data: Exelon—Note 19, ComEd—Note 16, PECO—Note 18 and Generation—Note 13, and (c) other factors discussed in filings with the Securities and Exchange Commission (SEC) by Exelon Corporation, Commonwealth Edison Company, PECO Energy Company and Exelon Generation Company, LLC (Registrants). Readers are cautioned not to place undue reliance on these forward-looking statements, which apply only as of the date of this Report. None of the Registrants undertakes any obligation to publicly release any revision to its forward-looking statements to reflect events or circumstances after the date of this Report.

WHERE TO FIND MORE INFORMATION

The public may read and copy any reports or other information that the Registrants file with the SEC at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. These documents are also available to the public from commercial document retrieval services, the web site maintained by the SEC at *http://www.sec.gov* and Exelon Corporation's website at *www.exeloncorp.com*.

PART I

ITEM 1. BUSINESS

General

Exelon Corporation (Exelon) was incorporated in Pennsylvania in February 1999. On October 20, 2000, Exelon became the parent corporation for PECO Energy Company (PECO) and Commonwealth Edison Company (ComEd) as a result of a merger among PECO, Unicom Corporation (Unicom), the former parent company of ComEd, and Exelon (Merger). The Merger was accounted for using the purchase method of accounting with PECO as the acquiring company. Accordingly, Exelon's results of operations for 2000 consist of PECO's results of operations for 2000 and Unicom's results of operations after October 20, 2000.

During January 2001, Exelon undertook a restructuring to separate its generation and other competitive businesses from its regulated energy delivery business at ComEd and PECO. As part of the restructuring, the generation-related operations and assets and liabilities of ComEd were transferred to Exelon Generation Company, LLC (Generation). Also, as part of the restructuring, the non-regulated operations and related assets and liabilities of PECO, representing PECO's generation and enterprises business segments, were transferred to Generation and Exelon Enterprises Company, LLC (Enterprises), respectively. Additionally, certain operations and assets and liabilities of ComEd and PECO were transferred to Exelon Business Services Company (BSC). BSC provides Exelon and its subsidiaries financial, human resource, legal, information technology, supply management and corporate governance services.

Exelon, a registered public utility holding company, through its subsidiaries, operates in three business segments (see ITEM 8. Financial Statements and Supplementary Data—Exelon—Note 2 of the Notes to Consolidated Financial Statements):

- *Energy Delivery*, whose businesses include the regulated sale of electricity and distribution and transmission services by ComEd in northern Illinois and PECO in southeastern Pennsylvania and the sale of natural gas and distribution services by PECO in the Pennsylvania counties surrounding the City of Philadelphia.

- *Generation***,** consisting of the owned and contracted for electric generating facilities, energy marketing operations, and equity interests in Sithe Energies, Inc. (Sithe) and AmerGen Energy Company, LLC (AmerGen).

- *Enterprises***,** consisting of competitive retail energy sales, energy and infrastructure services, communications and other investments (weighted towards the communications, energy services and retail services industries).

Exelon's principal executive offices are located at 10 South Dearborn Street, Chicago, Illinois 60603, and its telephone number is 312-394-4321. ComEd was organized in the State of Illinois in 1913 as a result of the merger of Cosmopolitan Electric Company into the original corporation named Commonwealth Edison Company, which was incorporated in 1907. ComEd's principal executive offices are located at 10 South Dearborn Street, Chicago, Illinois 60603 and its telephone number is 312-394-4321. PECO was incorporated in Pennsylvania in 1929. PECO's principal executive offices are located at 2301 Market Street, Philadelphia, Pennsylvania 19101-8699 and its telephone number is 215-841-4000. Generation was formed in 2000 as a Pennsylvania limited liability company. Generation's principal executive offices are located at 300 Exelon Way, Kennett Square, Pennsylvania 19348 and its telephone number is 610-765-6900.

Exelon and several of its subsidiaries are subject to Federal and state regulation. Exelon is a registered holding company under the Public Utility Holding Company Act of 1935 (PUHCA). ComEd is a public utility under the Illinois Public Utilities Act subject to regulation by the Illinois Commerce Commission (ICC). PECO is a public utility under the Pennsylvania Public Utility Code subject to regulation by the Pennsylvania Public Utility Commission (PUC). PECO, ComEd and Generation are electric utilities under the Federal Power Act subject to regulation by the Federal Energy Regulatory Commission (FERC). Specific operations of Exelon are also subject to the jurisdiction of various other Federal, state, regional and local agencies, including the United States Nuclear Regulatory Commission (NRC).

As a registered holding company, Exelon and its subsidiaries are subject to a number of restrictions under PUHCA. These restrictions generally involve financing, investments and affiliate transactions. Under PUHCA, Exelon and its subsidiaries cannot issue debt or equity securities or guarantees without approval of the Securities and Exchange Commission (SEC) or in some circumstances in the case of ComEd and PECO, the ICC or the PUC, respectively. Exelon currently has SEC approval to issue up to an aggregate of $4 billion in common stock, preferred securities, long-term debt and short-term debt, and to issue up to $4.5 billion in guarantees. PUHCA also limits the businesses in which Exelon may engage and the investments that Exelon may make. With limited exceptions, Exelon may only engage in traditional electric and gas utility businesses and other businesses that are reasonably incidental or economically necessary or appropriate to the operations of the utility business. The exceptions include Exelon's ability to invest in exempt telecommunications companies, in exempt wholesale generating businesses and foreign utility companies (these investments are capped at $4 billion in the aggregate), in energy-related companies (as defined in SEC rules, and subject to a cap on these investments of 15% of Exelon's consolidated capitalization), and in other businesses, subject to SEC approval. In addition, PUHCA requires that all of a registered holding company's utility subsidiaries constitute a single system that can be operated in an efficient, coordinated manner. For additional information about restrictions on the payment of dividends and other effects of PUHCA on Exelon and its subsidiaries, see ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Exelon.

Energy Delivery

Energy Delivery consists of Exelon's regulated energy delivery operations conducted by ComEd and PECO.

ComEd is engaged principally in the purchase, transmission, distribution and sale of electricity to a diverse base of residential, commercial, industrial and wholesale customers in northern Illinois. ComEd is subject to extensive regulation by the ICC as to rates, the issuance of securities, and certain other aspects of ComEd's operations. ComEd is also subject to regulation by FERC as to transmission rates and certain other aspects of its business.

ComEd's retail service territory has an area of approximately 11,300 square miles and an estimated population of eight million as of December 31, 2002. The service territory includes the City of Chicago, an area of about 225 square miles with an estimated population of three million. ComEd had approximately 3.6 million customers at December 31, 2002.

ComEd's franchises are sufficient to permit it to engage in the business it now conducts. ComEd's franchise rights are generally nonexclusive rights documented in agreements and, in some cases, certificates of public convenience issued by the ICC. With few exceptions, the franchise rights have stated expiration dates ranging from 2003 to 2050 and subsequent years.

PECO is engaged principally in the purchase, transmission, distribution and sale of electricity to residential, commercial and industrial customers in southeastern Pennsylvania and in the purchase, distribution and sale of natural gas to residential, commercial and industrial customers in the Pennsylvania counties surrounding the City of Philadelphia. PECO is subject to extensive regulation by the PUC as to electric and gas rates, the issuances of securities and certain other aspects of PECO's operations. PECO is also subject to regulation by FERC as to transmission rates, and certain other aspects of its business.

PECO's retail service territory covers approximately 2,100 square miles in southeastern Pennsylvania. PECO provides electric delivery service in an area of approximately 2,000 square miles, with a population of approximately 3.8 million, including 1.5 million in the City of Philadelphia. Natural gas service is supplied in an approximate 2,100 square mile area in southeastern Pennsylvania adjacent to Philadelphia, with a population of approximately 2.3 million. PECO delivers electricity to approximately 1.5 million customers and natural gas to approximately 450,000 customers.

PECO has the necessary franchise rights to furnish electric and gas service in the various municipalities or territories in which it now supplies such services. PECO's franchise rights, which are generally nonexclusive rights, consist of charter rights and certificates of public convenience issued by the PUC and/or "grandfather rights." Such franchise rights are generally unlimited as to time.

As a result of Exelon's restructuring to separate its regulated and competitive businesses, effective January 1, 2001, both ComEd and PECO transferred their assets and liabilities unrelated to energy delivery to other subsidiaries of Exelon. In the case of ComEd, the assets and liabilities transferred included nuclear generation and wholesale power marketing operations and some administrative functions. In the case of PECO, the assets and liabilities transferred related to nuclear, fossil and hydroelectric generation and wholesale power marketing; unregulated ventures and activities, including communications, infrastructure services and unregulated gas and electric sales activities; and administrative, information technology and other support for other business activities of Exelon and its subsidiaries.

Energy Delivery's kilowatthour (kWh) sales and load are generally higher, primarily during the summer periods but also during the winter periods, when temperature extremes create demand for either summer cooling or winter heating. ComEd's highest peak load experienced to date occurred on August 1, 2002 and was 21,804 megawatts (MWs), and the highest peak load experienced to date during a winter season occurred on December 20, 1999 and was 14,484 MWs. PECO's highest peak load experienced to date occurred on August 14, 2002 and was 8,164 MWs; and the highest peak load experienced to date during a winter season occurred on January 23, 2003 and was 6,346 MWs.

PECO's gas sales are generally higher during the winter periods when temperature extremes create demand for winter heating. PECO's highest daily gas sendout experienced to date occurred on January 17, 2000 and was 718,362 thousand cubic feet.

Retail Electric Services

Electric utility restructuring legislation was adopted in Pennsylvania in December 1996 and in Illinois in December 1997. Both Illinois and Pennsylvania permit competition by alternative generation suppliers for retail generation supply while transmission and distribution service remains fully regulated. Both states, through their regulatory agencies, established a phased approach for allowing customers to choose an alternative electric generation supplier, required rate reductions and imposed caps on rates during a transition period; and allowed the collection of competitive transition charges (CTCs) from customers to recover costs that might not otherwise be recovered in a competitive market (stranded costs).

Under the restructuring initiatives adopted at the Federal and state levels, the role of electric utilities in the supply and delivery of energy is changing.

Under Illinois and Pennsylvania legislation, ComEd and PECO are required to provide generation services to customers who do not or cannot choose an alternative supplier. Provider of last resort (POLR) obligations refer to the obligation of a utility to provide generation services (i.e., power and energy) to those customers who do not take service from an alternative generation supplier or who choose to come back to the utility after taking service from an alternative supplier. Because the choice lies with the customer, these obligations make it difficult for the utility to predict and plan for the level of customers and associated energy demand. If these obligations remain unchanged, the utility could be required to maintain reserves sufficient to serve 100% of the service territory load at a tariffed rate on the chance that customers who switched to new suppliers decide to come back to the utility as a "last resort" option. A significant over or under estimation of such reserves may cause commodity price risks for suppliers. ComEd and PECO continue to be obligated to provide a reliable delivery system under cost-based rates.

Under terms of the 2001 corporate restructuring, ComEd remits to Generation any amounts collected from customers for nuclear decommissioning. Under an agreement effective September 2001, PECO remits to Generation any amounts collected from customers for nuclear decommissioning.

ComEd. As of December 31, 2002, all ComEd's customers are eligible to choose an alternative retail electric supplier (ARES) and non-residential customers can also elect the power purchase option (PPO) that allows the purchase of electric energy from ComEd at market-based prices. ComEd's residential customers became eligible to choose a new electric supplier in May 2002. However, as of December 31, 2002, no ARES had sought approval from the ICC and no electric utilities have chosen to enter the ComEd residential market for the supply of electricity. At December 31, 2002, approximately 22,700 non-residential customers, representing approximately 26% of ComEd's annual retail kilowatthour sales, had elected to purchase their electric energy from an ARES or had chosen the PPO. Customers who receive energy from an alternative supplier continue to pay a delivery charge. ComEd is unable to predict the long-term impact of customer choice on results of operations.

In addition to retail competition for generation services, the Illinois legislation provided for residential base rate reductions, a sharing with customers of any earnings over a defined threshold and a base rate freeze, reflecting the residential base rate reductions, through January 1, 2007. A 15% residential base rate reduction became effective on August 1, 1998 and a further 5% residential base rate reduction became effective October 1, 2001. A utility may request a rate increase during the rate freeze period only when necessary to ensure the utility's financial viability. Under the Illinois legislation, if the earned return on common equity of a utility during this period exceeds an established threshold, one-half of the excess earnings must be refunded to customers. The threshold rate of return on common equity is based on the Monthly Treasury Bond Long-Term Average Rates (25 years and above) plus 8.5% in the years 2000 through 2006. Earnings for purposes of ComEd's threshold include ComEd's net income calculated in accordance with generally accepted accounting principles (GAAP) and reflect the amortization of regulatory assets. As a result of the Illinois legislation, at December 31, 2002, ComEd had a regulatory asset with an unamortized balance of $175 million that it expects to fully recover and amortize by the end of 2006. Consistent with the provisions of the Illinois legislation, regulatory assets may be recovered at amounts that provide ComEd an earned return on common equity within the Illinois legislation earnings threshold. The earned return on common equity and the threshold return on common equity for ComEd are each calculated on a two-year average basis. ComEd did not trigger the earnings sharing provision in 2002, 2001 or 2000 and does not currently expect to trigger the earnings sharing provisions in the years 2003 through 2006.

The Illinois legislation also provided for the collection of a CTC from customers who choose to purchase electric energy from an ARES or elect the PPO during a transition period that extends through 2006. The CTC, which was initially established as of October 1, 1999 and is applied on a cents per kWh basis, considers the revenue that would have been collected from a customer under tariffed rates, reduced by the revenue the utility will receive for providing delivery services to the customer, the market price for electricity and a defined mitigation factor, which represents the utility's opportunity to develop new revenue sources and achieve cost reductions. The CTC allows ComEd to recover some of its costs that might otherwise be unrecoverable under market-based rates.

The rates for the generation service provided by ComEd under bundled rates are subject to a rate freeze during the transition period. ComEd has entered into a purchased power agreement (PPA) with Generation under which Generation has agreed to supply all of ComEd's load requirements through 2004. Prices for this energy vary depending upon the time of day and month of delivery. During 2005 and 2006, ComEd's PPA is a partial requirements agreement under which ComEd will purchase all of its required energy and capacity from Generation, up to the available capacity of the nuclear generating plants formerly owned by ComEd and transferred to Generation. Under the terms of the PPA, Generation is responsible for obtaining any required transmission service, subject to ComEd's obligation to obtain network service over the ComEd system. The PPA also specifies that prior to 2005, ComEd and Generation will jointly determine and agree on a market-based price for energy delivered under the PPA for 2005 and 2006. In the event that the parties cannot agree to market-based prices for 2005 and 2006 prior to July 1, 2004, ComEd has the option of terminating the PPA effective December 31, 2004. ComEd will obtain any additional supply required from market sources in 2005 and 2006, and subsequent to 2006, will obtain all of its supply from market sources, which could include Generation.

As part of a settlement agreement between ComEd and the City of Chicago (Chicago) relating to ComEd's Chicago franchise agreement, ComEd and Chicago agreed to a revised combination of ongoing work under the franchise agreement and new initiatives that total approximately $1 billion in defined transmission and distribution expenditures by ComEd to improve electric service in Chicago, all of which has been expended through December 31, 2002. The Illinois legislation also committed ComEd to spend at least $2 billion during the period 1999 through 2004 on transmission and distribution facilities outside of Chicago, which had been expended as of December 31, 2001. In addition, ComEd conducted an extensive evaluation of the reliability of its transmission and distribution systems in response to certain high profile outages in the summer of 1999. As a result of the evaluation, ComEd has increased its capital and operating and maintenance expenditures on its transmission and distribution facilities in order to improve their reliability.

As a result of ComEd's commitments to improve the reliability of its transmission and distribution system, ComEd expects its capital expenditures will exceed depreciation on its rate base assets through at least 2003. The base rate freeze will generally preclude incremental rate recovery of and on such incremental investments prior to January 1, 2007. Unless ComEd can offset the additional carrying costs against cost reductions, its return on investment will be reduced during the period of the rate freeze and until rate increases are approved authorizing a return of and on this new investment.

In addition, the Illinois legislation provides that an electric utility, such as ComEd, will be liable for actual damages suffered by customers in the event of a continuous power outage of four hours or more affecting 30,000 or more customers and provides for reimbursement of governmental emergency and contingency expenses incurred in connection with any such outage. The legislation bars recovery of consequential damages. The legislation also allows an affected utility to seek relief from these provisions from the ICC where the utility can show that the cause of the outage was unpreventable damage due to weather events or conditions, customer tampering or third party causes.

The Illinois legislation also allows a portion of ComEd's future revenues to be segregated and used to support the issuance of securities by ComEd or a special purpose financing subsidiary. The proceeds, net of transaction costs, from such securities issuances must be used to refinance outstanding debt or equity or for certain other limited purposes. The total amount of such securities that may be issued is approximately $6.8 billion. In December 1998, special purpose financing subsidiaries of ComEd issued $3.4 billion of notes. For additional information, see ITEM 1. Business—Other Subsidiaries of ComEd and PECO with Publicly Held Securities and ITEM 8. Financial Statements and Supplementary Data—ComEd, Note 10 of Notes to Consolidated Financial Statements.

ComEd is authorized to charge customers who purchase electricity from an alternative supplier for the use of its distribution system to deliver that electricity. These delivery service rates are set through proceedings before the ICC based upon, among other things, the operating costs associated with ComEd's distribution system and the capital investment that ComEd has made in its distribution system. On April 1, 2002, the ICC issued an interim order in a proceeding to establish ComEd's residential delivery services rates. The interim order was issued subject to an audit of the test year (the 2000 calendar year) expenditures, which has been completed. The purpose of the audit was to analyze and establish the reasonableness of past investments and expenditures, which ComEd believes it has shown. The rates became effective on May 1, 2002 when residential customers became eligible to choose their electricity supplier. Traditional bundled rates—rates paid by customers that retain ComEd as their electricity supplier—are not affected by this order. Delivery service rates for non-residential customers are not affected by this order.

The firm hired by the ICC to audit the test year expenditures issued an audit report in October 2002 recommending additional disallowances to test year expenditures and rate base levels, which, if ultimately approved by the ICC, would result in lower residential delivery service charges and higher non-residential delivery service charges. ComEd intends to contest the audit findings in the reopened hearings and cannot currently determine what portion, if any, of the audit recommendations the ICC will accept. If the ICC ultimately determines that all or some portion of ComEd's distribution plan is not recoverable through rates, ComEd may be required to write-off some or all of the amount of its investment that the ICC determines is not recoverable. The estimated potential write-off, before income taxes, could be up to approximately $100 million if the audit recommendations were to be accepted by the ICC in their entirety. ComEd recorded a charge to earnings, before income taxes, of $12 million in the third quarter of 2002, representing the estimated minimum probable write-off exposure resulting from the audit findings. The ICC will hold hearings on the audit report and responses from ComEd and other parties. A final decision is expected in the middle of 2003.

On July 19, 2002, ComEd filed a request with the ICC to revise the POLR obligation in Illinois. ComEd obtained permission from the ICC to limit the availability by June 2006 of Rate 6L for 370 of ComEd's largest energy customers with demands of at least three MWs, totaling approximately 2,500 MWs. Rate 6L is a bundled fixed rate offered to large customers including heavy industrial plants, large office buildings, government facilities and a variety of other businesses. On November 14, 2002, the ICC entered an interim order in response to ComEd's request to revise the POLR obligation it has in Illinois to be the back-up energy supplier to certain businesses. ComEd sought permission from the ICC to limit availability by June 2006 of a bundled fixed rate that it offers to large customers with energy demands of at least three megawatts, including heavy industrial plants, large office buildings, government facilities and a variety of other businesses. ComEd also sought approval of related tariff amendments to implement the request and for approval to make changes to its real-time pricing tariff, which would be made available to customers who choose not to go to the competitive market to procure their electric power and energy. The ICC interim order allowed the bundled fixed rate changes to take effect by operation of law, as allowed by statute, and directed that ComEd file tariffs that

took effect on December 1, 2002, and will become operational on the first day of ComEd's June 2003 billing period. The order also directed ComEd to file proposed amendments to its real-time pricing tariff, which will be considered in a second phase of the proceeding. ComEd believes this phase of the proceeding will be concluded in a time frame that will coincide with the operational date of the bundled fixed rate changes. As of February 28, 2003, two parties had appealed the interim order.

On March 3, 2003, ComEd entered into an agreement with various Illinois electric retail market suppliers, key customer groups and governmental parties regarding several matters affecting ComEd's rates for electric service (Agreement). The Agreement contemplates a series of coordinated filings with the ICC, which must issue orders consistent with the Agreement in order for the provisions of the Agreement to become effective.

The Agreement addresses, among other things:

- ComEd's pending residential delivery services rate proceeding

  New residential delivery service rates would be set based upon substantially the same rates currently in effect under the interim order and would remain in effect through December 31, 2006, with a possible reopener in the event that a reexamination in 2005 shows that ComEd is either under-recovering or over-recovering by more than 15% based on those rates. In addition, a $109 million distribution system capital expenditure disallowance that was proposed in the pending proceeding by a consulting firm engaged by the ICC to audit ComEd's test year expenditures, would not be reflected in the revenue requirement. Under the Agreement, distribution system plant reflected in the rate filing would be considered prudent and used and useful for purposes of this and future rate proceedings.

- Illinois electricity market development

  There would be a modification of the methodology used to determine the market value energy credit. That credit is used to determine the price for specified market-based rate offerings by ComEd, and the rate for the CTC that ComEd is allowed to collect from customers who select an alternative retail electricity supplier. The credit would be adjusted upward through agreed upon "adders," which would take effect in June 2003 and would have the effect of reducing the CTC rate charged customers. The estimated annual revenue impact of the reduction in CTC revenues under the Agreement is approximately $65 million to $70 million. In addition, customers would be offered an option to lock-in CTC charges for longer periods. Currently, CTC charges are subject to change annually.

- Competitive service declarations that assist in mitigating ComEd's POLR obligations

  The Agreement provides for the withdrawal of certain of the outstanding appeals of the competitive declaration for service to customers having load requirements of three or more megawatts. Also, it establishes a process for achieving in June 2004 a similar competitive declaration for service to customers having load requirements of one to three megawatts.

- ComEd's ability to enter into a full-requirements PPA with Generation

The parties to the Agreement would not contest extending ComEd's full requirements PPA, now in place through 2004, through 2006, replacing the partial requirements service for 2005 and 2006 in the existing agreement. The parties also would not contest ComEd's continued recovery of up to $73 million in nuclear decommissioning charges during 2005 and 2006, depending on the

amount of energy that ComEd would purchase from Generation's nuclear plants formerly owned by ComEd.

- Funding of certain programs for customer and governmental groups

The Agreement provides for a total of $51 million in funding to various consumer groups and governmental agencies for a variety of programs from 2003 through 2006. Those programs may include energy and environmental programs, efficiency products and services, residential consumer education, market development studies and installation of emergency generating equipment.

ComEd believes the Agreement assists in protecting the integrity of the CTC that it is allowed to collect from customers who choose an alternative supplier; sets a reasonable delivery service rate; provides customers and ComEd with greater price certainty and stability; enhances its relationship with regulatory, governmental and key customer groups; avoids the costs, uncertainty and time associated with litigation; and presents a proactive approach to increasing competition in the supply of electricity in Illinois.

In order for the Agreement to become effective, the ICC, which is not a party to the Agreement, must enter orders consistent with the Agreement by late March 2003 in various regulatory proceedings that are the subject of the Agreement. Although the parties to the Agreement have agreed as to the general content of those orders, there are other parties to the proceedings who are seeking changes or modifications to the proposed orders or otherwise seeking to delay or prevent the effectiveness of the Agreement. As a result, there can be no assurance that the Agreement will become effective.

If the Agreement becomes effective, ComEd would record a charge to earnings associated with the funding of specified programs and initiatives associated with the Agreement of $49 million on a present value basis before income taxes. This amount would be partially offset by the reversal of a $12 million (before income taxes) reserve established in the third quarter of 2002 for a potential capital disallowance in ComEd's delivery services rate proceeding, and a credit of $10 million (before income taxes) related to the capitalization of employee incentive payments provided for in the delivery services order. The net one-time charge for these items of $27 million (before income taxes) would be recognized upon receipt of necessary ICC approvals.

PECO. Under the Pennsylvania Electricity Generation Customer Choice and Competition Act (Competition Act), all of PECO's retail electric customers have the right to choose their generation suppliers. At December 31, 2002, approximately 21% of PECO's residential load, 10% of its small commercial and industrial load and 7% of its large commercial and industrial load were considered purchasing generation service from alternative generation suppliers. Customers who purchase energy from an electric generation supplier (EGS) continue to pay a delivery charge.

In addition to retail competition for generation services, PECO's settlement of its restructuring case mandated by the Competition Act established caps on generation and distribution rates. The 1998 settlement also authorized PECO to recover $5.3 billion of stranded costs and to securitize up to $4.0 billion of its stranded cost recovery.

Under the 1998 settlement, PECO's distribution rates were capped through June 30, 2005 at the level in effect on December 31, 1996. Generation rates, consisting of the charge for stranded cost recovery and a shopping credit or capacity and energy charge, were capped through December 31, 2010. For 2003, the generation rate cap is $0.0698 per kWh, increasing to $0.0751 per kWh in 2006 and $0.0801 per kWh in 2007. The rate caps are subject to limited exceptions, including significant increases

in Federal or state taxes or other significant changes in law or regulations that would not allow PECO to earn a fair rate of return.

Pursuant to a settlement related to PECO's request for authorization to securitize an additional $1 billion of its stranded cost recovery, PECO provided its customers with additional rate reductions of $60 million in 2001. Under the settlement agreement entered into by PECO in 2000 relating to the PUC's approval of the Merger, PECO agreed to $200 million in aggregate rate reductions for all customers over the period January 1, 2002 through 2005 and extended the rate cap on distribution rates through December 31, 2006.

As a mechanism for utilities to recover their allowed stranded costs, the Competition Act provides for the imposition and collection of non-bypassable transition charges on customers' bills. Transition charges are assessed to and collected from all retail customers who have been assigned stranded cost responsibility and access the utility's transmission and distribution systems. As the transition charges are based on access to the utility's transmission and distribution system, they are assessed regardless of whether such customer purchases electricity from the utility or an alternative electric generation supplier. The Competition Act provides, however, that the utility's right to collect transition charges is contingent on the continued operation at reasonable availability levels of the assets for which the stranded costs were awarded, except where continued operation is no longer cost efficient because of the transition to a competitive market. To the extent the actual recoveries of transition charges in any one year differ from the authorized amount set forth below, an annual reconciliation adjustment to the transition charges rate is made to increase or decrease the subsequent year's collections accordingly, except during 2010 in which the reconciliation adjustments are made quarterly or monthly as needed.

PECO has been authorized to recover stranded costs of $5.3 billion over a twelve-year period ending December 31, 2010 with a return on the unamortized balance of 10.75%. The following table shows PECO's allowed recovery of stranded costs, and amortization of the associated regulatory asset, for the years 2003 through 2010 as authorized by the PUC based on the level of transition charges established in the settlement of PECO's restructuring case. Recovery of transition charges for stranded costs and PECO's allowed return on its recovery of stranded costs are included in operating revenue.

PECO Annual Stranded Cost
Amortization And Return per the Electric Restructuring Settlement

Year	Allowed Recovery, Excluding Gross Receipts Tax		
	Total	Return @ 10.75%	Amortization
	($000)	($000)	($000)
2003	818,352	482,401	335,951
2004	811,540	444,798	366,742
2005	807,933	403,555	404,378
2006	902,623	353,070	549,553
2007	909,844	290,627	619,217
2008	917,123	220,312	696,811
2009	924,459	141,229	783,231
2010	931,855	52,381	879,474

Under the Competition Act, licensed entities, including alternative electric generation suppliers, may act as agents to provide a single bill and provide associated billing and collection services to retail customers located in PECO's retail electric service territory. In that event, the alternative supplier or other third party replaces the customer as the obligor with respect to the customer's bill and PECO generally has no right to collect such receivable from the customer. Third-party billing would change PECO's customer profile (and risk of non-payment by customers) by replacing multiple customers with the entity providing third-party billing for those customers. PUC-licensed entities may also finance, install, own, maintain, calibrate and remotely read advanced meters for service to retail customers in PECO's retail electric service territory. To date, no third parties are providing billing of PECO's charges to customers or advanced metering. Only PECO can physically disconnect or reconnect a customer's distribution service.

The PUC's Final Electric Restructuring Order provided for the phase-in of customer choice of EGS and as of January 1, 2000, all customers were eligible for customer choice. The Final Restructuring Order also established market share thresholds (MST) to promote competition. The MST requirements provided that, if as of January 1, 2001 and January 1, 2003, respectively, less than 35% and 50% of residential and commercial customers were shopping, the number of customers sufficient to meet the MST would be randomly selected and assigned to an EGS through a PUC-determined process. For residential and small commercial customers, the threshold measurement is by number of customers. For large commercial customers the measurement is by load. On January 1, 2001, the 35% MST threshold was met for all customer classes as a result of agreements assigning customers to New Power Company (New Power) and Green Mountain Energy Company (Green Mountain) as providers of last resort default service. During 2002, PECO experienced an increase in the number of customers selecting or returning to PECO as their EGS. At January 1, 2003, PECO did not meet the MST requirement. In January 2003, PECO submitted to the PUC an MST plan to meet the 50% threshold requirement for its small and large commercial customer classes, which was approved on February 6, 2003. According to the approved plan, randomly assigned customers who participated will be switched to winning MST bidders as of their respective meter read dates. On February 24, 2003, the small and large commercial MST auction was completed. There were three winning bidders who were awarded a total of 64,172 small commercial customers, at a clearing price of 1.25% off PECO's tariffed rate GS. No bids were received for the small commercial renewable auction or the large commercial (GS6) non-interval metered load auction. Also in February 2003, PECO filed an MST plan for the residential customer classes, which is pending PUC approval.

On November 29, 2000, the PUC approved PECO's bilateral contract with New Power to move 22% of PECO's non-shopping residential customers to New Power for competitive default generation

service (CDS). Under this contract, New Power agreed to provide generation services through January 2004, at specified discounted rates, to nearly 300,000 residential customers of PECO who were taking their generation service from PECO. On February 22, 2002, New Power notified PECO of its intent to withdraw from providing CDS to approximately 180,000 residential customers. As a result of that withdrawal, those CDS customers were returned to PECO in the second quarter of 2002. Pursuant to a tariff filing approved by the PUC, PECO is serving those returned customers at the discount generation rates provided for under the original New Power CDS Agreement for the remaining term of that contract. Subsequently, in the second quarter of 2002, New Power also advised PECO it planned to withdraw from serving all of its customers in Pennsylvania, including approximately 15,000 non-CDS PECO customers. These customers were returned to PECO during the third quarter of 2002.

In addition to the New Power contract, PECO also entered into a CDS agreement with Green Mountain to assign 50,000 of PECO's non-shopping residential customers to Green Mountain on the same terms and conditions as the New Power contract. On February 21, 2001, the PUC approved the Green Mountain CDS agreement. Beginning in May 2001, Green Mountain enrolled approximately 44,000 customers and as of December 31, 2002, approximately 18,000 customers, or 37%, have opted to return to PECO.

PECO has entered into a PPA with Generation under which PECO obtains substantially all of its electric supply from Generation through 2010. Also, under the 2001 corporate restructuring, PECO assigned its rights and obligations under various PPAs and fuel supply agreements to Generation. Generation supplies power to PECO from the transferred generation assets, assigned PPAs and other market sources.

As permitted by the Pennsylvania Electric Act, the Pennsylvania Department of Revenue has calculated a 2002 Revenue Neutral Reconciliation (RNR) adjustment to gross receipts tax rate in order to neutralize the impact of electric restructuring on its tax revenues. In January 2002, the PUC approved the RNR adjustment to the gross receipts tax rate collected from customers. Effective January 1, 2002, PECO implemented the change in the gross receipts tax rate. The RNR adjustment increases the gross receipts tax rate, which increased both PECO's annual revenues and tax obligations by approximately $50 million in 2002. The RNR adjustment was under appeal. The case was remanded to the PUC and in August 2002, the PUC ruled that PECO is properly authorized to recover these costs. In December 2002, the PUC approved the inclusion of the RNR factor in PECO's base rates eliminating the need for an annual filing to obtain approval for recovery.

Transmission Services

Energy Delivery provides wholesale and unbundled retail transmission service under rates established by FERC. FERC has used its regulation of transmission to encourage competition for wholesale generation services and the development of regional structures to facilitate regional wholesale markets. In December 1999, FERC issued Order No. 2000 (Order 2000) requiring jurisdictional utilities to file a proposal to form a regional transmission organization (RTO) or, alternatively, to describe efforts to participate in or work toward participating in an RTO or explain why they were not participating in an RTO. Order 2000 is generally designed to separate the governance and operation of the transmission system from generation companies and other market participants.

PJM Interconnection, LLC (PJM) is the independent system operator and the FERC approved RTO for the Mid-Atlantic region in which it operates. PJM is the transmission provider under, and the administrator of, the PJM Open Access Transmission Tariff (PJM Tariff), operates the PJM Interchange Energy Market and Capacity Credit Markets, and conducts the day-to-day operations of the bulk power system of the PJM region. PECO's transmission system is currently under the control of PJM, and ComEd has taken steps to place its transmission system under PJM's control. Under the PJM tariff,

transmission service is provided on a region-wide, open-access basis using the transmission facilities of the PJM members at rates based on the costs of transmission service.

ComEd. On May 28, 2002, ComEd filed a notice with FERC indicating its intention to comply with Order 2000 by placing its transmission assets under the control of an independent transmission company (ITC) that would operate under a western expansion of PJM. ComEd committed to join PJM independently if no ITC was formed.

FERC conditionally approved ComEd's decision to join PJM in late July 2002. Among other conditions, FERC ordered the applicable parties to file agreements relating to the formation of the ITC under PJM. ComEd, American Electric Power East (AEP), Dayton Power & Light (Dayton) and National Grid USA (National Grid) subsequently filed a non-binding letter of intent and detailed term sheet relating to the formation of the ITC. National Grid is a subsidiary of National Grid plc, a company that owns and operates transmission assets in Great Britain. National Grid and PJM have engaged in negotiations with respect to the allocation of functions to an ITC operating under PJM and certain cost recovery issues. They did not reach complete agreement, and PJM filed its proposed resolution of certain of these issues with FERC. On March 14, 2003, FERC issued an order that approved PJM's proposal with certain modifications. As a result, it is unlikely that ComEd will participate in an ITC when it joins PJM.

Effective as of September 30, 2002, ComEd, AEP, Dayton and National Grid entered into a Project Implementation Agreement with PJM providing for the funding and allocation of responsibilities with respect to the integration of the parties into PJM West, either directly or through an ITC. This Agreement provides for the companies to reimburse PJM for implementation costs that PJM would not capitalize under its ordinary accounting principles. The companies would recover these amounts in their transmission rates pursuant to the PJM tariff amendments described in the next paragraph. ComEd faces significant additional costs under this Agreement if it ultimately does not join PJM.

On December 11, 2002, ComEd, AEP, Dayton, Dominion Virginia Power (Dominion) and PJM filed with FERC amendments to PJM's transmission tariff (including proposed transmission rates) and certain PJM agreements to be entered into by the parties. These amendments are necessary to integrate ComEd and these other utilities into PJM. Subject to FERC approval of such amendments, ComEd expects to transfer functional control of its transmission assets to PJM and to integrate fully into PJM's energy market structures during 2003.

On December 19, 2002, FERC issued an order granting PJM full RTO status, based in part upon PJM's proposed expansion to include AEP, ComEd, Dayton and Dominion. FERC had previously granted PJM only provisional RTO status, voicing concerns about its scope and configuration. Prior to joining PJM, ComEd must receive final approval from FERC.

The State of Virginia is expected to enact a law in the first quarter of 2003 prohibiting utilities operating in the State of Virginia, including AEP and Dominion, from joining an RTO prior to July 1, 2004, and conditioning entry into an RTO on approval of the Virginia utility commission. Enactment of this law may delay AEP and Dominion's entry into PJM. ComEd is working with PJM to develop an implementation plan to facilitate ComEd's entry into PJM without AEP. Exelon is also evaluating the possible impact any such delay may have on ComEd and its participation in PJM, as well as on Exelon itself.

PECO. PECO provides regional transmission service pursuant to PJM's regional open-access transmission tariff. PECO and the other transmission owners in PJM have turned over control of their transmission facilities to PJM.

Gas

PECO's gas sales and gas transportation revenues are derived pursuant to rates regulated by the PUC. Customers have the right to choose their gas suppliers or purchase their gas supply from PECO at cost.

The PUC established, through regulated proceedings, the base rates that PECO may charge for gas service in Pennsylvania. PECO's gas rates are subject to quarterly adjustments designed to recover or refund the difference between the actual cost of purchased gas and the amount included in base rates and to recover or refund increases or decreases in certain state taxes not recovered in base rates.

Approximately one-third of PECO's current total yearly throughput is supplied by third parties. The transportation service provided remains subject to rate regulation. PECO also provides billing, metering, installation, maintenance and emergency response services.

PECO's natural gas supply is provided by purchases from a number of suppliers for terms of up to five years. These purchases are delivered under several long-term firm transportation contracts. PECO's aggregate annual firm supply under these firm transportation contracts is 47.5 million dekatherms. Peak gas is provided by PECO's liquefied natural gas (LNG) facility and propane-air plant. PECO also has under contract 21.3 million dekatherms of underground storage through service agreements. Natural gas from underground storage represents approximately 34% of PECO's 2002-2003 heating season planned supplies.

Construction Budget

Energy Delivery's business is capital intensive and requires significant investments in energy transmission and distribution facilities, and in other internal infrastructure projects. The following table shows Exelon's most recent estimate of capital expenditures for plant additions and improvements for ComEd and PECO for 2003:

	ComEd	PECO
	(in millions)	
Transmission and Distribution	$ 634	$ 201
Gas	—	60
Other	86	9
Total	$ 720	$ 270

Approximately two-thirds of ComEd's 2003 budgeted capital expenditures and one-half of PECO's 2003 budgeted capital expenditures are for additions to or upgrades of existing facilities, including reliability improvements. The remainder of the capital expenditures support customer and load growth.

Generation

General

Generation is one of the largest competitive electric generation companies in the United States, as measured by owned and controlled MWs. Generation combines its large, low-cost generation fleet with an experienced wholesale power marketing operation. At December 31, 2002, Generation directly owned generation assets in the Northeast, Mid-Atlantic, Midwest and Texas regions with a net capacity of 26,762 MWs, including 14,547 MWs of nuclear capacity, 9,794 MWs of fossil fuel capacity, and 2,421 MWs of capacity under construction. Generation also controls another 13,900 MWs of capacity in the Midwest, Southeast and South Central regions through long-term contracts.

In addition to its owned generation facilities, Generation owns a 50% interest in AmerGen, a joint venture with British Energy, Inc., a wholly-owned subsidiary of British Energy plc (British Energy).

AmerGen owns three nuclear stations with total generation capacity of 2,481 MWs. Generation also owns a 49.9% interest in Sithe and is subject to a Put and Call Agreement (PCA) that gives Generation the right to purchase (Call) the remaining 50.1% of Sithe, and gives the other Sithe shareholders the right to sell (Put) their interest to Generation. See the Unconsolidated Equity Investments section in ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Generation for a further discussion of the PCA. Sithe owns and operates 19 generating stations in North America. Currently, Sithe has a total generating capacity of 1,321 MWs in operation and 230 MWs under construction.

Generation's wholesale marketing unit, Power Team, is a major wholesale marketer of energy that uses Generation's energy generation portfolio, transmission rights and expertise to ensure delivery of energy to Generation's wholesale customers under long-term and short-term contracts. Power Team is responsible for supplying the load requirements of ComEd and PECO and markets the remaining energy in the wholesale and spot markets.

Generating Resources

The generating resources of Generation, including its ownership share of AmerGen and Sithe, consist of the following:

Type of Capacity	MW
Owned Generation Assets(1,2)	
Nuclear	14,547
Fossil	8,210
Hydro	1,584
	24,341
Long-term Contracts(3)	13,900
AmerGen and Sithe(2)	1,900
Available Resources	40,141
Under Construction(2)	2,536
Total Generating Resources	42,677

(1) See ITEM 1. Business—Generation "Fuel" for sources of fuels used in electric generation.

(2) Based on Generation's percentage ownership.

(3) Contracts range from 1 to 29 years.

The owned generating resources of Generation are located primarily in the Midwest (approximately 53% of capacity), the Mid Atlantic and New England regions (approximately 36% of capacity), and the Texas region (approximately 11%). AmerGen's generating resources are in the Midwest and the Mid Atlantic regions. Sithe's generating resources are primarily in New York. The remaining plants are located throughout North America.

On April 25, 2002, Generation acquired two natural gas and oil-fired plants from TXU Corp. (TXU). The purchase included the 893-MW Mountain Creek Steam Electric Station in Dallas and the 1,441-MW Handley Steam Electric Station in Fort Worth. The transaction included a PPA for TXU to purchase power during the months of May through September from 2002 through 2006. During the periods covered by the PPA, TXU makes fixed capacity payments, variable expense payments, and provides fuel to Exelon in return for exclusive rights to the energy and capacity of the generation plants.

On November 1, 2002, Generation purchased the assets of Sithe New England Holdings, LLC (Sithe New England), a subsidiary of Sithe, and related power marketing operations. Sithe New England's primary assets are gas-fired facilities currently under construction. Sithe New England owns 4,066 MWs of generation capacity, consisting of 1,645 MWs in operation and 2,421 MWs under construction. Sithe New England's generation facilities are located primarily in Massachusetts.

For a further discussion of Sithe and the Sithe New England asset acquisition, see "Sithe" section, which follows within ITEM 1. Business—Generation.

The generation assets transferred to Generation by ComEd and PECO during the 2001 corporate restructuring, the generating plants acquired in 2002 and Generation's investments in Sithe and AmerGen provide a critical mass of generation capacity and a leadership position in the wholesale energy markets. As the largest generator of nuclear power in the United States, Generation can take advantage of its scale and scope to negotiate favorable terms for the materials and services that its business requires.

Nuclear Facilities. Generation has direct ownership interests in eight nuclear generating stations, consisting of 16 units with 14,547 MW of capacity (Exelon's share). For additional information, see ITEM 2. Properties. All of the nuclear generating stations are operated by Generation, with the exception of Salem Generating Station (Salem), which is operated by PSE&G Nuclear, LLC. In addition, AmerGen owns three nuclear generating stations consisting of three units with 2,481 MWs of capacity, of which Generation's interest is 1,241 MWs. See the AmerGen section, which follows within ITEM 1. Business—Generation, for further discussion of the three nuclear facilities owned by AmerGen.

In 2002, over 50% of Generation's electric supply was generated from the nuclear generating facilities. During 2002 and 2001, the nuclear generating facilities operated by Generation, operated at weighted average capacity factors of 92.7% and 94.4%, respectively. See the AmerGen section, which follows within ITEM 1. Business—Generation, for a further discussion of the three nuclear facilities owned by AmerGen.

Licenses. Exelon has 40-year operating licenses from the NRC for each of its nuclear units. Generation applied to the NRC in July 2001 for renewal of the Peach Bottom units 2 and 3 licenses and has applied for the extension of the operating license for Dresden units 2 and 3 and Quad Cities Station in January 2003. The operating license renewal process takes approximately four to five years from the commencement of the project at a site until completion of the NRC's review. The NRC review process takes approximately two years from the docketing of an application. Each requested license extension is expected to be for 20 years beyond the current license expiration. Depreciation provisions are based on the estimated useful lives of the units, which assume the extension of these

---

licenses for all of the nuclear generating stations. The following table summarizes the current operating license expiration dates for Generation's nuclear facilities in service.

Station	Unit	In-Service Date	Current License Expiration
Braidwood	1	1988	2026
	2	1988	2027
Byron	1	1985	2024
	2	1987	2026
Dresden	2	1970	2009
	3	1971	2011
LaSalle	1	1984	2022
	2	1984	2023
Quad Cities	1	1973	2012
	2	1973	2012
Limerick	1	1986	2024
	2	1990	2029
Peach Bottom	2	1974	2013
	3	1974	2014
Salem	1	1977	2016
	2	1981	2020

Regulation of Nuclear Power Generation and Security. Generation is subject to the jurisdiction of the NRC with respect to its nuclear generating stations, including the licensing of operation of each station. The NRC subjects nuclear generating stations to continuing review and regulation covering, among other things, operations, maintenance, emergency planning, security, environmental and radiological aspects of those stations. The NRC may modify, suspend or revoke licenses and impose civil penalties for failure to comply with the Atomic Energy Act, the regulations under such Act or the terms of such licenses. Changes in regulations by the NRC may require a substantial increase in capital expenditures for nuclear generating facilities or increased operating costs of nuclear generating units.

The NRC oversight process uses objective, timely and safety-significant criteria in assessing performance. It also takes into account improvements in the performance of the nuclear industry over the past twenty years. Nuclear plant performance is measured by a combination of 18 objective performance indicators and by the NRC inspection program. These are closely focused on those plant activities having the greatest impact on safety and overall risk. In addition, the NRC conducts periodic reviews of the effectiveness of each operator's programs to identify and correct problems. The inspection program is designed to verify the accuracy of performance indicator information and to assess performance based on safety cornerstones. These include initiating events, mitigating systems, integrity of barriers to release of radioactivity, emergency preparedness, occupational and public radiation safety, and physical protection.

The NRC evaluates licensee performance by analyzing two distinct inputs: inspection findings resulting from the NRC inspection program and performance indicators reported by the licensees on a quarterly basis.

NRC reactor oversight results for the fourth quarter of 2002 indicate that the performance indicators for the Exelon nuclear plants are all in the highest performance band, with the exception of one indicator for Dresden Unit 3, which is still considered to be acceptable performance within that indicator by the NRC.

Exelon does not fully know the impact that future terrorist attacks or threats of terrorism may have on its industry in general and on Exelon in particular. The events of September 11, 2001 have

affected Exelon's operating procedures and costs. Exelon has initiated security measures to safeguard its employees and critical operations and is actively participating in industry initiatives to identify methods to maintain the reliability of Exelon's energy production and delivery systems. Generation has met or exceeded all security measures mandated by the NRC for nuclear plants after the September 11, 2001 terrorist attacks. These security measures resulted in increased costs in 2002 of $19 million, of which approximately $10 million was capitalized. On a continuing basis, Exelon is evaluating enhanced security measures at certain critical locations, enhanced response and recovery plans and assessing long-term design changes and redundancy measures. Additionally, the energy industry is working with governmental authorities to ensure that emergency plans are in place and critical infrastructure vulnerabilities are addressed in order to maintain the reliability of the country's energy systems. These measures will involve additional expense to develop and implement, but will provide increased assurances as to Exelon's ability to continue to operate under difficult times.

Nuclear Waste Disposal. There are no facilities for the reprocessing or permanent disposal of spent nuclear fuel (SNF) currently in operation in the United States, nor has the NRC licensed any such facilities. Generation currently stores all SNF generated by nuclear generation facilities in on-site storage pools and, in the case of Peach Bottom and Dresden, some SNF has been placed in dry cask storage facilities. Not all of Generation's SNF storage pools have sufficient storage capacity for the life of the plant. Generation is developing dry cask storage facilities, as necessary to support operations.

Under the Nuclear Waste Policy Act of 1982 (NWPA), the U.S. Department of Energy (DOE) is responsible for the selection and development of repositories for, and the disposal of, SNF and high-level radioactive waste. As required by the NWPA, Generation is a party to contracts with the DOE (Standard Contract) to provide for disposal of SNF from its nuclear generating stations. In accordance with the NWPA and the Standard Contract, Generation pays the DOE one mill ($.001) per kWh of net nuclear generation for the cost of nuclear fuel long-term storage and disposal. This fee may be adjusted prospectively in order to ensure full cost recovery. The NWPA and the Standard Contract required the DOE to begin taking possession of SNF generated by nuclear generating units by no later than January 31, 1998. The DOE, however, failed to meet that deadline and its performance will be delayed significantly. The DOE's current estimate for opening a SNF permanent disposal facility is 2010. This extended delay in SNF acceptance by the DOE has led to Generation's adoption of dry storage at its Dresden, Quad Cities and Peach Bottom Stations and its consideration of dry storage at other stations.

In July 1998, ComEd filed a complaint against the United States Government (Government) in the United States Court of Federal Claims (Court) seeking to recover damages caused by the DOE's failure to honor its contractual obligation to begin disposing of SNF in January 1998. This litigation was assumed by Generation in the 2001 corporate restructuring. In August 2001, the Court granted Generation's motion for partial summary judgment for liability on ComEd's breach of contract claim. In November 2001, the Government filed two partial summary judgment motions relating to certain damage issues in the case, as well as two motions to dismiss claims other than the breach of contract claim. On August 30, 2002, after taking discovery related to certain damages, Generation filed briefs in response to the DOE's motions. The Court has postponed the time for the DOE to file reply briefs while it entertains additional DOE discovery motions.

In July 2000, PECO entered into an agreement with the DOE relating to Generation's Peach Bottom nuclear generating unit to address the DOE's failure to begin removal of SNF in January 1998 as required by the Standard Contract (Amendment). Under that agreement, the DOE agreed to provide PECO with credits against PECO's future contributions to the Nuclear Waste Fund over the next ten years to compensate PECO for SNF storage costs incurred as a result of the DOE's breach of the Standard Contract. The agreement also provides that, upon PECO's request, the DOE will take title to the SNF and the interim storage facility at Peach Bottom, provided certain conditions are met. Generation assumed this contract in 2001 corporate restructuring.

In November 2000, eight utilities with nuclear power plants filed a Joint Petition for Review against the DOE with the United States Court of Appeals for the Eleventh Circuit seeking to invalidate that portion of the agreement providing for credits to PECO against nuclear waste fund payments on the ground that such provision is a violation of the NWPA. PECO intervened as a defendant in that case, and Generation assumed the claim in the 2001 corporate restructuring. On September 24, 2002, the United States Court of Appeals for the Eleventh Circuit ruled that the fee adjustment provision of the agreement violates the NWPA and therefore is null and void. The Court did not hold that the agreement as a whole is invalid. The Amendment provides that if any portion of the Amendment is found to be void, the DOE and Generation agree to negotiate in good faith and attempt to reach an enforceable agreement consistent with the spirit and purpose of the Amendment. That provision further provides that should a major term be declared void, and the DOE and Generation cannot reach a subsequent agreement, the entire Amendment would be rendered null and void, the original Peach Bottom Standard Contract would remain in effect and the parties would return to pre-Amendment status. Generation has begun negotiations with the DOE and those negotiations are ongoing. Under the agreement, Generation has received approximately $40 million in credits against contributions to the nuclear waste fund.

In April 2001, an individual filed suit against the DOE with the United States District Court for the Middle District of Pennsylvania seeking to invalidate the agreement on the grounds that the DOE has violated the National Environmental Policy Act and the Administrative Procedure Act. PECO intervened as a defendant and moved to dismiss the complaint. Generation assumed the defense in 2001 corporate restructuring. On September 30, 2002, the Court granted Generation's motion and dismissed the lawsuit on the ground that the Court did not have jurisdiction over the matter.

The Standard Contract with the DOE also requires that PECO and ComEd pay the DOE a one-time fee applicable to nuclear generation through April 6, 1983. PECO's fee has been paid. Pursuant to the Standard Contract, ComEd elected to pay the one-time fee of $277 million, with interest to the date of payment, just prior to the first delivery of SNF to the DOE. As of December 31, 2002, the unfunded liability for the one-time fee with interest was $858 million. The liabilities for spent nuclear fuel disposal costs, including the one-time fee, were transferred to Generation as part of the 2001 corporate restructuring.

As a by-product of their operations, nuclear generation units produce low-level radioactive waste (LLRW). LLRW is accumulated at each generation station and permanently disposed of at federally licensed disposal facilities. The Federal Low-Level Radioactive Waste Policy Act of 1980 (Waste Policy Act) provides that states may enter into agreements to provide regional disposal facilities for LLRW and restrict use of those facilities to waste generated within the region. Illinois and Kentucky have entered into an agreement, although neither state currently has an operational site and none is currently expected to be operational until after 2011. Pennsylvania, which had agreed to be the host site for LLRW disposal facilities for generators located in Pennsylvania, Delaware, Maryland and West Virginia, has suspended the search for a permanent disposal site.

Generation has temporary on-site storage capacity at its nuclear generation stations for limited amounts of LLRW and has been shipping such waste to LLRW disposal facilities in South Carolina and Utah. The number of LLRW disposal facilities is decreasing, and Generation anticipates the possibility of continuing difficulties in disposing of LLRW. Generation is pursuing alternative disposal strategies for LLRW, including a LLRW reduction program to minimize cost impacts.

The National Energy Policy Act of 1992 requires that the owners of nuclear reactors pay for the decommissioning and decontamination of the DOE uranium enrichment facilities. The total cost to all domestic utilities covered by this requirement was originally $150 million per year through 2006, of which Generation's share was approximately $20 million per year. Payments are adjusted annually to reflect inflation. Including the effect of inflation, Generation paid $25 million in 2002.

Insurance. The Price-Anderson Act limits the liability of nuclear reactor owners for claims that could arise from a single incident. As of January 1, 2003, the current limit is $9.5 billion and is subject to change to account for the effects of inflation and changes in the number of licensed reactors. Generation carries the maximum available commercial insurance of $300 million and the remaining $9.2 billion is provided through mandatory participation in a financial protection pool. Under the Price-Anderson Act, all nuclear reactor licensees can be assessed up to $89 million per reactor per incident, payable at no more than $10 million per reactor per incident per year. This assessment is subject to inflation and state premium taxes. In addition, the U.S. Congress could impose revenue-raising measures on the nuclear industry to pay claims. The Price-Anderson Act expired on August 1, 2002 but existing facilities, including those owned and operated by Generation, remain covered. The Price-Anderson Act provisions relating to commercial facilities were extended through 2003. The extension affects facilities obtaining NRC operating licenses in 2003. Existing facilities are unaffected by the extension.

Generation carries property damage, decontamination and premature decommissioning insurance for each station loss resulting from damage to its nuclear plants. In the event of an accident, insurance proceeds must first be used for reactor stabilization and site decontamination. If the decision is made to decommission the facility, a portion of the insurance proceeds will be allocated to a fund, which Generation is required by the NRC to maintain, to provide for decommissioning the facility. Generation is unable to predict the timing of the availability of insurance proceeds to Generation and the amount of such proceeds that would be available. Under the terms of the various insurance agreements, Generation could be assessed up to $124 million for losses incurred at any plant insured by the insurance companies. In the event that one or more acts of terrorism cause accidental property damage within a twelve month period from the first accidental property damage under one or more policies for all insureds, the maximum recovery for all losses by all insureds will be an aggregate of $3.2 billion plus such additional amounts as the insurer may recover for all such losses from reinsurance, indemnity, and any other source, applicable to such losses. The $3.2 billion maximum recovery limit is not applicable, however, in the event of a "certified act of terrorism" as defined in the Terrorism Risk Insurance Act of 2002, as a result of government indemnity. Generally, a "certified act of terrorism" is defined in the Terrorism Risk Insurance Act to be any act, certified by the U.S. government, to be an act of terrorism committed on behalf of a foreign person or interest.

Additionally, Generation is a member of an industry mutual insurance company, Nuclear Electric Insurance Limited (NEIL), that provides replacement power cost insurance in the event of a major accidental outage at a nuclear station. The premium for this coverage is subject to assessment for adverse loss experience. Generation's maximum share of any assessment is $46 million per year. Recovery under this insurance for terrorist acts is subject to the $3.2 billion aggregate limit and secondary to the property insurance described above. This limit would also not apply in cases of certified acts of terrorism under the Terrorism Risk Insurance Act as described above.

In addition, Generation participates in the American Nuclear Insurers Master Worker Program, which provides coverage for worker tort claims filed for bodily injury caused by a nuclear energy accident. This program was modified, effective January 1, 1998, to provide coverage to all workers whose "nuclear-related employment" began on or after the commencement date of reactor operations. Generation will not be liable for a retrospective assessment under this new policy. However, in the event losses incurred under the small number of policies in the old program exceed accumulated reserves, a maximum retroactive assessment of up to $50 million could apply.

Generation does not carry any business interruption insurance for nuclear operations other than the NEIL coverage. Generation is self-insured to the extent that any losses may exceed the amount of insurance maintained. Such losses could have a material adverse effect on Generation's financial condition and results of operations.

Decommissioning. NRC regulations require that licensees of nuclear generating facilities demonstrate reasonable assurance that funds will be available in certain minimum amounts at the end of the life of the facility to decommission the facility. Based on estimates of decommissioning costs for each of the nuclear facilities in which Generation has an ownership interest, the ICC permits ComEd, and the PUC permits PECO to collect from its customers and deposit in nuclear decommissioning trust funds maintained by Generation amounts which, together with earnings thereon, will be used to decommission such nuclear facilities. As of December 31, 2002, Generation's estimate of its nuclear facilities' decommissioning cost is $7.4 billion in current year (2003) dollars. The liability for decommissioning each generation station is recognized ratably over that generating station's service life. At December 31, 2002, the decommissioning liability recorded in accumulated depreciation and deferred credits and other liabilities was $2.8 billion and $1.4 billion, respectively. Decommissioning expenditures are expected to occur primarily after the plants are retired and are currently estimated to begin in 2029 for plants currently in operation. Decommissioning costs are currently recoverable by ComEd and PECO through regulated rates and are remitted to Generation for deposit in the decommissioning trust funds. In 2002, ComEd and PECO remitted to Generation approximately $102 million in decommissioning collections. Generation believes that the amounts being remitted to it by ComEd and PECO and the earnings on nuclear decommissioning trust funds will be sufficient to fully fund Generation's decommissioning obligations. See The Critical Accounting Estimates and New Accounting Pronouncements section within ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Generation for a further discussion of Nuclear Decommissioning.

In connection with the transfer of ComEd's nuclear generating stations to Generation, ComEd asked the ICC to approve the continued recovery of decommissioning costs after the transfer. On December 20, 2000, the ICC issued an order finding that the ICC has the legal authority to permit ComEd to continue to recover decommissioning costs from customers for the six-year term of the PPAs between ComEd and Generation. Under the ICC order, ComEd is permitted to recover $73 million per year from customers for decommissioning for the years 2001 through 2004. In 2005 and 2006, ComEd can recover up to $73 million annually, depending upon the portion of the output of the former ComEd nuclear stations that ComEd purchases from Generation. Under the ICC order, subsequent to 2006, there will be no further recoveries of decommissioning costs from customers. The ICC order also provides that any surplus funds after the nuclear stations are decommissioned must be refunded to customers. The ICC order has been upheld on appeal in the Illinois Appellate Court and the Illinois Supreme Court has declined to review the Appellate Court's decision.

Nuclear decommissioning costs associated with the nuclear generating stations formerly owned by PECO continue to be recovered currently through rates charged by PECO to regulated customers. These amounts are remitted to Generation as allowed by the PUC. Under an agreement effective September 2001, PECO remits $29 million per year to Generation related to nuclear decommissioning cost recovery.

On December 31, 2002, PECO filed with the PUC for an annual increase in its decommissioning cost recovery of $20 million effective June 1, 2004. The filing is consistent with provisions in the 1998 settlement and the settlement agreement entered into by PECO in 2000 related to the PUC's approval of the Merger, which require PECO to update the cost of decommissioning every five years. The additional amount requested is expected to be reduced as it does not reflect pending life extensions at Peach Bottom. The approval of the life extensions is expected by mid-2003.

Zion, a two-unit nuclear generation station, and Dresden Unit 1 formerly owned by ComEd, have permanently ceased power generation. ComEd transferred Zion and Dresden Unit 1, as well as their related decommissioning liabilities and trust funds, to Generation as part of the 2001 corporate restructuring. Zion and Dresden Unit 1's SNF is currently being stored in on-site storage pools and dry cask storage, respectively, until a permanent repository under the NWPA is completed. Generation has

recorded a liability of $1.4 billion, which represents the estimated cost of decommissioning Zion and Dresden Unit 1 in current year dollars. Decommissioning expenditures are expected to occur primarily after 2013 and 2030 for Zion and Dresden Unit 1, respectively.

Fossil and Hydroelectric Facilities.

Fossil units include:

- *base-load units*—the coal-fired units at Eddystone and Cromby and Generation's interests in the Conemaugh Stations and Keystone;
- *intermediate units*—the Cromby, Eddystone, and Mystic units that have dual fuel (oil/gas) capability; Handley, Mountain Creek and New Boston are gas fueled stations, Wyman is an oil fueled station; and
- *peaking units*—oil- or gas-fired steam turbines, combustion turbines and internal combustion units at various locations.

Hydroelectric facilities include:

- *base-load units*—at the Conowingo run-of-river hydroelectric facility on the Susquehanna River in Harford County, Maryland; and
- *intermediate units*—at the Muddy Run pumped-storage hydroelectric facility in Lancaster County, Pennsylvania.

Generation operates all of its fossil and hydroelectric facilities other than La Porte, Keystone, Conemaugh and Wyman. In 2002, approximately 6% of Generation's electric output was generated from Generation's owned fossil and hydroelectric generation facilities. The majority of this output was dispatched to support Generation's power marketing activities.

Generation is in the process of improving the operating performance and efficiency of its units. Recent activities include the following:

- a new eight unit 350-MW gas facility was brought on-line in July 2002 in the Mid-West region,
- control system upgrades at the Conowingo and Muddy Run hydro facilities to improve plant efficiency, and
- completion of a major turbine overhaul at the Cromby coal unit and further turbine overhauls are being studied for economic feasibility.

The controls at all combustion turbine facilities have been upgraded to provide remote start capability for all units, enabling immediate response time to capture fluctuations in electric market prices.

Additionally, Generation anticipates the construction of the new generating facilities in the New England region (Mystic 8&9 and Fore River) will be completed in the 2nd quarter of 2003. They are state of the art combined gas turbine stations. The Fore River station has dual fuel (oil/gas) capability. The plants will increase capacity by 2,421 MWs.

Licenses. Fossil generation plants are generally not licensed and, therefore, the decision on when to retire plants is, fundamentally, an economic one. Hydroelectric plants are licensed by FERC. The Muddy Run and Conowingo facilities have licenses that expire in September 2014. Generation is considering applying to FERC for license extensions of 40 years for both plants, but the duration of any license extension will depend on then-current policies at FERC. The process of applying for an extension to an existing hydroelectric license generally takes at least eight years.

Insurance. Generation does not carry business interruption insurance for its fossil and hydroelectric operations other than its coverage for Sithe New England. Generation is self-insured to the extent that any losses may exceed the amount of insurance maintained. Such losses could have a material adverse effect on Generation's financial condition and results of operations.

Long-Term Contracts

In addition to owned generation assets, Generation sells electricity purchased under the long-term contracts described below:

Seller	Location	Expiration	Capacity (MW)
Midwest Generation, LLC	Various in Illinois	2004	4,879
Kincaid Generation, LLC	Kincaid, Illinois	2013	1,158
Tenaska Georgia Partners, LP	Franklin, Georgia	2030	925
Tenaska Frontier, Ltd	Shiro, Texas	2020	830
Others	Various	2004 to 2022	6,108
Total			13,900

Midwest Generation, LLC Contract. Generation is a party to contracts with Midwest Generation, LLC (Midwest Generation), a subsidiary of Edison Mission Energy. Under the contracts, Generation initially had the right to purchase through 2004 the capacity and energy associated with approximately 9,460 MW of fossil-fired generation stations located in Northern Illinois, formerly owned by ComEd. The generation units include base-load, intermediate and peaking units. Under the contracts, Generation pays a fixed capacity charge that varies by season and a fixed energy charge. The capacity charge is reduced to the extent the plants are unable to generate and deliver energy when requested. Under the contracts, Generation has annual rights to reduce the capacity and related energy purchase obligations, and some of these rights were recently exercised. On January 1, 2002, Generation released all of the 355 MW of oil-fixed peaking capacity that is covered by the contracts. On July 1, 2002, Generation elected to exercise its call option on 1,265 MWs of capacity for 2003. Generation has a total of 4,879 MWs of capacity under the Coal, Collins Generating Station (Collins) and Peaking Unit (Peaking) PPAs, of which Generation retains 1,918 MWs of option capacity under the Collins and Peaking PPAs as well as 1,265 MWs of option capacity under the Coal Generation PPA. Generation will decide whether to exercise its options in 2003, effective January 1, 2004, depending on the projected need for capacity and energy to fulfill obligations under the agreement with ComEd or otherwise, taking into account forward market conditions and other alternatives. On October 2, 2002, Generation notified Midwest Generation of its exercise of termination options under the existing Collins and Peaking Unit (Peaking) PPAs. Generation exercised its termination options on 1,727 MWs in 2003 and 2004. In 2003, Generation will take 1,778 MWs of option capacity under the Collins and Peaking Unit Agreements as well as 1,265 MWs of option capacity under the Coal Generation PPA.

Federal Power Act

The Federal Power Act gives FERC exclusive ratemaking jurisdiction over wholesale sales of electricity and the transmission of electricity in interstate commerce. Pursuant to the Federal Power Act, all public utilities subject to FERC's jurisdiction are required to file rate schedules with FERC with respect to wholesale sales or transmission of electricity. Tariffs established under FERC regulation give Generation access to transmission lines that enables it to participate in competitive wholesale markets.

Because Generation sells power in the wholesale markets, Generation is deemed to be a public utility for purposes of the Federal Power Act and is required to obtain FERC's acceptance of the rate schedules for wholesale sales of electricity. Generation has received authorization from FERC to sell

energy at market-based rates. As is customary with market-based rate schedules, FERC reserved the right to suspend market-based rate authority on a retroactive basis if it is subsequently determined that Generation or any of its affiliates exercised or have the ability to exercise market power. FERC is also authorized to order refunds if it finds that market-based rates are unreasonable.

In April 1996, FERC issued Order No. 888 (Order 888). The intent of Order 888 was to open the transmission grid subject to FERC's jurisdiction to all eligible customers, including sellers of power and retail customers, in states where retail access is approved. Order 888 requires that owners of transmission facilities provide access to their transmission facilities under filed tariffs at cost-based rates. In connection with Order 888, FERC issued Order No. 889 (Order 889). Under Order 889, PECO and ComEd were required to file Standards of Conduct, which governed the communication of non-public information between transmission personnel and employees of any affiliated wholesale merchant function. FERC recently issued a Notice of Proposed Rulemaking for the Standards of Conduct for Transmission Providers. Among other things, FERC is considering whether it would be appropriate for it to adopt measures that would limit the amount of capacity an affiliate can hold in a transmission provider. Generation's business would be impacted if any of these measures were instituted.

As described above under Energy Delivery—Transmission Services, in December 1999, FERC issued Order 2000, to encourage the voluntary formation of RTOs by December 2001 that would provide transmission service across multiple transmission systems. One of the intended benefits of establishing these entities is to eliminate or reduce transmission charges imposed by successive transmission systems when wholesale generators cross several transmission systems to deliver capacity. However, inconsistencies in the pace of RTO development and significant state public utility commission concerns caused FERC to indefinitely extend its operational target date of December 2001. PJM has been approved as an RTO, as has the Midwest ISO. However, ISOs operating in other regions where Generation owns facilities have not yet been fully approved as RTOs.

FERC has also proposed rulemakings to mandate a standard market design (SMD) for the wholesale markets. Order 2000 and the proposed SMD rule contemplate that the jurisdictional transmission owners in a region will turn over operating authority over their transmission facilities to an RTO or other independent entity for the purpose of providing open transmission access. As a result, the independent entity will become the provider of the transmission service and the transmission owners will recover their revenue requirements through the independent entity. The transmission owners will remain responsible for maintaining and physically operating their transmission facilities. The SMD rulemaking proposal would also require RTOs to operate an organized bid-based wholesale market for those who wish to sell their generation through the market and to implement a financially-based system for dealing with congestion on transmission lines known as "locational marginal pricing" (LMP). FERC has also issued proposals to encourage RTO development, independent control of the transmission grid and expansion of the transmission grid by providing enhanced returns on equity for transmission assets. FERC's SMD proposal has met with substantial opposition from a number of parties, including some state regulators and other governmental officials. As a result, FERC has delayed issuance of a final rule indefinitely while it seeks further comment.

FERC Order 2000 has not led to the rapid development of RTOs and FERC has not yet finalized its SMD proposal, due in part to the resistance noted above. Exelon supports both of these proposals but cannot predict whether they will be successful, what impact they may ultimately have on Exelon's transmission rates, revenues and operation of its transmission facilities, or whether they will ultimately lead to the development of large, successful regional wholesale markets. To the extent ComEd and PECO have POLR obligations, and may at some point no longer have long-term supply contracts with Generation for their load, the ability of ComEd and PECO to cost-effectively serve their POLR load obligation will depend on the development of such markets.

In late 2001, FERC initiated an effort to standardize generator interconnection policies and procedures. When FERC issues a final rule on this subject, it is expected that generators will benefit from not having to deal on a case-by-case basis with different and sometimes inconsistent requirements of different transmission providers.

Several other actions by FERC should be noted. First, FERC announced in late November 2001 a new market power test, the Supply Margin Assessment (SMA) screen. Under the SMA, if within a particular geographic market an energy company's generation capacity exceeds the market's surplus capacity above peak demand then the test is failed. Where this occurs, FERC will impose on the company and its affiliates a requirement to offer uncommitted capacity under a cost-based rate structure. The only exemption will be for companies operating under the authority of an ISO or RTO with a FERC-approved market monitoring and mitigation plan. Under this approach, it would be unlikely that a vertically integrated energy company serving franchised retail load would be able to pass the test and maintain market-based rates, unless and until the company was a member of an approved ISO or RTO. In December 2001, FERC essentially suspended the applicability of this test, holding that no company would be required to undertake any mitigation until after FERC had held a technical conference on the subject. This technical conference has not been scheduled.

Second, FERC continues to exhibit a commitment to increased market monitoring with an intent to ensure that high price volatility, such as was seen in California, does not occur again. As part of this commitment, FERC announced early in 2002 the formation of the Office of Market Oversight and Investigation, which will report directly to the FERC Chairman. This new office will assess, among other things, market performance. It is unclear how Generation's business may be impacted by these initiatives.

Currently, while a significant portion of Generation's capacity is located within the PJM RTO area, other significant generation is located within the Mid-American Interconnected Network (MAIN) reliability region, and is not yet in an approved ISO or RTO. When ComEd joins PJM, most of this capacity will be in an approved RTO. Generation also owns capacity located within the service territory of Illinois Power Company (IP). IP has entered into an agreement to sell its transmission system, and the proposed buyer has notified FERC that it intends to place that system under the control of Midwest Independent Transmission System Operator, Inc., which is also an approved RTO. In the meantime, however, it is possible that under its evolving market power tests, FERC might determine that Generation has market power in this area. If FERC were to suspend Generation's market-based rate authority, it would most likely be necessary to file, and obtain FERC acceptance of, cost-based rate schedules or schedules tied to a public index. In addition, the loss of market-based rate authority would subject Generation to the accounting, record-keeping and reporting requirements that are imposed on public utilities with cost-based rate schedules.

Fuel

The following table shows sources of electric supply in gigawatthours (GWhs) for 2002 and estimated for 2003:

	Source of Electric Supply	
	2002	**2003 (Est.)**
Nuclear units(1)	115,854	119,733
Purchases—non-trading portfolio(2)	78,710	61,271
Fossil and hydro units	12,976	11,326
Total Supply	207,540	192,330

(1) Excluding AmerGen.

(2) Including PPAs with AmerGen.

The fuel costs for nuclear generation are substantially less than fossil-fuel generation. Consequently, nuclear generation is the most cost-effective way for Generation to meet its commitment to supply the requirements of ComEd, PECO and certain requirements of Enterprise's competitive retail energy sales business, Exelon Energy Inc. (Exelon Energy), and for sales to other utilities.

The cycle of production and utilization of nuclear fuel includes the mining and milling of uranium ore into uranium concentrates, the conversion of uranium concentrates to uranium hexafluoride, the enrichment of the uranium hexafluoride and the fabrication of fuel assemblies. Generation has uranium concentrate inventory and supply contracts sufficient to meet all of its uranium concentrate requirements through 2004. Generation's contracted conversion services are sufficient to meet all of its uranium conversion requirements through 2005. All of Generation's enrichment requirements have been contracted through 2004. Contracts for fuel fabrication have been obtained through 2005. Generation does not anticipate difficulty in obtaining the necessary uranium concentrates or conversion, enrichment or fabrication services for its nuclear units.

Generation obtains approximately 25% of its uranium enrichment services from European suppliers. There is an ongoing trade action by USEC, Inc. (USEC) alleging dumping in the United States against European enrichment services suppliers. In January 2002, the U.S. International Trade Commission determined that USEC was "materially injured or threatened with material injury" by low-enriched uranium exported by European suppliers. The U.S. Department of Commerce (DOC) has assessed countervailing and anti-dumping duties against the European suppliers. Both USEC and the European suppliers have appealed these decisions. Generation is uncertain at this time as to the outcome of the pending appeals, however as a result of these actions Generation may incur higher costs for uranium enrichment services necessary for the production of nuclear fuel.

Fuel Management. Coal is obtained for coal-fired plants primarily through annual contracts with the remainder supplied through either short-term contracts or spot-market purchases.

Substantially all of the natural gas requirements for Generation's Mystic 8 and Mystic 9 units, currently under construction, will be supplied through a twenty-year natural gas contract that became effective on December 1, 2002 with Distrigas of Massachusetts, LLC (Distrigas). The Distrigas facilities consist of a LNG import terminal located adjacent to the Mystic station. Generation is anticipating an additional pipeline gas supply arrangement to supplement LNG supplies to be in service by early 2005.

Natural gas requirements for operating stations and other stations under construction will be procured through annual, monthly and spot-market purchases. Some fossil generation stations can use either oil or gas as fuel. Fuel oil inventories are managed such that in the winter months sufficient volumes of fuel are available in the event of extreme weather conditions and during the remaining months inventory levels are managed to take advantage of favorable market pricing. Generation uses financial instruments to mitigate price risk associated with multi-commodity price exposures. Generation also hedges forward price risk with both over-the-counter and exchange-traded instruments.

Power Team

Power Team uses Generation's energy generation portfolio, transmission rights and power marketing expertise to manage delivery of energy to wholesale customers, including Energy Delivery, under long-term and short-term contracts, participates in the wholesale energy market to hedge open energy (power and fossil fuels) positions, manages commodity and counterparty credit risks through the use of documented risk and credit policies, and uses its energy market expertise to engage in trading activities for speculative purposes on a limited basis.

Generation has agreements with ComEd and PECO to supply their respective load requirements for customers through 2004 and 2010, respectively. During 2005 and 2006, ComEd's PPA is a partial

requirements agreement under which ComEd will purchase all of its required energy and capacity from Generation, up to the available capacity of the nuclear generating plants formerly owned by ComEd and transferred to Generation. See Item 8. Financial Statements and Supplementary Data—ComEd and PECO Note 2 of the Notes to Consolidated Financial Statements. Generation has also contracted with Exelon Energy, a division of Enterprises, to meet certain supply commitments pursuant to its competitive retail generation sales agreements. Under the agreements with ComEd and PECO, Generation will supply all of ComEd and PECO's needs to supply customers who do not select an alternative electric generation supplier through the end of the respective transition periods. Therefore, the supply requirements under the agreements will vary depending on how much of the load has selected an alternative supplier.

Power Team has experience in energy markets, generation dispatch and the requirements for the physical delivery of power. Power Team may buy power to meet the energy demand of its customers, including Energy Delivery. These purchases may be made for more than the energy demanded by Power Team's customers. Power Team then sells this open position, along with capacity not used to meet customer demand, in the wholesale energy market. Generation's wholesale operations include the physical delivery and marketing of power obtained through its generation capacity, and long, intermediate and short-term contracts. Generation seeks to maintain a net positive supply of energy and capacity, through ownership of generation assets and power purchase and lease agreements, to protect it from the potential operational failure of one of its owned or contracted power generating units. Generation has also contracted for access to additional generation through bilateral long-term PPAs. These agreements are commitments related to power generation of specific generation plants and/or are dispatchable in nature similar to asset ownership. Generation enters into PPAs with the objective of obtaining low-cost energy supply sources to meet its physical delivery obligations to customers. Excess power is sold in the wholesale market. Generation has also purchased transmission service to ensure that it has reliable transmission capacity to physically move its power supplies to meet customer delivery needs. The intent and business objective for the use of its capital assets and contracts is to provide Generation with physical power supply to enable it to deliver energy to meet customer needs.

Power Team also manages the price and supply risks for energy and fuel associated with generation assets and the risks of power marketing activities. The maximum length of time over which cash flows related to energy commodities are currently being hedged is 4 years. Generation's hedge ratio in 2003 for its energy marketing portfolio is approximately 90%. This hedge ratio represents the percentage of forecasted aggregate annual generation supply that is committed to firm sales, including sales to Energy Delivery's retail load. The hedge ratio is not fixed and will vary from time to time depending upon market conditions, demand and volatility. During peak periods, the amount hedged declines to assure Generation's commitment to meet Energy Delivery's demand, for which the peak demand is during the summer. For the portion of generation supply that is unhedged, fluctuations in market price of energy will cause volatility in Generation's results of operations.

Through Power Team, Generation began to use financial and commodity contracts for proprietary trading purposes in the second quarter of 2001 but this activity accounts for a small portion of Power Team's efforts. In 2002, proprietary trading activities resulted in an $18 million after-tax reduction in Generation's earnings. Power Team intends to continue proprietary trading activities but in a more limited capacity given the current lack of liquidity of power markets and reduced number of creditworthy counterparties. The trading portfolio is subject to stringent risk management limits and policies including volume, stop-loss and value-at-risk limits to manage exposure to market risk. Additionally, Generation has a financial risk management policy and a corporate risk group to monitor the financial risks of its power marketing activities. Proprietary trading of derivatives, together with the effects of Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards

(SFAS) No. 133, "Accounting for Derivatives and Hedging Activities" (SFAS No. 133), may cause volatility in Generation's future results of operations.

The recent failures of energy companies and their related energy trading practices over the last year have diminished the size and depth of the wholesale energy market. Generation cannot predict how this will affect its trading operations in the future.

At December 31, 2002, Generation had long-term commitments, relating to the purchase and sale of energy, capacity and transmission rights from and to unaffiliated utilities and others, including the Midwest Generation and AmerGen contracts, as expressed in the following tables:

			Power Only Purchases from		
	Net Capacity Purchases(1)	Power Only Sales	AmerGen	Non-Affiliates	Transmission Rights Purchases(2)
2003	$ 589	$ 2,442	$ 280	$ 1,722	$ 86
2004	639	1,088	292	768	93
2005	356	272	472	283	84
2006	328	92	472	239	3
2007	408	22	179	227	—
Thereafter	3,742	1	2,638	829	—
Total	$ 6,062	$ 3,917	$ 4,333	$ 4,068	$ 266

(1) On October 2, 2002, Generation notified Midwest Generation of its exercise of termination options under the existing Collins and Peaking PPA. Generation exercised its termination options on 1,727 MWs in 2003 and 2004. In 2003, Generation will take 1,778 MWs of option capacity under the Collins and Peaking Unit Agreements as well as 1,265 MWs of option capacity under the Coal Generation PPA. Net capacity purchases in 2004 include 3,474 MWs of optional capacity from Midwest Generation. Net Capacity Purchases also include capacity sales to TXU under the PPA entered into in connection with the purchase of two generating plants in April 2002, which states that TXU will purchase the plant output from May through September from 2002 through 2006. During the periods covered by the PPA, TXU will make fixed capacity payments and will provide fuel to Generation in return for exclusive rights to the energy and capacity of the generation plants. The combined capacity of the two plants is 2,334 MWs.

(2) Transmission Rights Purchases include estimated commitments in 2004 and 2005 for additional transmission rights that will be required to fulfill firm sales contracts.

Additionally, Generation has the following commitments:

In connection with the 2001 corporate restructuring, Generation entered into a PPA with ComEd under which Generation has agreed to supply all of ComEd's load requirements through 2004. Prices for this energy vary depending upon the time of day and month of delivery. During 2005 and 2006, ComEd's PPA is a partial requirements agreement under which ComEd will purchase all of its required energy and capacity from Generation, up to the available capacity of the nuclear generating plants formerly owned by ComEd and transferred to Generation. Under the terms of the PPA, Generation is responsible for obtaining any required transmission service, subject to ComEd's obligation to obtain network service over the ComEd system. The PPA also specifies that prior to 2005, ComEd and Generation will jointly determine and agree on a market-based price for energy delivered under the PPA for 2005 and 2006. In the event that the parties cannot agree to market-based prices for 2005 and 2006 prior to July 1, 2004, ComEd has the option of terminating the PPA effective December 31, 2004. ComEd will obtain any additional supply required from market sources in 2005 and 2006, and subsequent to 2006, will obtain all of its supply from market sources, which could include Generation.

In connection with the 2001 corporate restructuring, Generation entered into a PPA with PECO under which Generation has agreed to supply PECO with substantially all of its electric supply through 2010. Also, under the restructuring, PECO assigned its rights and obligations under various PPAs and fuel supply agreements to Generation. Generation supplies power to PECO from the transferred generation assets, assigned PPAs and other market sources.

Capital Expenditures

Generation's business is capital intensive and requires significant investments in energy generation and in other internal infrastructure projects. As part of Generation's recent acquisition of the assets of Sithe New England, Generation is in the process of completing the construction of three high-efficiency generating facilities with projected capacity of 2,421 MWs of energy. Generation's estimated capital expenditures for 2003 are as follows:

	(in millions)
Production Plant	$ 566
Nuclear Fuel	397
Total	$ 963

The majority of Generation's estimated capital expenditures for 2003 are for nuclear fuel and additions to or upgrades of existing facilities.

Sithe

Generation is a 49.9% owner of Sithe and accounts for the investment as an unconsolidated equity investment. Sithe presently owns 19 generating stations in North America, with approximately 1,321 MWs of net generating capacity and 230 MWs under construction.

In connection with its initial investment in Sithe, Generation is subject to a Put and Call Agreement (PCA) that gives Generation the right to purchase (Call) the remaining 50.1% of Sithe, and gives the other Sithe shareholders the right to sell (Put) their interest to Generation. At the time of the purchase of Sithe in 2000, the other remaining interests in Sithe were held by Vivendi (34.2%), Marubeni (14.9%) and Sithe management (1%). If the Put option is exercised, Generation has the obligation to complete the purchase.

The PCA originally provided that the Put and Call options became exercisable as of December 18, 2002 and expired in December 2005. However, upon Apollo Energy, LLC's (Apollo) purchase of Vivendi's and Sithe management's ownership shares, Apollo agreed to delay the effective date of its Put right until June 1, 2003 and, if certain conditions are met, until September 1, 2003. There are also certain events that could trigger Apollo's Put right becoming effective prior to June 1, 2003 including Exelon being downgraded below investment grade by Standard and Poor's Rating Group or Moody's Investors Service, Inc., a stock purchase agreement between Generation and Apollo being executed and subsequently terminated, or the occurrence of any event of default, other than a change of control, under certain Generation or Apollo credit agreements. Depending on the triggering event, Apollo's put price of approximately $460 million, growing at a market rate of interest, needs to be funded within 18 or 30 days of the Put being exercised. There have been no changes to the Put and Call terms with respect to Marubeni's remaining interest.

The delay in the effective date of Apollo's Put right allows Generation to explore a further restructuring of its investment in Sithe. Generation is continuing discussions with Apollo and Marubeni regarding restructuring alternatives that are designed in part to resolve its ownership limitations of Sithe's qualifying facilities. In addition, Generation is exploring the sale of its interest in Sithe. In the event of a sale, Generation may recognize a one-time loss. Generation would hope to implement any

additional restructuring or a sale of its Sithe investment in 2003. If Generation is unsuccessful in restructuring the Sithe transaction or selling its interest and, as a result, purchases the remaining 50.1% of Sithe under the PCA, Generation will proceed to implement measures to address the ownership of the qualified facilities as well as divest non-strategic assets, for which the outcome is uncertain.

If Generation exercises its option to acquire the remaining outstanding common stock in Sithe, or if all the other stockholders exercise their Put Rights, the purchase price for Apollo's 35.2% interest will be approximately $460 million, growing at a market rate of interest. The additional 14.9% interest will be valued at fair market value subject to a floor of $141 million and a ceiling of $290 million.

If Generation increases its ownership in Sithe to 50.1% or more, Sithe may become a consolidated subsidiary and Generation's financial results may include Sithe's financial results from the date of purchase. At December 31, 2002, Sithe had total assets of $2.6 billion and total debt of $1.3 billion. This $1.3 billion includes $624 million of subsidiary debt incurred primarily to finance the construction of six generating facilities, $461 million of subordinated debt, $103 million of line of credit borrowings, $43 million of the current portion of long-term debt and capital leases, $30 million of capital leases, and excludes $453 million of non-recourse project debt associated with Sithe's equity investments. For the year ended December 31, 2002, Sithe had revenues of $1.0 billion. As of December 31, 2002, Generation had a $478 million equity investment in Sithe.

In December 2001, Sithe entered into an 18-month corporate credit facility for $500 million expiring in June 2003. As of November 1, 2002, the credit facility was reduced to $350 million. As of December 31, 2002, Sithe had drawn approximately $103 million under this facility and extended approximately $139 million in letters of credit. Through internally generated cash flows and the corporate credit facility, Sithe has sufficient liquidity to cover all 2003 operating and capital commitments.

AmerGen

AmerGen was formed in 1997 by PECO and British Energy, to acquire and operate nuclear generation facilities in North America. Currently, AmerGen owns three single-unit nuclear generation facilities, which are described in the table below. AmerGen's nuclear facilities are subject to the provisions and maximum assessment and recovery limits of the Price—Anderson Act and NEIL similar to Generation's, as previously discussed within ITEM 1. Business—Generation, however the American Nuclear Insurers Master Worker Program is not applicable to AmerGen as AmerGen purchased its nuclear reactors after 1998.

The capacity factors for the AmerGen plants for 2002 and 2001 were 93.4% and 88.5%, respectively. AmerGen operates these nuclear facilities; however, Generation provides AmerGen with many services, including management services, in connection with the operation and support of these facilities under a Services Agreement dated March 1, 1999. In addition, Generation's chief nuclear

officer holds the same position at AmerGen. As part of the 2001 corporate restructuring, PECO transferred its 50% interest in AmerGen to Generation.

Station	Year Acquired	Location	License Expiration Date(1)	Net Generation Capacity (MW)
Clinton Nuclear Power Station	1999	Clinton, IL	2026	1,015
Unit 1 of Three Mile Island Nuclear Station	1999	Londonderry Twp., PA	2014	837
Oyster Creek Generating Station	2000	Forked River, NJ	2009	629

Total	2,481

(1) AmerGen is reviewing the potential for license renewals for the Oyster Creek Generating Station (Oyster Creek) and Unit 1 of Three Mile Island Nuclear Station (TMI).

As part of each acquisition of its nuclear facilities, AmerGen entered into a power sales agreement with the seller. The agreement with Illinois Power for Clinton Nuclear Power Station (Clinton) is for 75% of the output for a term expiring at the end of 2004. Generation purchases the residual energy from Clinton through December 31, 2003. The agreement with GPU, Inc. for TMI and Oyster Creek are for all of the output. The agreement for the output of Oyster Creek expires on March 31, 2003. The original agreement for the output of TMI expired in 2001. Generation has agreed to purchase from AmerGen all the energy from TMI after December 31, 2001 through December 31, 2014. AmerGen maintains a decommissioning trust fund for each of its plants in accordance with NRC regulations and believes that amounts in these trust funds, together with investment earnings thereon, and additional contributions for Clinton from Illinois Power will be sufficient to meet its decommissioning obligations.

Under its LLC Agreement, AmerGen is managed by or at the direction of a management committee, which consists of six voting representatives, three of whom are appointed by British Energy and three by Generation. In addition, Generation appoints the chairman of the management committee. Action by the management committee generally requires the affirmative vote of a majority of members.

Generation may transfer its interest in AmerGen, as may British Energy, subject to a right of first refusal of the other party and to the right of the other party to require a third party buying the interest to also purchase the other party's interest and to the right of the non-selling member to veto the proposed transfer. In September 2002, both Generation and British Energy announced that they were considering the possibility of selling their interests in AmerGen. On March 7, 2003, Exelon and British Energy announced that they agreed to reject all offers for the purchase of AmerGen. With the termination of the sale process, Generation announced that it no longer intends to sell its interest in AmerGen.

In 2002, Generation entered into an agreement to loan AmerGen up to $100 million at an interest rate of 1-month London Interbank Offering Rate plus 2.25%. As of December 31, 2002, the outstanding principal balance of the loan was $35 million. The loan is due July 1, 2003.

Although Exelon does not anticipate that AmerGen will make any acquisitions in 2003, Exelon has committed to provide AmerGen with capital contributions equivalent to 50% of the purchase price of any acquisitions AmerGen makes in 2003.

On December 11, 2002, AmerGen received a notice of violation from the New Jersey Department of Environmental Protection for a substantial fish kill, which occurred on September 23, 2002 at Oyster Creek, resulting from the shutdown of dilution pumps during maintenance. The New Jersey

Department of Environmental Protection has assessed civil penalties and claims for natural damage to the state totaling $373,000 relating to the incident. In addition to the notice of violation, the Attorney General of the State of New Jersey has commenced a criminal investigation into the circumstances surrounding the fish kill. AmerGen is cooperating fully with the Attorney General in its investigation and is working to settle the civil penalty and damage claims in conjunction with the investigation.

Enterprises

Enterprises consists primarily of the infrastructure services business of InfraSource, Inc. (InfraSource), the energy services business of Exelon Services, Inc., the competitive retail energy sales business of Exelon Energy Company, the district cooling business of Exelon Thermal Holdings, Inc., communications joint ventures and other investments weighted towards the communications, energy services and retail services industries.

The results of InfraSource's infrastructure services business and Exelon Services' energy services business are dependent on demand for construction and maintenance services. That demand has been driven in the past by the restructuring of the electric utility industry and growth of the communications, cable and internet industries. Slowdown in that restructuring and the current condition of the communications, cable and internet industries means that results will be driven by efforts to manage costs and achieve synergies.

InfraSource, formerly Exelon Infrastructure Services, Inc., provides infrastructure services, including infrastructure construction, operation management and maintenance services to owners of electric, gas, cable and communications systems, including industrial and commercial customers, utilities and municipalities, throughout the United States. Since it was established in 1997, InfraSource has acquired thirteen infrastructure service companies. In 2002, InfraSource had revenues of approximately $900 million and employed approximately 4,900 at the end of 2002.

Exelon Services is engaged in the design, installation and servicing of heating, ventilation and air conditioning facilities for commercial and industrial customers throughout the Midwest. Exelon Services also provides energy-related services, including performance contracting and energy management systems.

Exelon Energy provides retail electric and gas services as an unregulated retail energy supplier in Illinois, Massachusetts, Michigan, New Jersey, Ohio, Pennsylvania and other areas in the Midwest and Northeast United States. Its retail energy sales business is dependent upon continued deregulation of retail electric and gas markets and its ability to obtain supplies of electricity and gas at competitive prices in the wholesale market. The low margin nature of the business makes it important to achieve concentrations of customers with higher volumes so as to manage costs.

Exelon Thermal provides district cooling and related services to offices and other buildings in the central business district of Chicago and in several other cities in North America. District cooling involves the production of chilled water at one or more central locations and its circulation to customers' buildings, primarily for air conditioning.

Exelon Communications is the unit of Enterprises through which Exelon manages its communications investments. Exelon Communications' principal investment is PECOAdelphia Communications (PECOAdelphia). PECOAdelphia is a competitive local exchange carrier, providing local and long-distance, point-to-point voice and data communications, internet access and enhanced data services for businesses and institutions in eastern Pennsylvania. PECOAdelphia is a 50% owned joint venture with Adelphia Business Solutions. PECOAdelphia utilizes a large-scale, fiber-optic cable-based network that currently extends over 1,100 miles and is connected to major long-distance carriers and local businesses.

On April 1, 2002, Enterprises sold its 49% interest in AT&T Wireless PCS of Philadelphia, LLC to a subsidiary of AT&T Wireless Services for $285 million in cash.

Exelon Capital Partners was created in 1999 as a vehicle for direct venture capital investing in the areas of unregulated energy sales, energy services, utility infrastructure services, e-commerce and communications. At December 31, 2002, Exelon Capital Partners had direct investments in thirteen companies and investments in four venture capital funds.

Enterprises is focused on operating its businesses and investments with the goal of maximizing its earnings and cash flow. Enterprises is not currently contemplating any acquisitions. Enterprises expects to divest itself of businesses that are not consistent with Exelon's strategic direction. This does not necessarily mean that an immediate exit will be arranged, but rather businesses may be retained for a period of time if that course of action will strengthen their value.

Employees

As of December 31, 2002, Exelon and its subsidiaries had approximately 25,200 employees, in the following companies:

ComEd	7,000
PECO	2,700
Generation	7,200
Enterprises	7,500
BSC	800
Total	25,200

Approximately 6,200 employees, including 4,400 employees of ComEd, 1,700 employees of Generation and 60 employees of BSC are covered by Collective Bargaining Agreements (CBA) with Local 15 of the International Brotherhood of Electrical Workers (IBEW Local 15). The CBA for Generation expires in September 30, 2005. The CBA for ComEd and BSC expires in September 30, 2006. The CBAs provide for a voluntary severance plan.

In addition to IBEW Local 15, approximately 200 Generation employees are represented by the Utility Workers Union of America. Approximately 5,000 Enterprises employees are represented by unions, including approximately 2,500 employees who are represented by various local unions of the International Brotherhood of Electrical Workers. The remaining union employees are members of a number of different local unions, including laborers, welders, operators, plumbers and machinists.

PECO employees are not currently covered by a CBA. Over the past several years, a number of unions have filed petitions with the National Labor Relations Board to hold certification elections with regard to different segments of employees within PECO. In all cases, PECO employees have rejected union representation. On August 15, 2002, the International Brotherhood of Electrical Workers filed a petition to conduct a unionization vote of certain of PECO's employees. It is expected that this election will occur in the second quarter of 2003. Exelon expects that such petitions, related to segments of employees at PECO, Generation and Enterprises, will continue to be filed in the future.

Environmental Regulation

General

Specific operations of Exelon, primarily those of ComEd, PECO, and Generation, are subject to regulation regarding environmental matters by the United States and by various states and local jurisdictions where Exelon operates its facilities. The Illinois Pollution Control Board (IPCB) has jurisdiction over environmental control in the State of Illinois, together with the Illinois Environmental

Protection Agency, which enforces regulations of the IPCB and issues permits in connection with environmental control. The Pennsylvania Department of Environmental Protection (PDEP) has jurisdiction over environmental control in the Commonwealth of Pennsylvania. The Texas Commission on Environmental Quality has jurisdiction in Texas and Massachusetts Department of Environmental Protection has jurisdiction in Massachusetts. State regulation includes the authority to regulate air, water and noise emissions and solid waste disposals. The United States Environmental Protection Agency (EPA) administers certain Federal statutes relating to such matters, as do various interstate and local agencies.

Water

Under the Federal Clean Water Act, National Pollutant Discharge Elimination System (NPDES) permits for discharges into waterways are required to be obtained from the EPA or from the state environmental agency to which the permit program has been delegated. Those permits must be renewed periodically. Generation either has NPDES permits for all of its generating stations or has pending applications for such permits. Generation is also subject to the jurisdiction of certain other state and interstate agencies, including the Delaware River Basin Commission and the Susquehanna River Basin Commission.

Solid and Hazardous Waste

The Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended (CERCLA), provides for immediate response and removal actions coordinated by the EPA in the event of threatened releases of hazardous substances into the environment and authorizes the U.S. Government either to clean up sites at which hazardous substances have created actual or potential environmental hazards or to order persons responsible for the situation to do so. Under CERCLA, generators and transporters of hazardous substances, as well as past and present owners and operators of hazardous waste sites, are strictly, jointly and severally liable for the cleanup costs of waste at sites, most of which are listed by the EPA on the National Priorities List (NPL). These potentially responsible parties (PRPs) can be ordered to perform a cleanup, can be sued for costs associated with an EPA-directed cleanup, may voluntarily settle with the U.S. Government concerning their liability for cleanup costs, or may voluntarily begin a site investigation and site remediation under state oversight prior to listing on the NPL. Various states, including Illinois and Pennsylvania, have enacted statutes that contain provisions substantially similar to CERCLA. In addition, the Resource Conservation and Recovery Act (RCRA) governs treatment, storage and disposal of solid and hazardous wastes and cleanup of sites where such activities were conducted.

ComEd, PECO and Generation and their subsidiaries are or are likely to become parties to proceedings initiated by the EPA, state agencies and/or other responsible parties under CERCLA and RCRA with respect to a number of sites, including manufactured gas plant (MGP) sites, or may undertake to investigate and remediate sites for which they may be subject to enforcement actions by an agency or third party.

By notice issued in November 1986, the EPA notified over 800 entities, including ComEd and PECO, that they may be PRPs under CERCLA with respect to releases of radioactive and/or toxic substances from the Maxey Flats disposal site, a LLRW disposal site near Moorehead, Kentucky, where ComEd and PECO wastes were deposited. A settlement was reached among the Federal and private PRPs, including ComEd and PECO, the Commonwealth of Kentucky and the EPA concerning their respective roles and responsibilities in conducting remedial activities at the site. Under the settlement, the private PRPs agreed to perform the initial remedial work at the site and the Commonwealth of Kentucky agreed to assume responsibility for long-range maintenance and final remediation of the site. On April 18, 1996, a consent decree, which included the terms of the settlement, was entered by the United States District Court for the Eastern District of Kentucky. The PRPs have entered into a

contract for the design and implementation of the remedial plan. The work has commenced and is expected to be completed in 2003. Exelon estimates that it will be responsible for approximately $800,000 of the remediation costs to be incurred by the PRPs in implementing the remedial activities specified in the consent decree. As a result of the 2001 corporate restructuring, ComEd's and PECO's liability and obligations arising from the Maxey Flats site have been transferred to Generation.

By notice issued in December 1987, the EPA notified several entities, including PECO, that they may be PRPs under CERCLA with respect to wastes resulting from the treatment and disposal of transformers and miscellaneous electrical equipment at a site located in Philadelphia, Pennsylvania (the Metal Bank of America site). Several of the PRPs, including PECO, formed a steering committee to investigate the nature and extent of possible involvement in this matter. On May 29, 1991, a Consent Order was issued by the EPA pursuant to which the members of the steering committee agreed to perform the remedial investigation and feasibility study as described in the work plan issued with the Consent Order. PECO's share of the cost of study was approximately 30%. On July 19, 1995, the EPA issued a proposed plan for remediation of the site, which involves removal of contaminated soil, sediment and groundwater and which the EPA estimated would cost approximately $17 million to implement. On June 26, 1998, the EPA issued an order to the non-de minimis PRP group members, and others, including the owner, to implement the remedial design (RD) and remedial action (RA) (Order).

The PRP group has conducted the RD and submitted to the EPA the revised final design (Final Design) on January 15, 2003. During the design process the PRP group proposed certain revisions to the EPA's preferred remedy, in response to which the EPA has issued two Explanations of Significant Differences (ESD) that are expected to reduce the costs of the preferred remedy. The Final Design estimates the cost to implement the RA to range from $12 million to $15 million. At this time, Exelon cannot predict with reasonable certainty the actual cost of the final remedy, who will implement the remedy, or the cost, if any, to the PRPs or any of its members, including Exelon. The ultimate cost to the PRPs and to Exelon will also depend upon the share of costs that is allocated to the owners and operators of the Metal Bank of America site in litigation that currently is pending in the United States District Court for the Eastern District of Pennsylvania.

MGP Sites

MGPs manufactured gas in Illinois and Pennsylvania from approximately 1850 to 1950. ComEd generally did not operate MGPs as a corporate entity but did, however, acquire MGP sites as part of the absorption of smaller utilities. Approximately half of these sites were transferred to Nicor Gas as part of a general conveyance in 1954. ComEd also acquired former MGP sites as vacant real estate on which ComEd facilities have been constructed. To date, ComEd has identified 43 former MGP sites for which it may be liable for remediation. Similarly, PECO has identified 28 sites where former MGP activities may have resulted in site contamination. With respect to these sites, ComEd and PECO are presently engaged in performing various levels of activities, including initial evaluation to determine the existence and nature of the contamination, detailed evaluation to determine the extent of the contamination and the necessity and possible methods of remediation, and implementation of remediation. ComEd and PECO are working closely with regulatory authorities in the various locations to develop and implement appropriate plans and schedules for evaluation, risk ranking, detailed study and remediation activities on an individual site and overall program basis. The status of each of the sites in the program varies and is reviewed periodically with the regulatory authorities. At December 31, 2002, ComEd and PECO had accrued $97 million and $28 million, respectively, for investigation and remediation of these MGP sites that currently can be reasonably estimated. ComEd's reserve was increased by $17 million in the third quarter 2002 as the result of a delay in implementing the ongoing remediation for a MGP site in Oak Park, Illinois. ComEd and PECO believe that they could incur additional liabilities with respect to MGP sites, which cannot be reasonably estimated at

this time. ComEd and PECO have sued a number of insurance carriers seeking indemnity/coverage for remediation costs associated with these former MGP sites.

Air

Air quality regulations promulgated by the EPA and the various State Environmental Agencies in Pennsylvania, Massachusetts, Illinois and Texas in accordance with the Federal Clean Air Act and the Clean Air Act Amendments of 1990 (Amendments) impose restrictions on emission of particulates, sulfur dioxide (SO_2), nitrogen oxides (NO_x) and other pollutants and require permits for operation of emission sources. Such permits have been obtained by Exelon's subsidiaries and must be renewed periodically.

The Amendments establish a comprehensive and complex national program to substantially reduce air pollution. The Amendments include a two-phase program to reduce acid rain effects by significantly reducing emissions of SO_2 and NO_x from electric power plants. Flue-gas desulfurization systems (scrubbers) have been installed at all of Generation's coal-fired units other than the Keystone Station. Keystone is subject to, and in compliance with, the Phase II SO_2 and NO_x limits of the Amendments, which became effective January 1, 2000. Generation and the other Keystone co-owners are purchasing SO_2 emission allowances to comply with the Phase II limits.

Generation has completed implementation of measures, including the installation of NO_x emissions controls and the imposition of certain operational constraints, to comply with the Reasonably Available Control Technology limitations and the NO_x Budget Program in the Ozone Transport Region (affecting facilities in Pennsylvania and Massachusetts).

The EPA has issued two regulations to limit NO_x emissions from power plants in the eastern United States to address the "ozone transport" issue. The first regulation was issued on September 24, 1998. The original NO_xregulation covered power plants in the 22 eastern states and had an effective date of May 1, 2003. As a result of litigation at the D.C. Circuit Court of Appeals, the original NO_x regulation was revised to cover 19 eastern states (rather than the original 22) and the effective date was delayed by approximately one year to May 31, 2004. In most other respects, the court substantively upheld the original NO_x regulation. Massachusetts, Illinois and Pennsylvania power plants are covered by the original NO_xregulation. The second EPA regulation, referred to as the "Section 126 Petition Regulation," was issued on May 25, 1999. This regulation was issued by the EPA in response to downwind state (Connecticut, Maine, Massachusetts, New Hampshire, New York, Pennsylvania, Rhode Island, Vermont) complaints under Section 126 of the Clean Air Act that upwind state NO_x emissions were negatively impacting downwind states' ability to attain the Federal ozone standard. The Section 126 Petition Regulation requires substantively the same NO_x reduction requirement for the power generation sector as the original NO_x regulation. However, the Section 126 Petition Regulation covers a more limited number of states (Delaware, Indiana, Kentucky, Maryland, Michigan, North Carolina, New Jersey, New York, Ohio, Virginia and West Virginia). It does not cover power plants in Illinois. The compliance date of the Section 126 Petition Regulation, originally set for May 1, 2003, was tolled by the D.C. Circuit Court of Appeals pending resolution of several issues. Despite this delay, the northeast states covered by the Section 126 Petition Regulation are still expected to comply with the original May 1, 2003 compliance date. On September 23, 2000, Pennsylvania issued final state NO_xreduction regulations for power plants that satisfy both the original NO_x regulation and the Section 126 Petition Regulation. Regulations are also in place in Massachusetts and Illinois. The Pennsylvania and Massachusetts regulations are effective on May 1, 2003. Exelon has evaluated options for compliance and is installing controls on the two coal units at Eddystone Generating Station (Selective Non-Catalytic Reduction) and the two coal units (Selective Catalytic Reduction) at Keystone Generating Station. In Massachusetts, an Air Quality Improvement Plan is in place for the Mystic Generating Station for compliance with the Massachusetts's multi-pollutant regulations. The plan includes restrictions to residual fuel oil consumption on units 4, 5 and 6; management of low sulfur fuels on unit 7, and dry low NO_x combustors, Selective Catalytic Reduction and CO Oxidation Catalyst on the new gas-fired units 8 and 9 that will achieve commercial operation in 2003. The Exelon NO_x

compliance program will be supplemented with the purchase of additional NO_x allowances on an as-needed basis. The eight new peaking units commissioned during 2002 at the SE Chicago Generating Station are equipped with NO_x controls that meet requirements for new sources. The Exelon generating stations in the Dallas/Fort Worth (DFW) area are required to comply with the DFW NO_x State Implementation Plan (SIP) that commences on May 1, 2003, with full implementation on May 1, 2005. Additionally, beginning May 1, 2003 these plants must comply with the Emission Banking and Trading of Allowances (EBTA) program established by the enactment of Senate Bill 7 during the 76th Texas Legislative session for the purpose of achieving substantial reductions in NO_x from grandfathered Electric Generating Facilities (EGFs). To comply with both the DFW NO_x SIP and EBTA program, Exelon has embarked on a plan to install NO_x control equipment on several of the units at the Handley and Mountain Creek generating stations

Many other provisions of the Amendments affect activities of Exelon's business, primarily Generation. The Amendments establish stringent control measures for geographical regions which have been determined by the EPA to not meet National Ambient Air Quality Standards; establish limits on the purchase and operation of motor vehicles and require increased use of alternative fuels; establish stringent controls on emissions of toxic air pollutants and provide for possible future designation of some utility emissions as toxic; establish new permit and monitoring requirements for sources of air emissions; and provide for significantly increased enforcement power, and civil and criminal penalties.

Several other legislative and regulatory proposals regarding the control of emissions of air pollutants from a variety of sources, including utility units, are under active consideration. Exelon is unable at this time to ascertain which proposals may take effect, what requirements they may contain, or how they may affect Exelon's business. At this time, Exelon can provide no assurance that these proposals if adopted will not have a significant effect on Exelon's operations and costs.

Costs

At December 31, 2002, ComEd, PECO and Generation accrued $101 million, $40 million and $15 million, respectively, for various environmental investigation and remediation. These costs include approximately $97 million at ComEd and $28 million at PECO for former MGP sites as described above. ComEd and PECO cannot currently predict whether they will incur other significant liabilities for additional investigation and remediation costs at sites presently identified or additional sites which may be identified by ComEd and PECO, environmental agencies or others or whether all such costs will be recoverable through rates or from third parties.

The budgets for expenditures in 2003 at ComEd, PECO and Generation for compliance with environmental requirements total approximately $47 million, $5 million and $2 million, respectively. In addition, ComEd, PECO and Generation may be required to make significant additional expenditures not presently determinable.

Other Subsidiaries of ComEd and PECO with Publicly Held Securities

ComEd Transitional Funding Trust (ComEd Funding Trust), a Delaware business trust, was formed on October 28, 1998, pursuant to a trust agreement among First Union Trust Company, National Association, now Wachovia Bank, National Association, as Delaware trustee, and two individual trustees appointed by ComEd. ComEd Funding Trust was created for the sole purpose of issuing transitional funding notes to securitize intangible transition property granted to ComEd Funding LLC, a ComEd affiliate, by an ICC order issued July 21, 1998. On December 16, 1998, ComEd Funding Trust issued $3.4 billion of transitional funding notes, the proceeds of which were used to purchase the intangible transition property held by ComEd Funding LLC. ComEd Funding LLC transferred the proceeds to ComEd where they were used, among other things, to repurchase outstanding debt and equity securities of ComEd. The transitional funding notes are solely obligations of ComEd Funding Trust and are secured by the intangible transition property, which represents the right to receive instrument funding charges collected from ComEd's customers. The instrument funding charges represent a nonbypassable, usage-based, per kWh charge on designated consumers of electricity.

ComEd Financing I, a Delaware business trust, was formed by ComEd on July 21, 1995. ComEd Financing I was created solely for the purpose of issuing $200 million of trust preferred securities. The trust preferred securities issued on September 26, 1995, carry an annual distribution rate of 8.48% and are mandatorily redeemable on September 30, 2035. The sole assets of ComEd Financing I are $206.2 million principal amount of 8.48% subordinated deferrable interest notes due September 30, 2035, issued by ComEd. On February 14, 2003, ComEd called $200 million of its trust preferred securities at a redemption price of 100% of the principal amount, plus accrued interest to the March 20, 2003 redemption date. The preferred securities were refinanced with trust preferred securities (see ComEd Financing III below).

Similarly, ComEd Financing II, a Delaware business trust, was formed by ComEd on November 20, 1996. ComEd Financing II was created solely for the purpose of issuing $150 million of trust capital securities. The trust capital securities were issued on January 24, 1997, carry an annual distribution rate of 8.50% and are mandatorily redeemable on January 15, 2027. The sole assets of ComEd Financing II are $154.6 million principal amount of 8.50% subordinated deferrable interest debentures due January 15, 2027, issued by ComEd.

ComEd Financing III, a Delaware statutory trust, was formed by ComEd on September 5, 2002. ComEd Financing III was created for the sole purpose of issuing and selling preferred and common securities. On March 17, 2003, ComEd Financing III issued $200 million of trust preferred securities, carrying an annual distribution rate of 6.35%, which are mandatorily redeemable on March 15, 2033. The sole assets of ComEd Financing III are $206.2 million principal amount of 6.35% subordinated deferrable interest debentures due March 15, 2033, issued by ComEd. The preferred securities were used to refinance the preferred securities of ComEd Financing I.

PECO Energy Transition Trust (PETT), a Delaware business trust wholly-owned by PECO, was formed on June 23, 1998 pursuant to a trust agreement between PECO, as grantor, First Union Trust Company, National Association, now Wachovia Bank, National Association, as issuer trustee, and two beneficiary trustees appointed by PECO. PETT was created for the sole purpose of issuing transition bonds to securitize a portion of PECO's authorized stranded cost recovery. On March 25, 1999, PETT issued $4 billion of its Series 1999-A Transition Bonds. On May 2, 2000, PETT issued $1 billion of its Series 2000-A Transition Bonds and on March 1, 2001, PETT issued $805 million of its Series 2001-A Transition Bonds to refinance a portion of the Series 1999-A Transition Bonds. The Transition Bonds are solely obligations of PETT secured by intangible transition property, representing the right to collect transition charges sufficient to pay the principal and interest on the Transition Bonds, sold by PECO to PETT.

PECO Energy Capital Corp., a wholly-owned subsidiary of PECO, is the sole general partner of PECO Energy Capital, L.P., a Delaware limited partnership (Partnership). The Partnership was created solely for the purpose of issuing preferred securities, representing limited partnership interests and lending the proceeds thereof to PECO and entering into similar financing arrangements. The loans to PECO are evidenced by PECO's subordinated debentures (Subordinated Debentures), which are the only assets of the Partnership. The only revenues of the Partnership are interest on the Subordinated Debentures. All of the operating expenses of the Partnership are paid by PECO Energy Capital Corp. As of December 31, 2002, the Partnership held $128 million aggregate principal amount of the Subordinated Debentures.

PECO Energy Capital Trust II (Trust II) was created in June 1997 as a Delaware business trust solely for the purpose of issuing trust receipts (Trust II Receipts) each representing an 8.00% Cumulative Monthly Income Preferred Security, Series C (Series C Preferred Securities) of the Partnership. The Partnership is the sponsor of Trust II. As of December 31, 2002, Trust II had outstanding 2,000,000 Trust II Receipts. At December 31, 2002, the assets of Trust II consisted solely of 2,000,000 Series C Preferred Securities with an aggregate stated liquidation preference of $50 million.

Distributions were made on the Trust II Receipts during 2002 in the aggregate amount of $4 million. Expenses of Trust II for 2002 were approximately $14,000, all of which were paid by PECO Energy Capital Corp. The Trust II Receipts are issued in book-entry only form.

PECO Energy Capital Trust III (Trust III) was created in April 1998 as a Delaware business trust solely for the purpose of issuing trust receipts (Trust III Receipts) each representing an 7.38% Cumulative Preferred Security, Series D (Series D Preferred Securities) of the Partnership. The Partnership is the sponsor of Trust III. As of December 31, 2002, Trust III had outstanding 78,105 Trust III Receipts. At December 31, 2002, the assets of Trust III consisted solely of 78,105 Series D Preferred Securities with an aggregate stated liquidation preference of $78 million. Distributions were made on Trust III Receipts during 2002 in the aggregate amount of $6 million. Expenses of Trust III for 2001 were approximately $14,000, all of which were paid by PECO Energy Capital Corp. The Trust III Receipts are issued in book-entry only form.

Executive Officers of the Registrants at December 31, 2002

Exelon

Name	Age	Position
Rowe, John W.	57	Chairman, President and Chief Executive Officer
Kingsley Jr., Oliver D.	60	Senior Executive Vice President
McLean, Ian P.	53	Executive Vice President
Mehrberg, Randall E.	47	Executive Vice President and General Counsel
Moler, Elizabeth A.	53	Executive Vice President
Shapard, Robert S.	47	Executive Vice President and Chief Financial Officer
Strobel, Pamela B.	50	Executive Vice President
Clark, Frank M.	57	Senior Vice President
Gillis, Ruth Ann M.	48	Senior Vice President
Gilmore Jr., George H.	53	Senior Vice President
Lawrence, Kenneth G.	55	Senior Vice President
Mitchell, J. Barry	54	Senior Vice President and Treasurer

Skolds, John L.	52	Senior Vice President
Snodgrass, S. Gary	51	Senior Vice President and Chief Administrative Officer
Woods, David W.	45	Senior Vice President
Hilzinger, Matthew F.	39	Vice President and Corporate Controller
Lewis, Charles P.	39	Vice President, Strategy and Development, Generation

ComEd

Name	Age	Position
Rowe, John W.	57	Chairman, President and Chief Executive Officer, Exelon and Director
Strobel, Pamela B.	50	Chair
Shapard, Robert S.	47	Executive Vice President and Chief Financial Officer, Exelon*
Clark, Frank M.	57	President and Director
Gillis, Ruth Ann M.	48	Director
Lawrence, Kenneth G.	55	Director
Dudkin, Gregory N.	45	Executive Vice President, Operations
Berdelle, Robert E.	46	Vice President, Finance and Chief Financial Officer*

* As a result of a reorganization of Exelon's finance function, Mr. Shapard became the principal financial officer of ComEd as of January 22, 2003.

PECO

Name	Age	Position
Rowe, John W.	57	Chairman, President and Chief Executive Officer, Exelon and Director
Strobel, Pamela B.	50	Chair
Shapard, Robert S.	47	Executive Vice President and Chief Financial Officer, Exelon*
Lawrence, Kenneth G.	55	President and Director
Frankowski, Frank F.	52	Vice President, Finance and Chief Financial Officer*
Gillis, Ruth Ann M.	48	Director
O'Brien, Denis P.	43	Executive Vice President

* As a result of a reorganization of Exelon's finance function, Mr. Shapard became the principal financial officer of PECO as of January 22, 2003.

Each of the above was elected as an officer effective October 20, 2000, the closing date of the Merger, except for Randall E. Mehrberg, who was elected effective December 1, 2000, Robert E. Berdelle, who was elected effective October 11, 2001, Frank F. Frankowski, who was elected effective October 22, 2001, George H. Gilmore Jr., who was elected effective December 3, 2001, Matthew F. Hilzinger, who was elected effective April 1, 2002, and Robert S. Shapard, who was elected effective October 21, 2002.

Each of the above executive officers holds such office at the discretion of the respective company's board of directors until his or her replacement or earlier resignation, retirement or death.

Prior to his election to his listed position, Mr. Rowe was President and Co-Chief Executive of Exelon, Co-Chief Executive Officer of ComEd and President, Co-Chief Executive Officer of PECO; Chairman, President and Chief Executive Officer of ComEd and Unicom; and President and Chief Executive Officer of New England Electric System.

Prior to his election to his listed position, Mr. Kingsley was Executive Vice President of Exelon; Executive Vice President of ComEd and Unicom, President and Chief Nuclear Officer, Nuclear Generation Group of ComEd, and Chief Nuclear Officer of the Tennessee Valley Authority.

Prior to his election to his listed position, Mr. McLean was Senior Vice President of Exelon; President of the Power Team division of PECO; and Group Vice President of Engelhard Corporation.

Prior to his election to his listed position, Mr. Mehrberg was Senior Vice President of Exelon; an equity partner with the law firm of Jenner & Block; and General Counsel and Lakefront Director of the Chicago Park District.

Prior to her election to her listed position, Ms. Moler was Senior Vice President, Government Affairs and Policy of Exelon; Senior Vice President of ComEd and Unicom; Director of Unicom and ComEd; Partner at the law firm of Vinson & Elkins, LLP; Deputy Secretary of the U.S. Department of Energy; and Chair of the Federal Energy Regulatory Commission.

Prior to his election to his listed position, Mr. Shapard was Executive Vice President and Chief Financial Officer of Covanta Energy Corporation; Executive Vice President and Chief Financial Officer of Ultramar Diamond Shamrock; Chief Executive Officer of TSU Australia, Ltd., and Vice President, Finance and Treasurer at TXU.

Prior to her election to her listed position, Ms. Strobel was Vice Chairman of ComEd; Vice Chairman of PECO; Executive Vice President and General Counsel of ComEd and Unicom; Senior

Vice President and General Counsel of ComEd and Unicom; and Vice President and General Counsel of ComEd.

Prior to his election to his listed position, Mr. Clark was Senior Vice President, Distribution Customer and Marketing Services and External Affairs of ComEd; Senior Vice President of ComEd and Unicom; Vice President of ComEd; Governmental Affairs Vice President; and Governmental Affairs Manager.

Prior to her election to her listed position, Ms. Gillis was Chief Financial Officer of Exelon, Senior Vice President and Chief Financial Officer of ComEd and Unicom; Vice President and Treasurer of ComEd and Unicom; Vice President, Chief Financial Officer and Treasurer of the University of Chicago Hospitals and Health System; and Senior Vice President and Chief Financial Officer of American National Bank and Trust Company.

Prior to his election to his listed position, Mr. Gilmore was Group President for National Service Industries, Inc.; President and Chief Operating Officer of Calmat Company; and President of Moore Document Solutions and Moore Business Systems.

Prior to his election to his listed position, Mr. Lawrence was Senior Vice President, Distribution of PECO; Senior Vice President, Finance and Chief Financial Officer of PECO; and Vice President, Gas Operations division of PECO.

Prior to his election to his listed position, Mr. Mitchell was Vice President and Treasurer of Exelon; and Vice President, Treasury and Evaluation, and Treasurer of PECO.

Prior to his election to his listed position, Mr. Skolds was Chief Operating Officer of Exelon Nuclear; and President and Chief Operating Officer of South Carolina Electric and Gas.

Prior to his election to his listed position, Mr. Snodgrass was Chief Human Resources Officer of Exelon; Senior Vice President of ComEd and Unicom; Vice President of ComEd and Unicom; and Vice President of USG Corporation.

Prior to his election to his listed position, Mr. Woods was Senior Vice President, Corporate and Public Affairs of PECO; and the Chief of Staff for the Pennsylvania Senate Majority Leader.

Prior to his election to his listed position, Mr. Hilzinger was Executive Vice President and Chief Financial Officer of Credit Acceptance Corporation; Vice President, Controller of Kmart Corporation; Divisional Vice President, Strategic Planning and Financial Reporting of Kmart Corporation; Assistant Treasurer of Kmart Corporation; and Divisional Vice President, Logistics Finance and Planning of Kmart Corporation.

Prior to his election to his listed position, Mr. Lewis was Vice President Finance, PECO; Director Nuclear Planning and Development of PECO; and Director of Corporate Development PECO.

Prior to his election to his listed position, Mr. Dudkin was Vice President Customer and Marketing Services of PECO; and Vice President Power Delivery of PECO.

Prior to his election to his listed position, Mr. O'Brien was Vice President of Operations of PECO; Director of Transmission and Substations of PECO; and Director of Bucksmont Region of PECO.

Prior to his election to his listed position Mr. Frankowski was Controller of PECO Energy Company; Manager, Accounting and Control of PECO Energy; and Director—Taxes of PECO Energy Company.

Prior to his election to his listed position, Mr. Berdelle was Vice President and Comptroller of Unicom and ComEd; Comptroller of Unicom and ComEd; and Manager of Financial Reporting of Unicom and ComEd.

ITEM 2. PROPERTIES

Energy Delivery

The electric substations and a portion of the transmission rights of way of ComEd and PECO are owned in fee. A significant portion of the electric transmission and distribution facilities is located over or under highways, streets, other public places or property owned by others, for which permits, grants, easements or licenses, deemed satisfactory by ComEd and PECO, respectively, but without examination of underlying land titles, have been obtained.

Transmission and Distribution

Energy Delivery's higher voltage electric transmission and distribution lines owned and in service are as follows:

	Voltage (Volts)	Circuit Miles
ComEd	765,000	90
	345,000	2,539
	138,000	2,431
PECO	500,000	297
	220,000	496
	132,000	226
	66,000	168

ComEd's electric distribution system includes 43,100 circuit miles of overhead lines and 30,500 circuit miles of underground lines. PECO's electric distribution system includes 12,890 circuit miles of overhead lines and 8,215 circuit miles of underground lines.

Gas

The following table sets forth PECO's gas pipeline miles at December 31, 2002:

	Pipeline Miles
Transmission	31
Distribution	6,275
Service piping	5,186
Total	11,492

PECO has a LNG facility located in West Conshohocken, Pennsylvania that has a storage capacity of 1,200,000 million cubic feet (mmcf) and a send out capacity of 157,000 mmcf/day and a propane-air plant located in Chester, Pennsylvania, with a tank storage capacity of 1,980,000 gallons and a peaking capability of 25,000 mmcf/day. In addition, PECO owns 29 natural gas city gate stations at various locations throughout its gas service territory.

Mortgages

The principal plants and properties of ComEd are subject to the lien of ComEd's Mortgage dated July 1, 1923, as amended and supplemented, under which ComEd's first mortgage bonds are issued.

The principal plants and properties of PECO are subject to the lien of PECO's Mortgage dated May 1, 1923, as amended and supplemented, under which PECO's first mortgage bonds are issued.

Generation

The following table sets forth Generation's owned net electric generating capacity by station at December 31, 2002:

Station	Location	No. of Units	Percent Owned(1)	Primary Fuel Type	Dispatch Type	Net Generation Capacity(MW)(2)
Nuclear(3)						
Braidwood	Braidwood, IL	2		Uranium	Base-load	2,413
Byron	Byron, IL	2		Uranium	Base-load	2,393
Dresden	Morris, IL	2		Uranium	Base-load	1,728
LaSalle County	Seneca, IL	2		Uranium	Base-load	2,325
Limerick	Limerick Twp., PA	2		Uranium	Base-load	2,316
Peach Bottom	Peach Bottom Twp., PA	2	50.00	Uranium	Base-load	1,130(4)
Quad Cities	Cordova, IL	2	75.00	Uranium	Base-load	1,311(4)
Salem	Hancock's Bridge, NJ	2	42.59	Uranium	Base-load	931(4)
						14,547
Fossil (Steam Turbines)						
Conemaugh	New Florence, PA	2	20.72	Coal	Base-load	352(4)
Cromby 1	Phoenixville, PA	1		Coal	Base-load	144
Cromby 2	Phoenixville, PA	1		Oil/Gas	Intermediate	201
Delaware	Philadelphia, PA	2		Oil	Peaking	250
Eddystone 1, 2	Eddystone, PA	2		Coal	Base-load	581
Eddystone 3, 4	Eddystone, PA	2		Oil/Gas	Intermediate	760
Fairless Hills	Falls Twp., PA	2		Landfill Gas	Peaking	60
Handley	Fort Worth, TX	5		Gas	Peaking/Intermediate	1,441
Keystone	Shelocta, PA	2	20.99	Coal	Base-load	357(4)
Mountain Creek	Dallas, TX	5		Gas	Peaking/Intermediate	893
Mystic	Everett, MA	4		Oil/Gas	Intermediate	995
New Boston	South Boston, MA	1		Gas	Intermediate	380
Schuylkill	Philadelphia, PA	1		Oil	Peaking	166
Wyman Unit	Yarmouth, ME	1	5.89	Oil	Intermediate	36(4)
						6,616
Fossil (Combustion Turbines)						
Chester	Chester, PA	3		Oil	Peaking	39
Croydon	Bristol Twp., PA	8		Oil	Peaking	380
Delaware	Philadelphia, PA	4		Oil	Peaking	56
Eddystone	Eddystone, PA	4		Oil	Peaking	60
Falls	Falls Twp., PA	3		Oil	Peaking	51
Framingham	Framingham, MA	3		Oil	Peaking	37
LaPorte	LaPorte, TX	4		Gas	Peaking	160
Moser	Lower Pottsgrove Twp., PA	3		Oil	Peaking	51
Mystic CT	Everett, MA	1		Oil	Peaking	12
New Boston	South Boston, MA	1		Gas	Peaking	20
Pennsbury	Falls Twp., PA	2		Landfill Gas	Peaking	6
Richmond	Philadelphia, PA	2		Oil	Peaking	96
Salem	Hancock's Bridge, NJ	1	42.59	Oil	Peaking	16(4)
Schuylkill	Philadelphia, PA	2		Oil	Peaking	30
South East Chicago	Chicago, IL	8		Gas	Peaking	350
Southwark	Philadelphia, PA	4		Oil	Peaking	52
West Medway	West Medway, MA	3		Oil	Peaking	165
						1,581

(continued on next page)

Fossil (Internal Combustion/Diesel)						
Cromby	Phoenixville, PA	1		Oil	Peaking	3

Delaware	Philadelphia, PA	1		Oil	Peaking	3
Schuylkill	Philadelphia, PA	1		Oil	Peaking	3
Conemaugh	New Florence, PA	4	20.72	Oil	Peaking	2(4)
Keystone	Shelocta, PA	4	20.99	Oil	Peaking	2(4)
						13
Hydroelectric						
Conowingo	Harford Co., MD	11		Hydro	Base-load	512
Muddy Run	Lancaster Co., PA	8		Hydro	Intermediate	1,072
						1,584
Under Construction						
Mystic 8	Everett, MA	1		Gas		807
Mystic 9	Everett, MA	1		Gas		807
Fore River	Weymouth, MA	1		Oil/Gas		807
						2,421
Total		130				26,762

(1) 100%, unless otherwise indicated.

(2) For nuclear stations, except Salem, capacity reflects the annual mean rating. All other stations, including Salem, reflect a summer rating.

(3) All nuclear stations are boiling water reactors except Braidwood, Byron and Salem, which are pressurized water reactors.

(4) Generation's portion.

The net generating capability available for operation at any time may be less due to regulatory restrictions, fuel restrictions, efficiency of cooling facilities and generating units being temporarily out of service for inspection, maintenance, refueling, repairs or modifications required by regulatory authorities.

Generation maintains property insurance against loss or damage to its principal plants and properties by fire or other perils, subject to certain exceptions. For information regarding nuclear insurance, see ITEM 1. Business—Generation. Generation is self-insured to the extent that any losses may exceed the amount of insurance maintained. Any such losses could have a material adverse effect on Generation's consolidated financial condition and results of operations.

ITEM 3. LEGAL PROCEEDINGS

Exelon

Securities Litigation. Between May 8 and June 14, 2002, several class action lawsuits were filed in the Federal District Court in Chicago asserting nearly identical securities law claims on behalf of purchasers of Exelon securities between April 24, 2001 and September 27, 2001 (Class Period). The complaints allege that Exelon violated Federal securities laws by issuing a series of materially false and misleading statements relating to its 2001 earnings expectations during the Class Period. The court consolidated the pending cases into one lawsuit and has appointed two lead plaintiffs as well as lead counsel.

On October 1, 2002, the plaintiffs filed a consolidated amended complaint. In addition to the original claims, this complaint contains allegations of new facts and contains several new theories of liability. Exelon believes the lawsuit is without merit and is vigorously contesting this matter.

ComEd

Chicago Franchise. In March 1999, ComEd reached a settlement agreement with Chicago to end the arbitration proceeding between ComEd and Chicago regarding their January 1, 1992 franchise agreement. As part of the settlement agreement, ComEd and Chicago agreed to a revised combination of ongoing work under the franchise agreement and new initiatives that will result in defined transmission and distribution expenditures by ComEd to improve electric services in Chicago. The settlement agreement provides that ComEd would be subject to liquidated damages if the projects are not completed by various dates, unless it was prevented from doing so by events beyond its reasonable control. In addition, ComEd and Chicago established an Energy Reliability and Capacity Account, into which ComEd paid $25 million during each of the years 1999 through 2002, to help ensure an adequate and reliable electric supply for Chicago. No further payments by ComEd into the Energy Reliability and Capacity Account are required.

On February 20, 2003, ComEd entered into separate agreements with Chicago and with Midwest Generation (Midwest Agreement). Under the terms of the agreement with Chicago, ComEd will pay Chicago $60 million over ten years and be relieved of a requirement, originally transferred to Midwest Generation upon the sale of ComEd's fossil stations in 1999, to build a 500-MW generation facility. Under the terms of the Midwest Agreement, ComEd will receive from Midwest Generation $36 million over ten years, $22 million of which was received on February 20, 2003, to relieve Midwest Generation's obligation under the fossil sale agreement. Midwest Generation will also assume from Chicago a Capacity Reservation Agreement which Chicago had entered into with Calumet Energy Team, LLC (CET), which is effective through June 2012. ComEd will reimburse Chicago for any nonperformance by Midwest Generation under the Capacity Reservation Agreement and will pay approximately $2 million for amounts owed to CET by Chicago at the time the agreement is executed. The net effect of the settlement to ComEd will be amortized over the remaining life of the franchise agreement with Chicago.

FERC Municipal Request for Refund. Three of ComEd's wholesale municipal customers filed a complaint and request for refund with FERC, alleging that ComEd failed to properly adjust its rates, as provided for under the terms of the electric service contracts with the municipal customers and to track certain refunds made to ComEd's retail customers in the years 1992 through 1994. In the third quarter of 1998, FERC granted the complaint and directed that refunds be made, with interest. ComEd filed a request for rehearing. On April 30, 2001, FERC issued an order granting rehearing in which it determined that its 1998 order had been erroneous and that no refunds were due from ComEd to the municipal customers. In August 2001, each of the three wholesale municipal customers appealed the April 30, 2001 FERC order to the Federal circuit court, which consolidated the appeals for the purposes of briefing and decision. The Federal circuit court has stayed the proceedings pending settlement negotiations among the parties.

Retail Rate Law. In 1996, several developers of non-utility generating facilities filed litigation against various Illinois officials claiming that the enforcement against those facilities of an amendment to Illinois law removing the entitlement of those facilities to state-subsidized payments for electricity sold to

ComEd after March 15, 1996 violated their rights under the Federal and state constitutions. The developers also filed suit against ComEd for a declaratory judgment that their rights under their contracts with ComEd were not affected by the amendment. On November 25, 2002, the court granted developers' motions for summary judgment. The judge also entered a permanent injunction enjoining ComEd from refusing to pay the retail rate on the grounds of the amendment, and Illinois from denying ComEd a tax credit on account of such purchases. ComEd and Illinois have each appealed the ruling. ComEd believes that it did not breach the contracts in question and that the damages claimed far exceed any loss that any project incurred by reason of its ineligibility for the subsidized rate. ComEd intends to prosecute its appeal and defend each case vigorously.

Service Interruptions. In August 1999, three class action lawsuits were filed against ComEd, and subsequently consolidated, in the Circuit Court of Cook County, Illinois seeking damages for personal injuries, property damage and economic losses related to a series of service interruptions that occurred in the summer of 1999. The combined effect of these interruptions resulted in over 168,000 customers losing service for more than four hours. Conditional class certification was approved by the court for the sole purpose of exploring settlement. ComEd filed a motion to dismiss the complaints. On April 24, 2001, the court dismissed four of the five counts of the consolidated complaint without prejudice and the sole remaining count was dismissed in part. On June 1, 2001, the plaintiffs filed a second amended consolidated complaint and ComEd has filed an answer. On December 5, 2002, a settlement was reached, pending court approval, whereby ComEd will pay up to $8 million, which includes $4 million paid to date. The settlement, when approved, will release ComEd from all claims arising from the 1999 power outages. A portion of any settlement or verdict may be covered by insurance.

PECO

None.

Generation

Godley Park District Litigation. On April 18, 2001, the Godley Park District filed suit in Will County Circuit Court against ComEd and Generation alleging that oil spills at Braidwood Station have contaminated the Park District's water supply. The complaint sought actual damages, punitive damages of $100 million and statutory penalties. The court dismissed all counts seeking punitive damages and statutory penalties, and the plaintiff has filed an amended complaint before the court. The amended complaint added counts under the Illinois Public Utility Act (PUA), which provides for statutory penalties and allows recovery of attorney's fees. On November 8, 2002, the Godley Park District voluntarily dismissed its lawsuit.

Cotter Corporation Litigation. During 1989 and 1991, actions were brought in Federal and state courts in Colorado against ComEd and its subsidiary, Cotter Corporation (Cotter), seeking unspecified damages and injunctive relief based on allegations that Cotter permitted radioactive and other hazardous material to be released from its mill into areas owned or occupied by the plaintiffs, resulting in property damage and potential adverse health effects. In 1994, a Federal jury returned nominal dollar verdicts against Cotter on eight plaintiffs' claims in the 1989 cases, which verdicts were upheld on appeal. The remaining claims in the 1989 actions were settled or dismissed. In 1998, a jury verdict was rendered against Cotter in favor of 14 of the plaintiffs in the 1991 cases, totaling approximately $6 million in compensatory and punitive damages, interest and medical monitoring. On appeal, the Tenth Circuit Court of Appeals reversed the jury verdict, and remanded the case for new trial. These plaintiffs' cases were consolidated with the remaining 26 plaintiffs' cases, which had not been tried. The consolidated trial was completed on June 28, 2001. The jury returned a verdict against Cotter and awarded $16 million in various damages. On November 20, 2001, the District Court entered an amended final judgment that included an award of both pre-judgment and post-judgment interests, costs, and medical monitoring expenses that total $43 million. In November 2000, another trial involving a separate sub-group of 13 plaintiffs, seeking $19 million in damages plus interest was completed in Federal District Court in Denver. The jury awarded nominal damages of $42,500 to 11 of 13 plaintiffs, but awarded no damages for any personal injury or health claims, other than requiring Cotter to perform periodic medical monitoring at minimal cost. Cotter appealed these judgments to the Tenth Circuit Court of Appeals. Cotter is vigorously contesting the awards.

On February 18, 2000, ComEd sold Cotter to an unaffiliated third party. As part of the sale, ComEd agreed to indemnify Cotter for any liability incurred by Cotter as a result of these actions, as well as any liability arising in connection with the West Lake Landfill discussed in the next paragraph.

In connection with Exelon's 2001 corporate restructuring, the responsibility to indemnify Cotter for any liability related to these matters was transferred by ComEd to Generation.

The EPA has advised Cotter that it is potentially liable in connection with radiological contamination at a site known as the West Lake Landfill in Missouri. Cotter is alleged to have disposed of approximately 39,000 tons of soils mixed with 8,700 tons of leached barium sulfate at the site. Cotter, along with three other companies identified by the EPA as PRPs, has submitted, a draft feasibility study addressing options for remediation of the site. The PRPs are also engaged in discussions with the State of Missouri and the EPA. The estimated costs of remediation for the site range from $0 to $87 million. Once a remedy is selected, it is expected that the PRPs will agree on an allocation of responsibility for the costs. Until an agreement is reached, Generation cannot predict its share of the costs.

Raytheon Arbitration. In March 2001, two subsidiaries of Sithe New England Holdings acquired in November 2002, brought an action in the New York Supreme Court against Raytheon Corporation (Raytheon) relating to its failure to honor its guaranty with respect to the performance of the Mystic and Fore River projects, as a result of the abandonment of the projects by the turnkey contractor. In a related proceeding, in May 2002, Raytheon submitted claims to the International Chamber of Commerce Court of Arbitration seeking equitable relief and damages for alleged owner caused performance delays in connection with the Fore River Power Plant Engineering, Procurement & Construction Agreement (EPC Agreement). The EPC Agreement, executed by a Raytheon subsidiary and guaranteed by Raytheon, governs the design, engineering, construction, start-up, testing and delivery of an 800 MW combined-cycle power plant in Weymouth, Massachusetts. Raytheon recently amended its claim and now seeks 141 days of schedule relief (which would reduce Raytheon's liquidated damage payment for late delivery by approximately $25 million) and additional damages of $16 million. Raytheon also has asserted a claim for loss of efficiency and productivity as a result of an alleged constructive acceleration, for which a claim has not yet been quantified. Generation believes the Raytheon assertions are without merit and is vigorously contesting these claims. Hearings by the International Chamber of Commerce Court of Arbitration with respect to liability were held in January and February 2003. A decision on liability is expected to be issued in May 2003 and, if necessary, additional hearings will be held on damages in May and June of 2003.

Real Estate Tax Appeals. Generation is involved in tax appeals regarding a number of its nuclear facilities, Limerick Generating Station (Montgomery County, PA), Peach Bottom Atomic Power Station (York County, PA) and Quad Cities Station (Rock Island County, IL). The tax appeal relating to one of its fossil facilities, Eddystone (Delaware County, PA), was resolved during 2002. Generation is also involved in the tax appeal for Three Mile Island (Dauphin County, PA) through AmerGen. Generation does not believe the outcome of these matters will have a material adverse effect on Generation's results of operations or financial condition.

General

Exelon, ComEd, PECO and Generation are involved in various other litigation matters. The ultimate outcome of such matters, as well as the matters discussed above, while uncertain, are not expected to have a material adverse effect on their respective financial condition or results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Exelon, ComEd and PECO

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Exelon

The information required by this Item with respect to market information relating to Exelon's common stock is incorporated herein by reference to "Market for Registrant's Common Equity and Related Stockholder Matters" in Exhibit 99-2 to Exelon's Current Report on Form 8-K dated February 21, 2003.

ComEd

As of March 1, 2003, there were outstanding 127,016,425 shares of common stock, $12.50 par value, of ComEd, of which 127,002,904 shares were held by Exelon. At March 1, 2003, in addition to Exelon, there were approximately 280 holders of ComEd common stock. There is no established market for shares of the common stock of ComEd.

PECO

As of March 1, 2003, there were outstanding 170,478,507 shares of common stock, without par value, of PECO, all of which were held by Exelon.

Exelon, ComEd, PECO and Generation

Dividends

Under PUHCA, Exelon, ComEd, PECO and Generation can pay dividends only from retained, undistributed or current earnings. Similar restrictions also apply to ComEd under the Illinois Public Utilities Act. However, the SEC has authorized ComEd, and to Exelon, to the extent Exelon receives dividends from ComEd paid from ComEd additional paid-in-capital, to pay up to $500 million in dividends out of additional paid-in capital, although Exelon may not pay dividends out of paid-in capital after December 31, 2002 if its common equity is less than 30% of its total capitalization. At December 31, 2002, Exelon had retained earnings of $2.0 billion, which includes ComEd's retained earnings of $577 million, PECO's retained earnings of $401 million and Generation's undistributed earnings of $924 million. To date, Generation has not declared or paid dividends.

See ComEd and PECO sections in this item for a further discussion of ComEd and PECO dividend restrictions.

The following table sets forth Exelon's quarterly cash dividends paid during 2002 and 2001:

	2002				2001			
	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
	(per share)							
Exelon	$ 0.44	$ 0.44	$ 0.44	$ 0.44	$ 0.43	$ 0.42	$ 0.42	$ 0.55(1)

(1) Exelon did not pay any cash dividends in 2000. The first quarter dividend in 2001 was a pro rata dividend. Unicom and PECO each paid their shareholders pro rata, per diem dividends from their last regular dividend dates through October 19, 2000. The first quarter of 2001 covered the 119-day period from the date of the Merger, through the February 15, 2001 record date.

The following table sets forth ComEd and PECO's quarterly common dividend payments:

	2002				2001			
	4th	3rd	2nd	1st	4th	3rd	2nd	1st

	Quarter	Quarter	Quarter	Quarter	Quarter	Quarter	Quarter	Quarter
				(in millions)				
ComEd	$ 117	$ 118	$ 117	$ 118	$ 230	$ 105	$ 85	$ 63
PECO	$ 85	$ 85	$ 85	$ 85	$ 173	$ 69	$ 55	$ 45

On January 28, 2003, the Board of Directors of Exelon declared a quarterly dividend of $0.46 per share of Exelon's common stock. This increase of $0.08 per share annually will result in an annual dividend rate of $1.84 per share. Exelon intends to grow its dividend over time at a rate of approximately 4% to 5%, commensurate with long-term earnings growth. The payment of future dividends is subject to approval and declaration by the Board of Directors each quarter.

ComEd may not declare dividends on any shares of its capital stock in the event that: (1) it exercises its right to extend the interest payment periods on the subordinated debt securities which were issued to ComEd Financing I, ComEd Financing II and ComEd Financing III (the Financing Trusts); (2) it defaults on its guarantee of the payment of distributions on the preferred trust securities of the Financing Trusts; or (3) an event of default occurs under the Indenture under which the subordinated debt securities are issued (see ITEM 1. Business—Other Subsidiaries of ComEd and PECO with Publicly Held Securities).

PECO's Articles of Incorporation prohibit payment of any dividend on, or other distribution to the holders of, common stock if, after giving effect thereto, the capital of PECO represented by its common stock together with its retained earnings is, in the aggregate, less than the involuntary liquidating value of its then outstanding preferred stock. At December 31, 2002, such capital was $2.4 billion and amounted to about 17 times the liquidating value of the outstanding preferred stock of $137 million.

PECO may not declare dividends on any shares of its capital stock in the event that: (1) PECO exercises its right to extend the interest payment periods on the Subordinated Debentures which were issued to the Partnership; (2) PECO defaults on its guarantee of the payment of distributions on the Series C or Series D Preferred Securities of the Partnership; or (3) an event of default occurs under the Indenture under which the Subordinated Debentures are issued (see ITEM 1. Business—Other Subsidiaries of ComEd and PECO with Publicly Held Securities).

ITEM 6. SELECTED FINANCIAL DATA

Exelon

The information required by this Item is incorporated herein by reference to "Selected Financial Data" in Exhibit 99-1 to Exelon's Current Report on Form 8-K dated February 21, 2003.

ComEd

The selected consolidated financial data presented below has been derived from the audited financial statements of ComEd. This data is qualified in its entirety by reference to, and should be read in conjunction with ComEd's Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations included herein.

The information for the year ended 2000 is presented for the periods before and after the Merger. For additional information, see ITEM 8. Financial Statements and Supplementary Data—ComEd, Note 1 and Note 3 of the Notes to Consolidated Financial Statements.

	For the Years Ended December 31,				For the Years Ended December 31,	
	2002	2001	Oct. 20-Dec. 31 2000	Jan. 1-Oct. 19 2000	1999	1998
			(in millions)			
Statement of Income Data:						
Operating Revenues	$ 6,124	$ 6,206	$ 1,310	$ 5,702	$ 6,793	$ 7,150
Operating Income	1,766	1,594	338	1,048	1,549	1,387
Net Income	790	607	133	599	623	594
Net Income on Common Stock	790	607	133	596	599	537

	December 31,				
	2002	2001	2000	1999	1998
			(in millions)		
Balance Sheet Data:					
Current Assets	$ 1,049	$ 1,025	$ 2,172	$ 4,045	$ 4,974
Property, Plant and Equipment, net	7,744	7,351	7,657	11,993	13,300
Goodwill, net	4,916	4,902	4,766	—	—
Other Deferred Debits and Other Assets	2,121	2,349	5,603	6,538	6,583
Total Assets	$ 15,830	$ 15,627	$ 20,198	$ 22,576	$ 24,857
Current Liabilities	$ 2,023	$ 1,797	$ 1,723	$ 3,427	$ 3,309
Long-Term Debt	5,268	5,850	6,882	6,962	7,677
Deferred Credits and Other Liabilities	2,451	2,568	5,082	6,456	7,770

	2002	2001	2000	1999	1998
Mandatorily Redeemable Preference Stock	—	—	—	69	171
Company-Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trusts Holding the Company's Subordinated Debt Securities	330	329	328	350	350
Shareholders' Equity	5,758	5,083	6,183	5,312	5,580
Total Liabilities and Shareholders' Equity	$ 15,830	$ 15,627	$ 20,198	$ 22,576	$ 24,857

PECO

The selected consolidated financial data presented below has been derived from the audited financial statements of PECO. This data is qualified in its entirety by reference to, and should be read in conjunction with PECO's Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations included herein.

	For the Years Ended December 31,				
	2002	2001	2000	1999	1998
	(in millions)				
Statement of Income Data:					
Operating Revenues	$ 4,333	$ 3,965	$ 5,950	$ 5,478	$ 5,325
Operating Income	1,093	999	1,222	1,373	1,268
Income before Cumulative Effect of a Change in Accounting Principle	$ 486	$ 425	$ 483	$ 582	$ 513
Cumulative Effect of a Change in Accounting Principle (net of income taxes)	—	—	24	—	—
Net Income	$ 486	$ 425	$ 507	$ 582	$ 513
Net Income on Common Stock	$ 478	$ 415	$ 497	$ 570	$ 500

	December 31,				
	2002	2001	2000	1999	1998
	(in millions)				
Balance Sheet Data:					
Current Assets	$ 927	$ 813	$ 1,779	$ 1,221	$ 582
Property, Plant and Equipment, net	4,179	4,057	5,158	5,004	4,804
Deferred Debits and Other Assets	5,614	5,868	7,839	6,862	6,662
Total Assets	$ 10,720	$ 10,738	$ 14,776	$ 13,087	$ 12,048
Current Liabilities	$ 1,576	$ 1,335	$ 2,974	$ 1,286	$ 1,735
Long-Term Debt	4,951	5,438	6,002	5,969	2,920
Deferred Credits and Other Liabilities	3,304	3,358	3,860	3,738	3,756
Company-Obligated Mandatorily Redeemable Preferred Securities	128	128	128	128	349
Mandatorily Redeemable Preferred Stock	—	19	37	56	93
Shareholders' Equity	761	460	1,775	1,910	3,195
Total Liabilities and Shareholders' Equity	$ 10,720	$ 10,738	$ 14,776	$ 13,087	$ 12,048

Generation

The selected consolidated financial data presented below has been derived from the audited financial statements of Generation. This data is qualified in its entirety by reference to, and should be read in conjunction with Generation's Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations included herein.

	For the Years Ended December 31,			
	2002	2001	2000	1999
	(in millions)			
Statement of Income Data:				
Operating Revenues	$ 6,858	$ 6,826	$ 3,274	$ 2,425

Operating Income	509	872	441	300
Income before Cumulative Effect of Changes in Accounting Principles	$ 387	$ 512	$ 260	$ 204
Cumulative Effect of Changes in Accounting Principles (net of income taxes)	13	12	—	—
Net Income (Loss)	$ 400	$ 524	$ 260	$ 204

	December 31,			
	2002	2001	2000	1999
	(in millions)			
Balance Sheet Data:				
Current Assets	$ 1,805	$ 1,435	$ 1,793	$ 395
Property, Plant and Equipment, net	4,800	2,003	1,727	990
Deferred Debits and Other Assets	4,402	4,700	4,742	907
Total Assets	$ 11,007	$ 8,138	$ 8,262	$ 2,292
Current Liabilities	$ 2,663	$ 1,097	$ 2,176	$ 404
Long-Term Debt	2,132	1,021	205	209
Deferred Credits and Other Liabilities	3,259	3,212	3,271	729
Minority Interest	54	—	—	—
Members' Equity	2,899	2,808	2,610	950
Total Liabilities and Members' Equity	$ 11,007	$ 8,138	$ 8,262	$ 2,292

The consolidated financial statements of Generation as of December 31, 2000 and for the year then ended present the financial position, results of operations and net cash flows of the generation-related business of Exelon prior to its corporate restructuring on January 1, 2001. Generation operated as a separate business subsequent to electric-industry restructuring in Pennsylvania effective January 1, 1999. Prior to that date, Exelon (and its predecessor, PECO) operated as a fully integrated electric and gas utility, and revenues and expenses were not separately identified in the accounting records

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

Exelon

The information required by this Item is incorporated herein by reference to "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Exhibit 99-3 to Exelon's Current Report on Form 8-K dated February 21, 2003.

ComEd, PECO and Generation

Each Critical Accounting Estimate and New Accounting Pronouncement section presented below indicates the registrant or registrants to which each estimate or accounting standard is applicable. "We" or "Our" as utilized in the Critical Accounting Estimates and New Accounting Pronouncements sections is defined as the business units identified in each subheading.

Critical Accounting Estimates

The preparation of financial statements in conformity with GAAP requires that management apply accounting policies and make estimates and assumptions that affect results of operations and the amounts of assets and liabilities reported in the financial statements. Management discusses these estimates and assumptions with its Accounting and Disclosure Governance Committee on a regular basis and provides periodic updates to the Audit Committee of the Board of Directors on management decisions. Management believes that the following areas require significant management judgment in making estimates and assumptions to describe matters that are inherently uncertain and that may change in subsequent periods.

Accounting for Derivative Instruments (ComEd, PECO and Generation)

We use derivative financial instruments primarily to manage commodity price and interest rate risks. In connection with our Risk Management Policy (RMP), we:

- use financial derivatives to manage our exposure to interest rate fluctuations related to our variable rate debt instruments, changes in interest rates related to planned future debt issuances prior to their actual issuance and changes in the fair value of outstanding debt which we are planning to retire early,
- enter into derivatives to manage the physical and financial risks associated with our energy supply and load obligations, and
- enter into energy related derivatives for trading or speculative purposes.

Our derivative activities are subject to the management, direction, and control of our Risk Management Committee (RMC). The RMC sets forth risk management philosophy and objectives, and establishes procedures for control, valuation, counterparty credit approval, and the monitoring and reporting of our activities in derivative markets and the performance of our derivative contracts.

We make estimates and assumptions concerning future commodity prices, load requirements, interest rates, the timing of future transactions and their probable cash flows, the fair value of contracts and the changes in the fair value we expect in deciding whether or not to enter into derivative transactions, and in determining the initial accounting treatment for derivative transactions.

We account for derivative financial instruments under SFAS No. 133. To the extent that changes in SFAS No. 133 modify current guidance, including the standards for determining whether contracts can be accounted for as normal purchases and normal sales, the accounting treatment for derivatives may change.

We are required under SFAS No. 133 to record derivative instruments at fair value. Depending on the designation of the derivative, the fair value is either recorded in the income statement or as a component of other comprehensive income in shareholders' equity (OCI). We use quoted exchange prices to the extent they are available or external broker quotes in order to determine the fair value of energy contracts. When external prices are not available, we use internal models to determine the fair value. These internal models include assumptions of the future prices of energy based on the specific energy market the energy is being purchased in using externally available forward market pricing curves for all periods possible under the pricing model. We use the Black model, a standard industry valuation model, to determine the fair value of energy derivative contracts that are marked-to-market. To determine the fair value of our outstanding interest rate swap agreements we use external broker quotes or calculate the fair value internally using the Bloomberg swap valuation tool. This tool uses the most recent market inputs and a widely accepted valuation methodology.

During 2002, Generation recognized unrealized and realized net gains of $6 million and $20 million, respectively, relating to mark-to-market adjustments of certain non-trading purchased power and sale contracts pursuant to SFAS No. 133 and unrealized and realized net losses aggregating $9 million and $20 million, respectively, relating to mark-to-market adjustments of derivative instruments entered into for trading purposes.

Hedge Accounting. As part of our energy marketing business, we enter into contracts to purchase or sell electricity, gas and ancillary products such as transmission rights, congestion credits and emission allowances, using contracts that are considered derivatives under SFAS No. 133. Certain of these derivatives qualify as hedge transactions.

A derivative instrument can be designated as a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (fair value hedge) or a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge). To qualify for hedge accounting, the fair value changes in the derivative must be expected to offset 80%-120% of the changes in fair value or cash flows of the hedged item. Changes in the fair value of a derivative that is designated and qualifies as a fair value hedge and is highly effective, along with the gain or loss on the hedged asset or liability that is attributable to the hedged risk, are recorded in earnings. Changes in the fair value of a derivative that is designated as and qualifies as a cash flow hedge and is highly effective, are recorded in OCI, until earnings are affected by the variability of cash flows being hedged. Exelon continually assesses these cash flow hedges to determine if they continue to be effective and that the forecasted future transaction is probable. At the point in time that the contract does not meet the effective or probable criteria of SFAS No. 133, hedge accounting is discontinued and the fair value of the derivative is recorded through earnings.

Energy Contracts. We enter into contracts designated as cash flow hedges in which we manage the variability of our cash flows related to the purchase or sale of energy. At the initiation of the contract the contract is identified as a cash flow hedge, which requires us to determine whether the contract is in accordance with our RMP, that the forecasted future transaction is probable, and that the hedging relationship between the energy contract and the expected future purchase or sale of energy is expected to be highly effective at the initiation of the hedge and throughout the hedging relationship. Internal models that measure the statistical correlation between the derivative and the associated hedged item determine the effectiveness of an energy contract designated as a hedge. An example of a contract that would qualify for hedge accounting would be a forward over-the-counter sales contract used to hedge an expected sale of generation exposed to market prices.

Interest Rate Derivative Instruments. We enter into interest rate swap contracts related to variable rate debt in order to convert the variable interest payments into fixed interest payments to manage the variability of cash flows. Additionally, we enter into forward-starting interest rate swaps in order to lock

---

in an interest rate at a future date in anticipation of a future debt issuance to manage the variability of changes in interest rates between the date of the decision to issue and the actual date of issue.

We also enter into interest rate swap contracts related to fixed rate debt in order to maintain our targeted percentage of variable rate debt.

The fair value of derivatives generally reflects the estimated amounts that we would receive or pay to terminate the contracts at the balance sheet date, thereby taking into account the current unrealized gains or losses of open contracts.

Normal Purchases and Normal Sales Exemption. As part of our energy marketing business, we enter into contracts to purchase or sell electricity, gas and ancillary products such as transmission rights, congestion credits and emission allowances using contracts that are considered derivatives under SFAS No. 133. The majority of these contracts, however, qualify for the normal purchases and normal sales SFAS No. 133 exemption from mark-to-market accounting treatment as they are for the purchase and sale of energy to meet the requirements of our customers. These contracts include short-term and long-term commitments to purchase and sell energy and energy related products in the retail and wholesale markets with the intent and ability to deliver or take delivery in quantities we expect to use or sell over a reasonable period in the normal course of business.

These contracts are reflected in the financial statements at the lower of cost or market, on a portfolio basis, using the accrual method of accounting. We did not have any loss contracts as of December 31, 2002. Under these contracts we recognize any gains or losses when the underlying physical transaction affects earnings. At the initiation of the contract, we make a determination as to whether or not the contract meets the criteria as a normal purchase or normal sale. An example of an energy contract that would qualify for the normal sale exemption would include a forward sale contract under which we expect to supply the full requirements of the counterparty. An example of a contract that would qualify for the normal purchase exemption would be an energy capacity contract that we enter into to satisfy the needs of our customer base, either retail or wholesale.

The availability of the normal purchases and normal sales exemption to specific contracts is based on a determination that at certain times excess generation is available for a forward sale and, similarly, a determination that at certain times generation supply will be insufficient to serve our load. The determination of the ability and intent to deliver or take delivery is based on internal models that forecast customer demand and electricity supply. These models include assumptions regarding customer load growth rates, which are influenced by the economy, weather and the impact of customer choice, and generating unit availability, particularly nuclear generating unit capability factors. Significant changes in these assumptions could result in contracts being considered differently under SFAS No. 133 and the potential requirement of mark-to-market accounting.

Proprietary Trading. As part of our energy trading operation, we enter into contracts to buy and sell energy for trading purposes. These contracts are recognized on the balance sheet at fair value and changes in the fair value are recognized through earnings. All proprietary trading activity is recorded net in revenue. Trading activities are a very small portion of Generation's overall power marketing activities. The trading portfolio is subject to stringent risk management limits and policies, including volumetric and depression limits to manage exposure to market risk, as prescribed by the RMC.

Non-Trading Contracts. To manage our commodity risk exposure and meet our load requirements, we have also entered into non-trading contracts that do not meet the definition in SFAS No. 133 of a normal purchase or normal sale or meet the requirements for hedge accounting treatment. These non-trading contracts are marked-to-market when the underlying item affects earnings, with the gains and losses recorded in Purchased Power and Fuel expense. Non-trading contracts are subject to stringent risk management limits and policies, as prescribed by the RMC.

Although we use derivative instruments to assist in managing commodity price and interest rate risks, we can still experience earnings volatility from period to period because of the risks associated with marketing and trading electricity and other energy-related products.

Regulatory Assets and Liabilities (ComEd and PECO)

Energy Delivery's operating subsidiaries, ComEd and PECO, are regulated by their respective state regulatory commissions as well as by FERC. The regulators in Illinois and Pennsylvania, as well as FERC, use cost-based rate structures to determine the rates we charge customers. In establishing cost-based rates, the ICC and the PUC may consider the capital requirements and working capital needs to operate the distribution and transmission business, determine the operating cost levels that can be passed on to customers and provide for a reasonable return to our shareholders. In their determination of rates, the ICC and PUC may include allowable costs in periods other than the periods in which an unregulated entity would record the costs in the income statement. These costs are accounted for as either a regulatory asset or liability. Regulatory assets represent costs that have been deferred to future periods when it is probable that the regulator will allow for recovery through rates charged to customers. Regulatory liabilities represent revenues received from customers to fund expected costs that have not yet been incurred. Regulatory assets and liabilities are accounted for under SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS No. 71). Use of SFAS No. 71 is applicable to our utility operations that meet the following criteria: the operations are subject to third-party regulation of rates; the rates are cost-based; and the assumption that all costs will be recoverable from customers through rates is appropriate and reasonable. If a separable portion of our business no longer meets these criteria, we are required to eliminate the financial statement effects of regulation for that part of our business.

Both ComEd and PECO are currently subject to rate freezes or rate caps that limit the opportunity to recover increased costs and the costs of new investment in facilities through rates during the rate freeze or rate cap period. Current rates include the recovery of our existing regulatory assets.

The most significant regulatory assets we have recorded are:

- Competitive Transition Charges: These charges represent PECO's stranded costs that the PUC determined would be allowed to be recoverable through regulated rates. These costs are related to the deregulation of the generation portion of the electric utility business in Pennsylvania. The unamortized balance of the CTC of $4.6 billion and $4.9 billion as of December 31, 2002 and 2001, respectively, was recorded on our Consolidated Balance Sheets. The CTC includes Intangible Transition Property sold to PECO Energy Transition Trust, a wholly-owned subsidiary of PECO, in connection with the securitization of PECO's stranded cost recovery. CTC is being amortized through December 31, 2010 with a rate of return on the unamortized balance of 10.75%. See ITEM 1. Business—General—Energy Delivery—Retail Electric Services—PECO for additional discussion of CTC amortization.

- Recoverable Transition Costs: These charges, related to the recovery of ComEd's former generating plants, are amortized based on the expected return on equity of ComEd in any given year. At December 31, 2002 and 2001, ComEd had $175 million and $277 million, respectively, in recoverable transition costs recorded in our Consolidated Balance Sheets. ComEd expects to fully recover and amortize these charges by the end of 2006, but may increase or decrease its annual amortization to maintain its earnings within the earnings cap provisions established by Illinois legislation. See ITEM 8. Financial Statements and Supplementary Data—ComEd—Note 5 of Notes to Consolidated Financial Statements for discussion of recoverable transition cost amortization.

- Recoverable Deferred Income Taxes: These costs represent the difference between the method in which the regulator allows for the recovery of income taxes and how income taxes would be

---

recorded by unregulated entities. These recoverable deferred income taxes, recorded in compliance with SFAS No. 109, "Accounting for Income Taxes," include the deferred tax effects associated principally with liberalized depreciation for PECO and excess deferred taxes and ITC amortization for ComEd. These amounts are accounted for in accordance with the ratemaking policies of the ICC and PUC, as well as the revenue impacts thereon, and assume continued recovery of these costs in future rates. At December 31, 2002 and 2001, ComEd had $(68) million and $26 million, respectively, in recoverable deferred income taxes recorded in ComEd's Consolidated Balance Sheets. At December 31, 2002 and 2001, PECO had $729 million and $675 million, respectively, in recoverable deferred income taxes recorded in PECO's Consolidated Balance Sheets.

- Nuclear Decommissioning Costs for Retired Plants: These costs represent the amount of future nuclear decommissioning costs related to the retired former ComEd plants which are being recovered through rates. At December 31, 2002 and 2001, ComEd had $248 million and $310 million, respectively, in nuclear decommissioning costs for retired plants recorded in ComEd's Consolidated Balance Sheets. These costs will be recovered in rates and amortized on a straight-line basis to earnings by the end of 2006.

- Reacquired Debt Costs and Interest Rate Swap Settlements: These costs relate to amounts paid to reacquire debt early and to settle interest rate hedges to mitigate interest rate risks and capitalize on lower interest rate debt. These amounts are deferred and amortized over the rate-recovery period, which is over the life of the new debt issued to finance the debt redemption. At December 31, 2002 and 2001, ComEd had $84 million and $54 million, respectively, in reacquired debt costs and interest rate swap settlements recorded in ComEd's Consolidated Balance Sheets. At December 31, 2002 and 2001, PECO had $53 million and $58 million, respectively, in reacquired debt costs recorded in PECO's Consolidated Balance Sheets.

For each regulatory jurisdiction where we conduct business, we continually assess whether the regulatory assets continue to meet the criteria for probable future recovery. This assessment includes consideration of factors such as changes in applicable regulatory environments, recent rate orders to other regulated entities in the same jurisdiction, the status of any pending or potential deregulation legislation and the ability to recover costs through regulated rates. If future recovery of costs ceases to be probable, the assets and liabilities would be recognized in current period earnings. A write-off of regulatory assets could impact our ability to pay dividends under PUHCA.

Because our current rates include the recovery of existing regulatory assets and liabilities, and rates in effect during the rate freeze or rate cap periods are expected to allow us to earn a reasonable rate of return during that period, management believes the existing regulatory assets and liabilities are probable of recovery. This determination reflects the current political and regulatory climate in the states where we do business, but is subject to change in the future.

Nuclear Decommissioning (Generation)

We currently have direct ownership interests in 16 active nuclear generating units and four retired nuclear generating units. In addition, we own a 50% equity interest in AmerGen, which operates three active nuclear generating units.

In connection with the operation of our nuclear units, the NRC requires us to begin decommissioning these facilities after their NRC operating license lives end, generally 40 years from the date of initial operation, and complete the decommissioning within 60 years after cessation of operation. Generation has, however, requested or is in the process of requesting the extension of these license lives for several nuclear generating stations. The decommissioning of a nuclear generating station involves the decontamination of structures and components, the removal of high-level and

low-level radioactive materials from the site for disposal at a licensed facility and for certain stations, the restoration of the station sites to a natural state. We estimate that, once started, decommissioning of a site can generally be completed in 10 years. Based on the projected extended license lives of our nuclear plants, we will begin decommissioning our plants from 2014 through 2056, with expenditures primarily occurring when our operating plants are decommissioned, during the period from 2029 through 2056.

PECO and ComEd currently recover certain decommissioning costs in regulated rates. The amounts recovered are deposited in trust accounts and invested for funding of future decommissioning costs for active and inactive generating units. As part of the 2001 corporate restructuring, the generation-related assets and liabilities of ComEd and PECO were transferred to Generation. The accounting for our receipt of decommissioning collections and recognition of decommissioning liabilities varies between the plants that were previously owned by ComEd or by PECO prior to restructuring.

We account for the current period's cost of decommissioning related to generating plants previously owned by PECO by following regulatory accounting principles and recording a charge to depreciation expense and a corresponding liability in accumulated depreciation concurrent with decommissioning collections from rate payers. Our regulatory accounting principles for the generating stations previously owned by ComEd were discontinued when those stations were transferred to Generation. Those stations included both operating and retired units. For operating units, the difference between the current cost decommissioning estimate and the decommissioning liability recorded in accumulated depreciation is amortized to depreciation expense on a straight-line basis over the remaining lives. For retired units, the current cost decommissioning estimate is recorded in deferred credits and other liabilities and accreted to depreciation expense.

Under regulatory accounting principles, gains and losses on marketable securities held in the nuclear decommissioning trust funds are reported in accumulated depreciation. After regulatory accounting principles are discontinued, unrealized gains and losses on marketable securities held in the nuclear decommissioning trust funds are reported in accumulated other comprehensive income. Realized gains and losses on decommissioning trust funds are reflected in other income and deductions in our Consolidated Statements of Income. Due to the sharp declines in the equity market since the third quarter of 2000, the value of our nuclear decommissioning trust funds has also decreased. In 2002, contributions to these trust funds of $112 million were offset by net realized and unrealized losses of $224 million, resulting in a 4% decrease in the trust funds' balance at December 31, 2002 compared to December 31, 2001. We believe that the amounts that ComEd and PECO are recovering from customers through electric rates, along with the earnings on the trust funds, will be sufficient to fund our decommissioning obligations.

Cost estimates for decommissioning our nuclear facilities have been prepared by an independent engineering firm and reflect currently existing regulatory requirements and available technology. Our current estimate of our nuclear facilities' decommissioning cost is $7.4 billion in current year (2003) dollars. Calculating this estimate involves significant assumptions about the expected increases in decommissioning costs relative to general inflation rates, changes in the regulatory environment or regulatory requirements, and the timing of decommissioning. Significant changes in these assumptions could materially affect the liabilities and future costs related to decommissioning recorded in our Consolidated Financial Statements.

The estimated service life of the nuclear station is also a significant assumption because decommissioning and depreciation costs are generally recognized over the life of the generating station. In 2001, we extended nuclear station service lives, over which the decommissioning costs are recognized, by 20 years. Effective April 1, 2001, we extended the estimated service lives by 20 years for three nuclear stations. Effective July 1, 2001, we extended the estimated service lives by 20 years for the remainder of Generation's operating nuclear stations. These changes were based on engineering and economic feasibility studies we performed considering, among other things, future capital and maintenance expenditures at these plants. The service life extension is subject to NRC approval of an extension of existing NRC operating licenses. As a result of the change, net income for 2002 and 2001 increased approximately $132 million ($79 million, net of income taxes) and approximately $90 million ($60 million, net income taxes), respectively. Although we consider the service life extension authorization to be probable, if the extensions were denied, our results of operations would be adversely impacted by increased depreciation rates and accelerated future decommissioning payments.

SFAS No. 143. The accounting for our nuclear decommissioning obligation will be affected by the adoption of SFAS No. 143, "Asset Retirement Obligations" (SFAS No. 143) effective January 1, 2003. SFAS No. 143 provides accounting requirements for retirement obligations associated with tangible long-lived assets. Retirement obligations associated with long-lived assets included within the scope of SFAS No. 143 are those for which there is a legal obligation under existing or enacted law, statute, written or oral contract or by legal construction under the doctrine of promissory estoppel.

The effect of this cumulative adjustment on nuclear decommissioning will be to change the decommissioning liability to reflect the fair value of the decommissioning obligation at the balance sheet date. Additionally, SFAS No. 143 will require the recording of an asset related to the decommissioning obligation, which will be amortized over the remaining lives of the plants. The net difference, between the asset recognized and the adjustment to the decommissioning liability, recorded upon adoption of SFAS No. 143 will be charged to earnings and recognized as a cumulative effect of a change in accounting principle, net of expected regulatory recovery and net of taxes. The decommissioning liability to be recorded will represent the fair value of the obligation for the future decommissioning of the plants and, as a result, accretion expense will be accrued on this liability until the obligation is satisfied.

As noted above, we currently record the obligation for decommissioning ratably over the lives of the plants. We are currently in the process of evaluating the impact of adopting SFAS No. 143 on our financial condition. Based on the current information and the credit-adjusted risk-free rate, we estimate the increase in 2003 non-cash expense to impact earnings before the cumulative effect of a change in accounting principle for the adoption of SFAS No. 143 by approximately $30 million, after income taxes. Additionally, the adoption of SFAS No. 143 is expected to result in non-cash, one-time cumulative effect of a change in accounting principle gain of approximately $1.9 billion, after income taxes. The $1.9 billion gain and the $30 million charge includes our share of the impact of the SFAS No. 143 adoption related to AmerGen's nuclear plants. These impacts are based on our current interpretation of SFAS No. 143 and are subject to continued refinement based on the finalization of assumptions and interpretation at the time of adopting the standard, including the determination of the credit-adjusted risk-free rate. Under SFAS No. 143, the fair value of the nuclear decommissioning obligation will continue to be adjusted on an ongoing basis as these model input factors change.

In accordance with SFAS No. 143, we used a probabilistic cash flow model with multiple scenarios in order to determine the fair value of the decommissioning obligation. SFAS No. 143 also stipulates that fair value represent the amount a third party would receive for assuming all of an entity's obligation. Key assumptions used in our determination of fair value as defined in SFAS No. 143 include:

- decommissioning cost studies prepared by a third party
    - these decommissioning studies represent a marketplace assessment of costs and the timing of retirement activities validated by comparison to current decommissioning projects and other third party estimates

- annual cost escalation studies to determine escalation factors based on inflation indices used in decommissioning cost studies for the following major categories:
    - labor,
    - equipment and materials,
    - energy,
    - other (taxes, insurance, fees, etc.), and
    - low-level radioactive waste disposal costs.
- use of probabilistic cash flow models to measure the fair value including:
    - the probability of various cost levels, and
    - the probability of various timing scenarios incorporating the factors of current license lives and life extension and the timing of DOE acceptance for disposal of our spent nuclear fuel.

Under the Nuclear Waste Policy Act of 1982 (NWPA), the U.S. Department of Energy (DOE) is responsible for the selection and development of repositories for, and the disposal of, spent nuclear fuel and high-level radioactive waste (SNF). As required by the NWPA, ComEd and PECO, each signed a contract with the DOE (Standard Contract) to provide for disposal of SNF from their respective nuclear generating stations. The NWPA and the Standard Contract required the DOE to begin taking possession of SNF generated by nuclear generating units by no later than January 31, 1998. The DOE, however, failed to meet that deadline and its performance will be significantly delayed. The DOE currently estimates it will open a SNF facility in 2010. This extended delay requires us to retain possession of the SNF, thus increasing decommissioning costs including the operation and maintenance of facilities to store SNF until the DOE removes it from our sites.

The NRC regulatory guidance suggests that decommissioning cost studies be updated every five years. Most of our studies were prepared in 1995 and 1996 and are in the process of being updated. Although no significant changes in decommissioning technologies have occurred since the studies were performed, and annual cost escalation studies are performed to determine the escalation factor applied to the base year cost study, changes in these cost studies could have a material impact on the fair value of the nuclear decommissioning obligation. The final determination of the cumulative effect of a change in accounting principle is also in part a function of the credit-adjusted risk-free rate at the time of the adoption of the standard. Additionally, although over the life of the plant, the charges to earnings for the depreciation of the asset and the interest on the liability will be equal to the amounts that would have been recognized as decommissioning expense under the current accounting, the timing of those charges will change and in the near-term period subsequent to adoption, the depreciation of the asset and the interest on the liability are expected to result in an increase in expense.

Asset Impairments

Long-Lived Assets and Investments. (ComEd, PECO and Generation). SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS No. 144), establishes accounting and reporting standards for both the impairment and disposal of long-lived assets. SFAS No. 144 continues the FASB requirements that:

- an impairment loss be recognized if the carrying amount of an asset is not recoverable from its undiscounted cash flows, and

- the impairment loss be measured as the difference between the carrying amount and the fair value of the asset.

Accounting Principles Board Opinion No. 18, "The Equity Method of Accounting for Investment in Common Stock," requires that an impairment loss be recognized for an investment if the investment declines in fair value below its amortized cost basis, and this decline is judged to be other-than-temporary.

We continually monitor our investments and businesses and the markets in which these businesses operate in order to determine events that may trigger an impairment. We test our businesses and investments for recoverability whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Such triggering events may include a current expectation that there is a likelihood of 50% or greater that a long-lived asset will be sold, competitors' technological advancement, accelerated distributions of public holdings at a loss, lack of achievability of financial results versus plan, limited access to capital, or the loss of a major customer, among others. The analysis of impairment for long-lived and intangible assets is subject to an undiscounted cash flow analysis that requires significant assumptions.

In 2002, ComEd, PECO and Generation did not identify factors through this review process that indicated potential impairment of property, plant and equipment or other long-lived assets.

Goodwill (ComEd). Under SFAS No. 142, "Goodwill and Other Intangible Assets" (SFAS No. 142), goodwill is also subject to an assessment for impairment using a two-step fair value based test, the first step of which must be performed at least annually, or more frequently if events or circumstances indicate that goodwill might be impaired. If an impairment is determined at ComEd, the amount of the impaired goodwill will be written-off and expensed at ComEd.

We performed the first step of the SFAS No. 142 impairment analysis, comparing the fair value of a reporting unit to its carrying amount, including goodwill, as of January 1, 2002, upon adoption of SFAS No. 142. That first step indicated no impairment of ComEd's goodwill. In performing the Step I tests as prescribed in SFAS No. 142, ComEd determined that discounted cash flow models would provide the most appropriate measure to determine Step I fair value. Consistent with the guidance in SFAS No. 142, ComEd prepared multiple scenario discounted cash flow models in order to determine the value for Step I of SFAS No. 142. These models use multiple assumptions including revenue growth rates, general expense escalation rates, allowed return on equity, a risk-adjusted discount rate and long-term earnings multiples of comparable companies. In addition to the above-noted assumptions, ComEd's model included varying assumptions regarding:

- The timing of future rate case filings to establish new rates for bundled service after the then scheduled 2004 expiration of the rate freeze period, which has subsequently been extended to 2006 by Illinois law. Rate changes were assumed to occur at various points in 2005 through 2007 in the different scenarios.

- The cash flow impact of the expiration of the rate freeze and the resolution of uncertainties regarding future commodity risk at the expiration of the current PPA with Generation, the resolution of ComEd's POLR obligation and various other risks and uncertainties.

The results of the Step I analysis for ComEd showed a weighted average probabilistic valuation of the multiple scenario discounted cash flows in excess of ComEd's book carrying amount, including goodwill, at December 31, 2001. Since the Step I calculated fair value was in excess of book value, we could conclude that ComEd's goodwill of $4.9 billion was not impaired.

As required by SFAS No. 142, ComEd performed the annual update of ComEd's goodwill impairment analyses using a November 1, 2002 measurement date. This valuation determined the Step I calculated fair value of ComEd to be in excess of its book value at November 1, 2002. Since the Step I calculated fair value was in excess of book value, we concluded that goodwill was not impaired. Again, the probabilistic discounted cash flows model used in these analyses included the significant

assumptions noted above. Rate changes were assumed to occur at various points in 2007 through 2009 in the different scenarios for ComEd based on the June 2002 extension of the rate freeze.

Modifications to any of the assumptions discussed above, particularly changes in discount rates, long-term earnings multiples of comparable companies used to determine terminal values, and the expected results of rate proceedings, could result in a future impairment of goodwill. Actual results as well as market conditions in upcoming periods will impact the probabilities of scenarios used in the models. If the estimates of future cash flows in the ComEd model had been 10% lower, those discounted cash flows would still have been greater than the carrying values of ComEd. As we were not required to perform a Step II analysis at the November 1, 2002 measurement date for ComEd, a dollar amount for any potential impairment has not been determined. Because goodwill represents approximately 85% of ComEd's common equity, a potential future impairment of goodwill could significantly impact ComEd's ability to pay dividends to Exelon under PUHCA. The Illinois legislation provides that reductions to ComEd's common equity resulting from goodwill impairments will not impact ComEd's earnings cap calculation through 2006.

Defined Benefit Pension and Other Postretirement Welfare Benefits (ComEd, PECO and Generation)

Exelon sponsors defined benefit pension plans and postretirement welfare benefit plans applicable to essentially all ComEd, PECO, and Generation employees. The costs of providing benefits under these plans are dependent on historical information such as employee age, length of service and level of compensation, and the actual rate of return on plan assets. Also, Exelon utilizes assumptions about the future, including the expected rate of return on plan assets, the discount rate applied to benefit obligations, rate of compensation increase and the anticipated rate of increase in health care costs. In accordance with SFAS No. 87, "Employer's Accounting for Pensions" (SFAS No. 87) and SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions" the impact of changes in these factors on pension and other postretirement welfare benefit obligations is generally recognized over the expected remaining service life of the employees rather than immediately recognized in the income statement.

In selecting the expected rate of return on plan assets, Exelon considered historical and expected returns for the types of investments the plans hold. Exelon's pension trust assets have lost $581 million, and $265 million, and gained $173 million in 2002, 2001 and 2000, respectively. The long-term expected rate of return on plan assets (EROA) assumption used in calculating pension cost was 9.5% at January 1, 2002, 2001 and 2000. Exelon generally maintains 60% of its plan assets in equity securities and 40% of its plan assets in fixed-income securities. Each quarter Exelon reviews the actual asset allocations and follows a rebalancing procedure in order to remain within an allowable range of these targeted percentages. Based on Exelon's asset allocation and long-term historical returns for both equity and fixed-income securities, Exelon set its EROA at 9.0% as of January 1, 2003 in order to calculate 2003 pension cost. Exelon's other postretirement benefit assets have lost $125 million, $14 million and $7 million in 2002, 2001 and 2000, respectively. The EROA assumption used in calculating the other postretirement benefit obligation was 8.8% at January 1, 2002, 2001 and 2000, respectively. Exelon will use an EROA assumption of 8.4% as of January 1, 2003 in order to calculate the 2003 other postretirement benefit costs. A lower EROA is used in the calculation of other postretirement benefit costs as the other postretirement benefit trust activity is partially taxable while the pension trust activity is non-taxable.

Exelon uses the Moody's Aa Corporate Bond Index as a basis in selecting the discount rate. Exelon set the assumed discount rate at 7.35% and 6.75% at December 31, 2001 and 2002, respectively, in its estimate of pension expense and other postretirement benefit costs.

The following table illustrates the effect of changing the major actuarial assumptions discussed above:

Change in Actuarial Assumption	Impact on Projected Benefit Obligation at December 31, 2002	Impact on Pension Liability at December 31, 2002	Impact on 2003 Pension Cost
Pension Benefits			
Decrease Discount Rate by 0.5%	$ 336	$ 336	$ 8
Decrease Rate of Return on Plan Assets by 0.5%	—	—	32

Change in Actuarial Assumption	Impact on Other Postretirement Benefit Obligation at December 31, 2002	Impact on Postretirement Benefit Liability at December 31, 2002	Impact on 2003 Postretirement Benefit Cost
Postretirement Benefits			
Decrease Discount Rate by 0.5%	$ 152	$ —	$ 18
Decrease Rate of Return on Plan Assets by 0.5%	—	—	6

The assumptions are reviewed at the beginning of each year during Exelon's annual review process. The impact of assumption changes are reflected in the recorded pension amounts consistent with assumption changes as they occur. As these assumptions change from period to period, recorded pension amounts and funding requirements could also change.

Exelon's pension and other postretirement benefit plans have unrecognized losses of $2.1 billion and $0.8 billion, respectively, at December 31, 2002. This unrecognized loss primarily represents the difference between the expected return on plan assets and the actual return on plan assets that has not yet been recognized in pension or other postretirement benefit expense. Exelon generally amortizes these unrecognized (gains)/losses over five years; however, the annual amortization amounts vary based on actuarial determinations. Recognition of an unrecognized loss will result in increased net periodic pension cost going forward.

Primarily as a result of sharp declines in the equity markets since the third quarter of 2000, Exelon recognized an additional minimum liability of $1.0 billion, net of income taxes, and an intangible asset of $211 million as prescribed by SFAS No. 87 in the fourth quarter of 2002. The liability was recorded as a reduction to shareholders' equity, and the equity will be restored to the balance sheet in future periods when the fair value of plan assets exceeds the accumulated benefit obligation. The recording of this additional minimum liability did not affect net income or cash flow in 2002 or compliance with debt covenants; however, pension cost and cash funding requirements could increase in future years without a substantial recovery in the equity markets.

Exelon's defined benefit pension plans currently meet the minimum funding requirements of the Employment Retirement Income Security Act of 1974 without any additional funding; however, Exelon made a discretionary tax-deductible plan contribution of $150 million in the fourth quarter of 2002, of which $82 million and $60 million were funded by ComEd and Generation, respectively. Exelon also expects to make a discretionary tax-deductible plan contribution in 2003 of $300 million to $350 million.

Approximately $15 million, $22 million and $37 million were included in operating and maintenance expense in 2002 for ComEd, PECO and Generation, respectively, for the cost of our pension and postretirement benefit plans, exclusive of the 2002 charges for employee severance programs. Although the 2003 increase in pension and postretirement benefit cost will depend on market conditions, Exelon's estimate is that expense will increase by approximately $48 million,

$21 million and $52 million for ComEd, PECO and Generation, respectively, in 2003 from 2002 expense levels as the result of the effects of the decline in market value of plan assets in 2002, the decline in discount rate and increases in health care costs.

In 2001, Exelon adopted a cash balance pension plan. All management and electing union employees who were hired by Exelon after 2001 became participants in the plan. Approximately 4,700 management employees who were active participants in Exelon's previous qualified defined benefit plans at December 31, 2000 and remained employed by Exelon on January 1, 2002 elected to transfer to the cash balance plan. Participants in the cash balance plan, unlike participants in the other defined benefit plans, may request a lump-sum cash payment upon employee termination. This may result in increased cash requirements from pension plan assets, which may increase future funding to the pension plan.

Stock-Based Compensation Plans (ComEd, PECO and Generation)

Exelon maintains a Long-Term Incentive Plan (LTIP) for certain full-time salaried employees and previously maintained a broad-based incentive program for certain other employees. The types of long-term incentive awards that have been granted under the LTIP are non-qualified options to purchase shares of our common stock and common stock awards. The exercise price of the stock options is equal to the fair market value of the underlying stock on the date of option grant. Options granted under the LTIP and the broad-based incentive program become exercisable upon attainment of a target share value and/or time. All options expire 10 years from the date of grant.

At December 31, 2002, there were 13,000,000 options authorized for issuance under Exelon's LTIP and 2,000,000 options authorized under Exelon's broad-based incentive program. ComEd, PECO and Generation currently follow the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" (SFAS No. 123). If ComEd, PECO and Generation had elected to account for stock-based compensation based on SFAS No. 123, ComEd, PECO and Generation would have recognized compensation expense as follows:

	2002	2001	2000
ComEd	$ 13	$ 10	$ 13(a)
PECO	13	15	17
Generation	15	9	10

(a) Includes Unicom expense of $3 million for the period of 2000 prior to the Merger.

Exelon uses an independent actuarial firm to calculate the fair value of the options and to assist in the development of amounts required to be disclosed under SFAS No. 123. The key assumptions used in this determination of fair value are the expected volatility of the stock price, based on historical information; the expected life of the options, based on the vesting period and expiration date of the options; the estimated dividend yield, based on historical information adjusted for material known future changes; and the risk-free interest rate, based on the yield of a United States Treasury Strip available on the date of the grant and expiring at the approximate end of the option's term. Changes in these assumptions could have resulted in material changes in the amounts disclosed under SFAS No. 123 in ComEd, PECO and Generation's Consolidated Financial Statements.

Business Combinations (ComEd, PECO and Generation)

In the three year period ended December 31, 2002, Exelon has completed several business combinations and asset acquisitions. Exelon adopted SFAS No. 141, "Business Combinations" (SFAS No. 141), as of January 1, 2002. SFAS No. 141 is effective for business combinations initiated after June 30, 2001. SFAS No. 141 requires that all business combinations be accounted for under the

purchase method of accounting and establishes criteria for the separate recognition of intangible assets acquired in business combinations. Under the purchase method of accounting, purchased assets and liabilities must be recorded at their fair value. If a quoted fair value is not readily available for the majority of assets and liabilities exchanged, the determination of this fair value requires the use of significant judgment, both by management and outside experts engaged to assist in this determination process. Changes in the assumptions made in determining the fair values could have resulted in material changes in the amounts disclosed in Note 3 of the Notes to ComEd's Consolidated Financial Statements, Note 5 of the Notes to PECO's Consolidated Financial Statements and Notes 2 and 4 of the Notes to Generation's Consolidated Financial Statements. There would also be an impact on Exelon's financial results. If the fair value of property, plant and equipment acquired in a business combination would have been higher, and an amount allocated to goodwill in the business combination lower, depreciation expense would have been higher. Conversely, if the fair value of property, plant and equipment acquired in a business combination would have been lower, and an amount allocated to goodwill in the business combination higher, depreciation expense would have been lower. For example, if the $2 billion fair value of the generating plants acquired in the Merger was estimated to be 1% higher, then annual depreciation expense would be less than $1 million higher and goodwill amortization, which ceased in 2002, would have been less than $1 million lower annually.

Unbilled Energy Revenues (ComEd, PECO and Generation)

Revenues related to ComEd and PECO's sale of energy are generally recorded when service is rendered or energy is delivered to customers. The determination of the energy sales to individual customers, however, is based on systematic readings of customer meters generally on a monthly basis. At the end of each month, amounts of energy delivered to customers during the month since the date of the last meter reading are estimated and corresponding unbilled revenue is recorded. This unbilled revenue is estimated each month based on daily customer demand measured by generation volume, estimated customer usage by class, estimated losses of energy during delivery to customers (line loss) and applicable customer rates. Customer accounts receivable as of December 31, 2002 include unbilled energy revenues of $250 million on a base of annual revenue of $6.1 billion for ComEd and $129 million on a base of annual revenue of $4.3 billion for PECO. Increases in volumes delivered to the utilities' customers in the period would increase unbilled revenue. Changes in the timing of meter reading schedules and the number and type of customers scheduled for each meter reading date would also have an effect on the estimated unbilled revenue.

Revenues related to Generation's sale of energy are generally recorded when service is rendered or energy is delivered to customers. The determination of the energy sales is based on estimated amounts delivered as well as fixed quantity sales. At the end of each month, amounts of energy delivered to customers during the month and corresponding unbilled revenue is recorded. This unbilled revenue is estimated each month based on daily customer demand, fixed quantity sales, generation volume and applicable market or fixed rates. Customer accounts receivable as of December 31, 2002 include unbilled energy revenues of $370 million on a base of annual revenue of $6.9 billion. Increases in volumes delivered to the wholesale customers in the period would increase unbilled revenue.

Environmental Costs (ComEd, PECO and Generation)

As of December 31, 2002, ComEd, PECO and Generation had accrued liabilities of $101 million, $40 million and $15 million, respectively, for environmental investigation and remediation costs. These liabilities are based upon estimates with respect to the number of sites for which we will be responsible, the scope and cost of work to be performed at each site, the portion of costs that will be shared with other parties and the timing of the remediation work. Where timing, scope and expenditures of remediation efforts can be reasonably estimated, amounts are discounted. These amounts, recorded at ComEd, represent $97 million of the total ComEd accrued liabilities above. Where the timing, scope

and expenditures of remediation efforts cannot be reasonably estimated, amounts are recognized on an undiscounted basis. Such amounts represent $4 million, $40 million and $15 million of the total accrued liabilities above for ComEd, PECO and Generation, respectively. Estimates can be affected by the factors noted above as well as by changes in technology and changes in regulations or the requirements of Federal, state and local governmental authorities. During 2002, ComEd increased its reserve for environmental costs by $17 million as the result of a delay in implementing the ongoing remediation for a manufactured gas plant site in Oak Park, Illinois.

New Accounting Pronouncements

SFAS No. 143 (ComEd, PECO and Generation)

In 2001, the FASB issued SFAS No. 143. SFAS No. 143 provides accounting requirements for retirement obligations associated with tangible long-lived assets. We will adopt SFAS No. 143 as of January 1, 2003. Retirement obligations associated with long-lived assets included within the scope of SFAS No. 143 are those for which there is a legal obligation to settle under existing or enacted law, statute, written or oral contract or by legal construction under the doctrine of promissory estoppel. Adoption of SFAS No. 143 will change the accounting for the decommissioning of our nuclear generating plants as well as certain other long-lived assets. ComEd, PECO and Generation are in the process of evaluating the impact of adopting SFAS No. 143 on their financial condition. While ComEd and PECO do not expect the adoption of SFAS No. 143 to have a material impact on their financial condition, Generation does expect the adoption of SFAS No. 143 to have a material impact on its financial condition related to its obligation to decommission its nuclear generating plants.

As it relates to nuclear decommissioning, the effect of a cumulative adjustment will be to decrease the decommissioning liability to reflect the fair value of the decommissioning obligation at the balance sheet date. Additionally, SFAS No. 143 will require the recognition of an asset related to the decommissioning obligation, which will be amortized over the remaining lives of the plants. The net difference, between the asset recognized and the change in the liability to reflect fair value recorded upon adoption of SFAS No. 143, will be recorded in earnings and recognized as a cumulative effect of a change in accounting principle, net of expected regulatory recovery and income taxes. The decommissioning liability will then represent an obligation for the future decommissioning of the plants and, as a result, accretion expense will be accrued on this liability until the obligation is satisfied.

Currently, Generation records the obligation for decommissioning ratably over the lives of the plants. Based on the current information and the credit-adjusted risk-free rate, Generation estimates the increase in 2003 non-cash expense to impact Generation earnings before the cumulative effect of a change in accounting principle for the adoption of SFAS No. 143 by approximately $30 million, after income taxes. Additionally, the adoption of SFAS No. 143 is expected to result in a non-cash, one-time cumulative effect of a change in accounting principle gain at Generation of approximately $1.9 billion, after income taxes. The $1.9 billion gain and the $30 million charge includes Generation's share of the impact of the SFAS No. 143 adoption related to AmerGen's nuclear plants. These impacts are based on Generation's current interpretation of SFAS No. 143 and are subject to continued refinement based on the finalization of assumptions and interpretation at the time of adopting the standard, including the determination of the credit-adjusted risk-free rate. Under SFAS No. 143, the fair value of the nuclear decommissioning obligation will continue to be adjusted on an ongoing basis as these model input factors change.

The final determination of the 2003 earnings impact and the cumulative effect of adopting SFAS No. 143 is in part a function of the credit adjusted risk-free rate at the time of the adoption of SFAS No. 143. Additionally, although over the life of the plant the charges to earnings for the depreciation of the asset and the interest on the liability will be equal to the amounts that would have been recognized as decommissioning expense under current accounting, the timing of those charges will change and in

the near-term period subsequent to adoption, the depreciation of the asset and the interest on the liability is expected to result in an increase in expense.

SFAS No. 146 (ComEd, PECO and Generation)

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" (SFAS No. 146). SFAS No. 146 requires that the liability for costs associated with exit or disposal activities be recognized when incurred, rather than at the date of a commitment to an exit or disposal plan. SFAS No. 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002.

FIN No. 45 (ComEd, PECO and Generation)

In November 2002, the FASB released FASB Interpretation (FIN) No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (FIN No. 45), providing for expanded disclosures and recognition of a liability for the fair value of the obligation undertaken by the guarantor. Under FIN No. 45, guarantors are required to disclose the nature of the guarantee, the maximum amount of potential future payments, the carrying amount of the liability and the nature and amount of recourse provisions or available collateral that would be recoverable by the guarantor. As of December 31, 2002, we have adopted disclosure requirements under FIN No. 45, which were effective for financial statements for periods ended after December 15, 2002. The recognition and measurement provisions of FIN No. 45 are effective, on a prospective basis, for guarantees issued or modified after December 31, 2002.

FIN No. 46 (ComEd, PECO and Generation)

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities" (FIN No. 46). FIN No. 46 addresses consolidating certain variable interest entities and applies immediately to variable interest entities created after January 31, 2003. The impact, if any, of adopting FIN 46 on our consolidated financial position, results of operations and cash flows, has not been fully determined.

ComEd

General

On October 20, 2000, ComEd became a 99.9% owned subsidiary of Exelon as a result of the transactions relating to the Merger. As a result of the Merger, ComEd's consolidated financial information for the period after the Merger has a different cost basis than that of previous periods. Material variances caused by the different cost basis have been disclosed where applicable.

Through December 31, 2000, ComEd operated as a vertically integrated electric utility. During January 2001, Exelon undertook a restructuring to separate its generation and other competitive businesses from its regulated energy delivery business. As part of the restructuring, the non-regulated operations and related assets and liabilities of ComEd were transferred to separate subsidiaries of Exelon. As a result, beginning January 2001, the operations of ComEd principally consist of the purchase, transmission, distribution and sale of electricity in northern Illinois. The restructuring has had a significant impact on all components of ComEd's results of operations. The estimated impact of the restructuring set forth herein reflects the effects of removing the operations related to ComEd's nuclear generating stations and obtaining energy and capacity from Generation under the terms of the PPA for the year ended December 31, 2000.

Results of Operations

Year Ended December 31, 2002 Compared to Year Ended December 31, 2001

Significant Operating Trends—ComEd

	2002	2001	Variance	% Change
OPERATING REVENUES	$ 6,124	$ 6,206	$ (82)	(1.3)%
OPERATING EXPENSES				
Purchased Power	2,585	2,670	(85)	(3.2)%
Operating and Maintenance	964	981	(17)	(1.7)%
Depreciation and Amortization	522	665	(143)	(21.5)%
Taxes Other Than Income	287	296	(9)	(3.0)%
Total Operating Expense	4,358	4,612	(254)	(5.5)%
OPERATING INCOME	1,766	1,594	172	10.8%
OTHER INCOME AND DEDUCTIONS				
Interest Expense	(484)	(565)	81	(14.3)%
Distributions on Company-Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trusts Holding Solely the Company's Subordinated Debt Securities	(30)	(30)	—	—
Other, Net	44	114	(70)	(61.4)%
Total Other Income and Deductions	(470)	(481)	11	(2.3)%
INCOME BEFORE INCOME TAXES	1,296	1,113	183	16.4%
INCOME TAXES	506	506	—	—
NET INCOME	$ 790	$ 607	$ 183	30.1%

Net Income

Net income increased $183 million, or 30% in 2002. Net income was primarily impacted by the discontinuation of goodwill amortization, lower depreciation rates effective August 1, 2002, lower interest expense and a lower effective income tax rate partially offset by the effects of a 5% residential rate reduction effective October 1, 2001, customers electing to purchase energy from an ARES or the PPO and lower intercompany interest income.

Operating Revenues

ComEd's electric sales statistics are as follows:

Retail Deliveries—(in GWhs)(1)	2002	2001	Variance	% Change
Bundled Deliveries(2)				
Residential	27,474	25,282	2,192	8.7%
Small Commercial & Industrial	22,365	23,435	(1,070)	(4.6)%
Large Commercial & Industrial	7,885	10,305	(2,420)	(23.5)%
Public Authorities & Electric Railroads	6,480	7,879	(1,399)	(17.8)%
	64,204	66,901	(2,697)	(4.0)%
Unbundled Deliveries(3)				
ARES				
Small Commercial & Industrial	5,219	2,865	2,354	82.2%
Large Commercial & Industrial	7,095	5,458	1,637	30.0%
Public Authorities & Electric Railroads	912	365	547	149.9%
	13,226	8,688	4,538	52.2%
PPO				
Small Commercial & Industrial	3,152	3,279	(127)	(3.9)%
Large Commercial & Industrial	5,131	5,750	(619)	(10.8)%
Public Authorities & Electric Railroads	1,347	987	360	36.5%
	9,630	10,016	(386)	(3.9)%
Total Unbundled Deliveries	22,856	18,704	4,152	22.2%
Total Retail Deliveries	87,060	85,605	1,455	1.7%

(1) One GWh is the equivalent of one million kWhs.

(2) Bundled service reflects deliveries to customers taking electric service under tariffed rates.

(3) Unbundled service reflects customers electing to receive electric generation service from an ARES or the PPO.

Electric Revenue	2002	2001	Variance	% Change
Bundled Revenues(1)				
Residential	$ 2,381	$ 2,308	$ 73	3.2%
Small Commercial & Industrial	1,736	1,821	(85)	(4.7)%
Large Commercial & Industrial	410	523	(113)	(21.6)%
Public Authorities & Electric Railroads	377	430	(53)	(12.3)%
	4,904	5,082	(178)	(3.5)%
Unbundled Revenues(2)				
ARES				
Small Commercial & Industrial	138	48	90	187.5%
Large Commercial & Industrial	154	74	80	108.1%
Public Authorities & Electric Railroads	28	5	23	n.m.
	320	127	193	152.0%
PPO				
Small Commercial & Industrial	204	220	(16)	(7.3)%
Large Commercial & Industrial	278	343	(65)	(19.0)%
Public Authorities & Electric Railroads	71	59	12	20.3%
	553	622	(69)	(11.1)%
Total Unbundled Revenues	873	749	124	16.6%

Total Electric Retail Revenues	5,777	5,831	(54)	(0.9)%
Wholesale and Miscellaneous Revenue(3)	347	375	(28)	(7.5)%
Total Electric Revenue	$ 6,124	$ 6,206	$ (82)	(1.3)%

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

(2) Revenue from customers choosing an ARES includes a distribution charge and a CTC charge. Transmission charges received from ARES are included in wholesale and miscellaneous revenue. Revenues from customers choosing the PPO includes an energy charge at market rates, transmission, and distribution charges and a CTC charge.

(3) Wholesale and miscellaneous revenues include transmission revenue, sales to municipalities and other wholesale energy sales.

The changes in electric retail revenues in 2002, as compared to 2001, were attributable to the following:

	Variance
Customer Choice	$ (131)
Rate Changes	(99)
Weather	88
Volume	91
Other Effects	(3)
Retail Revenue	$ (54)

- *Customer Choice.* The decrease in revenues reflects customers in Illinois electing to purchase energy from an ARES or the PPO. As of December 31, 2002, approximately 22,700 retail customers had elected to purchase energy from an ARES or the ComEd PPO, an increase from 18,700 customers at December 31, 2001. The megawatthours (MWhs or the equivalent of one thousand KWhs) delivered to such customers increased from approximately 18.7 million in 2001 to 22.9 million in 2002, a 22% increase from the previous year.

- *Rate Changes.* The decrease attributable to rate changes reflects a 5% residential rate reduction, effective October 1, 2001, required by the Illinois restructuring legislation.

- *Weather.* The demand for electricity service is impacted by weather conditions. Very warm weather in summer months and very cold weather in other months is referred to as "favorable weather conditions," because these weather conditions result in increased demand for electricity. Conversely, mild weather reduces demand. The weather impact for 2002 was favorable compared to 2001 as a result of warmer summer weather and slightly cooler winter weather in 2002 compared to 2001. Cooling degree-days increased 29% and heating degree-days increased 3% in 2002 compared to 2001.

- *Volume.* Revenues from higher delivery volume, exclusive of weather, increased due to an increased number of customers and increased usage per customer, primarily residential.

The reduction in wholesale and miscellaneous revenue in 2002 as compared to 2001 was due primarily to a $38 million decrease in off-system sales due to the expiration of wholesale contracts that were offered by ComEd from June 2000 to May 2001 to support the open access program in Illinois, and a $15 million reversal of reserve for revenue refunds in 2001 related to certain of ComEd's municipal customers as a result of a favorable FERC ruling, partially offset by a reimbursement from Generation of $12 million for third-party energy reconciliations and $13 million of other miscellaneous revenue.

Purchased Power

Purchased power expense decreased $85 million, or 3% in 2002. The decrease in purchased power expense was primarily attributable to a $145 million decrease as a result of customers choosing to purchase energy from an ARES and a $34 million decrease due to the expiration of the wholesale contracts offered by ComEd to support the open access program in Illinois partially offset by a $41 million increase associated with increased retail demand due to favorable weather conditions, a $16 million increase due to the effects of increased weather-normalized volumes for residential and small commercial and industrial customers, an $18 million increase due to an increase in the weighted average on-peak/off-peak cost per MWh of electricity and $20 million in additional expense as a result of third-party energy reconciliations.

Operating and Maintenance

The $17 million decrease in operating and maintenance (O&M) expense is comprised of $32 million of lower payroll costs due to employee reductions, $16 million in cost reductions from Exelon's Cost Management Initiative and $24 million miscellaneous other net positive impacts, partially offset by $25 million in additional employee benefit costs, a $16 million net increase in environmental and remediation expense and a $14 million increase in injuries and damages expense.

Depreciation and Amortization

Depreciation and amortization expense decreased $143 million, or 22%, in 2002 as follows:

	2002	2001	Variance	% Change
Depreciation Expense	$ 334	$ 353	$ (19)	(5.4)%
Recoverable Transition Costs Amortization	102	108	(6)	(5.6)%
Other Amortization Expense	86	204	(118)	(57.8)%
Total Depreciation and Amortization	$ 522	$ 665	$ (143)	(21.5)%

The decrease in depreciation expense is due to a $48 million decrease related to lower depreciation rates partially offset by the effect of higher in-service property, plant and equipment balances.

Recoverable transition costs amortization expense is determined using the expected period of the rate freeze and the expected returns in the periods under the rate freeze. The reduction in amortization expense in 2002 is due to the extension of the rate freeze in the second quarter of 2002. ComEd expects to fully recover these assets by the end of 2006.

The decrease in Other Amortization Expense is primarily attributable to the discontinuation of amortization of goodwill as required by SFAS No. 142. During 2001, $126 million of goodwill was amortized.

Taxes Other Than Income

Taxes other than income decreased by $9 million, or 3% in 2002. The primary positive impact was the result of real estate tax refunds in the amount of $5 million.

Interest Charges

Interest charges decreased $81 million, or 14% in 2002. The decrease in interest charges was primarily attributable to the impact of lower interest rates for 2002 as compared to 2001, the early retirement of $196 million of First Mortgage Bonds in November of 2001, the retirement of $340 million in transitional trust notes during 2002, and $10 million of intercompany interest expense in 2001 relating to a payable in Generation, which was repaid during 2001.

Other Income and Deductions

Other income and deductions, excluding interest charges, decreased $70 million, or 61%, in 2002. The decrease was primarily attributable to $8 million in intercompany interest income relating to the $400 million receivable from PECO which was repaid during the second quarter of 2001, a $31 million reduction in intercompany interest income from Unicom Investment Inc., reflecting lower interest rates, $9 million in intercompany interest income from Generation in 2001 on the processing of certain invoice payments on behalf of Generation, a $12 million reserve for a potential plant disallowance resulting from an audit performed in conjunction with ComEd's delivery services rate case, and an $10 million decrease in various other income and deductions items.

Income Taxes

The effective income tax rate was 39.0% in 2002, compared to 45.5% in 2001. The decrease in the effective tax rate was primarily attributable to the discontinuation of goodwill amortization as of January 1, 2002, which was not deductible for income tax purposes, and other tax benefits recorded in 2002.

Year Ended December 31, 2001 Compared to Year Ended December 31, 2000

Summary Financial Information—ComEd

			Components of Variance		
	2001	2000	Restructuring Impact	Normal Operations	Total
			(in millions)		
OPERATING REVENUES	$ 6,206	$ 7,012	$ (707)	$ (99)	$ (806)
Purchased Power and Fuel	2,670	1,977	677	16	693
Operating and Maintenance	981	2,076	(1,072)	(23)	(1,095)
Merger-Related Costs	—	67	—	(67)	(67)
Depreciation and Amortization	665	998	(282)	(51)	(333)
Taxes Other Than Income	296	508	(131)	(81)	(212)
Total Operating Expenses	4,612	5,626	(808)	(206)	(1,014)
OPERATING INCOME	1,594	1,386	101	107	208

OTHER INCOME AND DEDUCTIONS					
Interest Expense	(565)	(602)	43	(6)	37
Distributions on Company-Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trusts Holding Solely the Company's Subordinated Debt Securities	(30)	(30)	—	—	—
Other, Net	114	308	—	(194)	(194)
Total Other Income and Deductions	(481)	(324)	43	(200)	(157)
INCOME BEFORE INCOME TAXES	1,113	1,062	144	(93)	51
INCOME TAXES	506	330	72	104	176
NET INCOME	607	732	72	(197)	(125)
Preferred and Preference Stock Dividends	—	(3)	—	3	3
NET INCOME ON COMMON STOCK	$ 607	$ 729	$ 72	$ (194)	$ (122)

Net Income

Net income from normal operations decreased $197 million, or 25% in 2001. Net income was impacted by $107 million in increased operating income offset by a higher effective tax rate and a $194 million decrease in other income and deductions primarily attributable to a gain on the forward share purchase arrangement recognized during 2000 and a reduction in intercompany interest income in 2001 as compared to 2000.

Operating Revenues

Bundled service reflects deliveries to customers taking electric service under tariffed rates, which include the cost of energy and the delivery cost of the transmission and distribution of the energy. Unbundled service reflects customers electing to receive electric generation service from the PPO or an ARES. Revenue from customers choosing the PPO includes an energy charge at market rates, transmission and distribution charges and a CTC charge. Revenue from customers choosing an ARES includes a distribution charge and a CTC charge. Transmission charges received from ARES are included in wholesale and miscellaneous revenue. ComEd's electric sales statistics are as follows:

Retail Deliveries—(in GWhs)	2001	2000	Variance
Bundled Deliveries(1)			
Residential	25,282	23,997	1,285
Small Commercial & Industrial	23,435	24,833	(1,398)
Large Commercial & Industrial	10,305	15,348	(5,043)
Public Authorities & Electric Railroads	7,879	7,665	214
	66,901	71,843	(4,942)
Unbundled Deliveries(2)			
ARES			
Small Commercial & Industrial	2,865	2,772	93
Large Commercial & Industrial	5,458	5,807	(349)
Public Authorities & Electric Railroads	365	297	68
	8,688	8,876	(188)
PPO			
Small Commercial & Industrial	3,279	1,433	1,846
Large Commercial & Industrial	5,750	2,812	2,938
Public Authorities & Electric Railroads	987	1,088	(101)
	10,016	5,333	4,683
Total Unbundled Deliveries	18,704	14,209	4,495
Total Retail Deliveries	85,605	86,052	(447)

(1) Bundled service reflects deliveries to customers taking electric service under tariffed rates.

(2) Unbundled service reflects customers electing to receive electric generation service from an ARES or the PPO.

Electric Revenue	2001	2000	Variance
		(in millions)	
Bundled Revenue(1)			
Residential	$ 2,308	$ 2,235	$ 73
Small Commercial & Industrial	1,821	1,949	(128)
Large Commercial & Industrial	523	811	(288)
Public Authorities & Electric Railroads	430	424	6
	5,082	5,419	(337)
Unbundled Revenue(2)			
ARES			
Small Commercial & Industrial	48	62	(14)
Large Commercial & Industrial	74	115	(41)
Public Authorities & Electric Railroads	5	7	(2)
	127	184	(57)
PPO			
Small Commercial & Industrial	220	92	128
Large Commercial & Industrial	343	158	185
Public Authorities & Electric Railroads	59	56	3
	622	306	316
Total Unbundled Revenues	749	490	259
Total Electric Retail Revenues	5,831	5,909	(78)
Wholesale and Miscellaneous Revenue(3)	375	396(4)	(21)
Total Electric Revenues	$ 6,206	$ 6,305	$ (99)

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

(2) Revenue from customers choosing an ARES includes a distribution charge and a CTC charge. Transmission charges received from ARES are included in wholesale and miscellaneous revenue. Revenues from customers choosing the PPO includes an energy charge at market rates, transmission, and distribution charges and a CTC charge.

(3) Wholesale and miscellaneous revenues include transmission revenue, sales to municipalities and other wholesale energy sales.

(4) Includes the operations of ComEd as if the 2001 corporate restructuring had occurred on January 1, 2000.

The changes in electric retail revenues for 2001, as compared to 2000, were attributable to the following:

	Variance
	(in millions)
Customer Choice	$ (145)
Weather	103
Revenue Taxes	(88)
Other Effects	76
Rate Changes	(24)
Electric Retail Revenue	$ (78)

- *Customer Choice.* ComEd non-residential customers have the choice to purchase energy from other suppliers. This choice generally does not impact MWh deliveries, but affects revenue collected from customers related to energy supplied by ComEd. The decrease in revenues reflects customers in Illinois electing to purchase energy from an ARES or the PPO. As of December 31, 2001, approximately 18,700 retail customers, representing 22% of total annual retail deliveries, had elected to purchase energy from the PPO or an ARES, compared to approximately 9,500 customers, representing 17% of total annual retail deliveries, as of December 31, 2000.

- *Weather.* Although weather was moderate in 2001, the weather impact was favorable compared to the prior year as a result of warmer summer weather offset in part by warmer winter weather in 2001. Cooling degree-days increased 11% in 2001 compared to 2000 while heating degree-days decreased 5% in 2001 compared to 2000.

- *Revenue taxes.* The change in revenue taxes represents a change in presentation of certain revenue taxes from operating revenue and tax expense to collections recorded as liabilities resulting from Illinois legislation. This change in presentation does not affect results of operations.

- *Other Effects.* A strong housing construction market in Chicago has contributed to residential and small commercial and industrial customer volume growth, partially offset by the unfavorable impact of a slower economy on large commercial and industrial customers.

- *Rate Changes*. The decrease in revenues attributable to rate changes reflects a 5% residential rate reduction, effective October 1, 2001, required by the Illinois restructuring legislation.

The reduction in wholesale and miscellaneous revenues in 2001 as compared to 2000, as if the restructuring occurred on January 1, 2000, reflects a $101 million reduction in off-system sales due to the expiration of wholesale contracts that were offered by ComEd from June 2000 to May 2001 to support the open access program in Illinois, partially offset by a $58 million increase in transmission service revenue and the reversal of a $15 million reserve for revenue refunds to ComEd's municipal customers as a result of a favorable FERC ruling.

Purchased Power and Fuel

Purchased power and fuel expense increased $16 million, or 1%, compared to 2000, excluding the effects of restructuring. The increase in purchased power and fuel expense was primarily attributable to increases in the weighted average on-peak/off-peak cost per MWh, partially offset by a decrease in MWhs purchased.

Operating and Maintenance

O&M expense decreased $23 million, or 2%, compared to 2000, excluding the effects of restructuring. The decrease in O&M expense was primarily attributable to a decrease in customer credit and billing costs due to process improvements and a decrease in storm restoration and service reliability costs, partially offset by higher administrative and general costs.

Merger-Related Costs

Merger-related costs charged to expense in 2000 were $67 million consisting of $26 million of direct incremental costs and $41 million for employee costs. Direct incremental costs represent expenses directly associated with completing the Merger, including professional fees, regulatory approval, and other merger integration costs. Employee costs represent estimated severance payments provided for under Exelon's Merger Separation Plan for eligible employees whose positions were eliminated before October 20, 2000 due to planned integration activities of the merged companies.

Depreciation and Amortization

Depreciation and amortization expense decreased $51 million, or 7%, compared to 2000, excluding the effects of restructuring. Regulatory asset and decommissioning amortization decreased $180 million primarily due to the gain on the settlement of the common stock forward purchase arrangement in the

---

first quarter of 2000, partially offset by a $103 million increase in goodwill amortization representing the impact of a full year of amortization expense in 2001 and a $26 million increase in depreciation expense from increased plant in service due to continued transmission and distribution capital improvements. Consistent with the provisions of the Illinois legislation, regulatory assets may be recovered at amounts that provide ComEd an earned return on common equity within the Illinois legislation earnings threshold. See ITEM 8. Financial Statements and Supplementary Data—ComEd Note 5 of the Notes to Consolidated Financial Statements. Annual goodwill amortization of $126 million in 2001 was discontinued in 2002 upon the adoption of SFAS No. 142.

Taxes Other Than Income

Taxes other than income decreased $81 million, or 21%, compared to 2000, excluding the effects of restructuring. The decrease in taxes other than income was primarily attributable to the effect of the change in certain revenue taxes from operating revenue and tax expense to collections recorded as liabilities resulting from Illinois legislation.

Interest Charges

Interest charges consist of interest expense and distributions on Company-Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trusts. Interest charges increased $6 million, or 1%, compared to 2000, excluding the effects of restructuring. The increase in interest expense was primarily attributable to increased interest accrued on estimated tax liabilities and interest due on amounts payable to affiliates.

Other Income and Deductions

Other income and deductions, excluding interest charges, decreased $194 million, compared to 2000. The decrease was primarily attributable to the $113 million gain on the forward share purchase arrangement recognized during 2000 and a $115 million reduction in intercompany interest income in 2001 from Unicom Investment, Inc., reflecting the impact of declining interest rates and an $850 million reduction in intercompany notes receivable in the fourth quarter of 2000, partially offset by the $38 million loss on the sale of Cotter Corporation, a ComEd subsidiary, recognized during 2000.

Income Taxes

The effective income tax rate was 45.5% in 2001, compared to 31.1% in 2000. The increase in the effective tax rate was primarily attributable to the effects of the gain on the forward share purchase arrangement recorded in 2000, which was not recognized for tax purposes, a full year of goodwill amortization in 2001, which is not deductible for tax purposes, the amortization of certain recoverable transition costs, which is not deductible for tax purposes and lower investment tax credit amortization resulting from the application of purchase accounting in connection with the Merger.

Liquidity and Capital Resources

ComEd's business is capital intensive and requires considerable capital resources. ComEd's capital resources are primarily provided by internally generated cash flows from operations and, to the extent necessary, external financing including the issuance of commercial paper. ComEd's access to external financing at reasonable terms is dependent on its credit ratings and general business conditions, as well as that of the utility industry in general. Capital resources are used primarily to fund ComEd's capital requirements, including construction, repayments of maturing debt and the payment of dividends.

Cash Flows from Operating Activities

Cash flows provided by operations in 2002 were $2.0 billion as compared to $1.3 billion in 2001. The increase in cash flows in 2002 was primarily attributable to a $183 million increase in net income, a $175 million increase in other operating activities, and a $422 million increase in working capital partially offset by a decrease of $143 million in depreciation and amortization. ComEd's future cash flows will depend upon the ability to achieve reductions in operating costs, the impact of the economy, weather, and customer choice on its revenues. Although the amounts may vary from period to period as a result of uncertainties inherent in the business, ComEd expects to continue to provide a reliable and steady source of internal cash flow from operations for the foreseeable future.

ComEd participates in Exelon's defined benefit pension plans. Exelon's plans currently meet the minimum funding requirements of the Employment Retirement Income Security Act of 1974; however, Exelon made a $150 million discretionary plan contribution in 2002, $82 million of which was funded by ComEd. Exelon also expects to make a discretionary plan contribution of $300 million to $350 million in 2003.

Cash Flows from Investing Activities

Cash flows used in investing activities were $759 million in 2002 compared to $458 million in 2001. The increase in cash flows used in investing activities in 2002 was primarily attributable to the paydown of the $400 million outstanding receivable from PECO in the second quarter of 2001 partially offset by an $89 million decrease in capital expenditures. ComEd's investing activities for the year ended December 31, 2002 were funded primarily through operating activities.

ComEd estimates that it will spend approximately $720 million in total capital expenditures for 2003. Approximately two thirds of the budgeted 2003 expenditures are for continuing efforts to further improve the reliability of its transmission and distribution systems. The remaining one third is for capital additions to support new business and customer growth. ComEd anticipates that it will obtain financing, when necessary, through borrowings, the issuance of preferred securities, or capital contributions from Exelon. ComEd's proposed capital expenditures and other investments are subject to periodic review and revision to reflect changes in economic conditions and other factors.

Cash Flows from Financing Activities

Cash flows used in financing activities in 2002 were $1,231 million as compared to $1,006 million in 2001. Cash flows used in financing activities were primarily attributable to debt service and payments of dividends to Exelon. ComEd's debt financing activities in 2002 reflected the issuance of $600 million of First Mortgage Bonds, the issuance of $100 million of Illinois Development Finance Authority floating-rate Pollution Control Revenue Refunding Bonds, the retirement of $340 million of transitional trust notes, the redemption of $600 million in First Mortgage Bonds with available cash, the payment at maturity of $200 million in First Mortgage Bonds, the payment at maturity of $200 million in variable rate senior notes, the payment at maturity of $100 million of fixed-rate medium-term notes and the redemption of $100 million of 7.25% Illinois Development Finance Authority Pollution Control Revenue Refunding Bonds. As of December 31, 2002, ComEd had $123 million in short-term borrowings of which $52 million has been classified as long-term debt. In 2001, ComEd's debt financing activities reflected the retirement of $340 million of transitional trust notes and the redemption of $196 million in First Mortgage Bonds. ComEd paid a $470 million dividend to Exelon during 2002 compared to a $483 million dividend in 2001.

Credit Issues

ComEd meets its short-term liquidity requirements primarily through the issuance of commercial paper and borrowings from Exelon's intercompany money pool. ComEd, along with Exelon, PECO, and

---

Generation, participates in a $1.5 billion unsecured 364-day revolving credit facility with a group of banks. The credit facility that became effective on November 22, 2002, includes a term-out option that allows any outstanding borrowings at the end of the revolving credit period to be repaid on November 21, 2004. Exelon may increase or decrease the sublimits of each of the participants upon written notification to the banks. As of December 31, 2002, ComEd's sublimit was $200 million. The credit facility is used principally to support ComEd's commercial paper program. At December 31, 2002, ComEd's Balance Sheet reflects $123 million in commercial paper outstanding, of which $52 million was classified as long-term debt.

For 2002, the average interest rate on notes payable was approximately 1.69%. Certain of the credit agreements to which ComEd is a party require it to maintain a cash from operations to interest expense ratio for the twelve-month period ended on the last day of any quarter. The ratio excludes revenues and interest expenses attributed to securitization debt, certain changes in working capital, and distributions on preferred securities of subsidiaries. ComEd's threshold for the ratio reflected in the credit agreement cannot be less than 2.25 to 1 for the twelve-month period ended December 31, 2002. At December 31, 2002, ComEd was in compliance with the credit agreement thresholds.

At December 31, 2002, ComEd's capital structure, excluding the deduction from shareholders' equity of the $615 million receivable from Exelon, consisted of 46% long-term debt, 50% of common stock, 3% of preferred securities of subsidiaries, and 1% of notes payable. Long-term debt included $2.0 billion of transitional trust notes constituting obligations of certain consolidated special purpose entities representing 16% of capitalization.

To provide an additional short-term borrowing option that will generally be more favorable to the borrowing participants than the cost of external financing, Exelon operates an intercompany money pool. Participation in the money pool is subject to authorization by the Exelon corporate treasurer. ComEd and its subsidiary Commonwealth Edison of Indiana, Inc., PECO, Generation and BSC may participate in the money pool as lenders and borrowers, and Exelon as a lender. Funding of, and borrowings from, the money pool are predicated on whether such funding results in mutual economic benefits to each of the participants, although Exelon is not permitted to be a net borrower from the money pool. Interest on borrowings is based on short-term market rates of interest, or specific borrowing rates if the funds are provided by external financing. There have been no material money pool transactions in 2002.

ComEd's access to the capital markets, including the commercial paper market, and its financing costs in those markets are dependent on its securities ratings. None of ComEd's borrowings are subject to default or prepayment as a result of a downgrading of securities ratings although such a downgrading could increase interest charges under certain bank credit facilities. The following table shows ComEd's securities ratings at December 31, 2002:

	Securities	Moody's Investors Service	Standard & Poor's	Fitch Ratings
ComEd	Senior secured debt	A3	A-	A-
	Commercial paper	P2	A2	F2

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

Under PUHCA, ComEd can only pay dividends from retained or current earnings; however, the SEC has authorized ComEd to pay up to $500 million in dividends out of additional paid-in capital, provided ComEd may not pay dividends out of paid-in capital after December 31, 2002 if its common equity is less than 30% of its total capitalization (including transitional trust notes). ComEd is

precluded from lending or extending credit or indemnity to Exelon. At December 31, 2002, ComEd had retained earnings of $577 million.

Contractual Obligations and Commercial Commitments

ComEd's contractual obligations as of December 31, 2002 representing cash obligations that are considered to be firm commitments are as follows:

	Total	Payment due within 1 Year	2-3 Years	4-5 Years	Due after 5 Years
	(in millions)				
Long-Term Debt	$ 6,024(a)	$ 750(a)	$ 1,383	$ 1,295	$ 2,596
Notes Payable	71	71	—	—	—
Operating Leases	135	22	38	32	43
Company-Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trusts Holding the Company's Subordinated Debt Securities	350	—	—	—	350
Total Contractual Obligations	$ 6,580	$ 843	$ 1,421	$ 1,327	$ 2,989

(a) Includes $52 million of commercial paper classified as long-term debt under the provisions of SFAS No. 6, "Classification of Short-term Obligations to be Refinanced."

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

See ITEM 8. Financial Statements and Supplementary Data—ComEd Notes to Consolidated Financial Statements for additional information about:

- long-term debt see Note 10
- notes payable see Note 9
- operating leases see Note 16
- Company-Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trusts Holding the Company's Subordinated Debt Securities see Note 13
- Midwest Agreement see Note 19

ComEd's commercial commitments as of December 31, 2002 representing commitments not recorded on the balance sheet but potentially triggered by future events, including financing arrangements to secure obligations of ComEd, are as follows:

			Expiration within		
	Total	1 Year	2-3 Years	4-5 Years	After 5 Years
			(in millions)		
Credit Facility(a)	$ 200	$ 200	$ —	$ —	$ —
Letters of Credit (non-debt)(b)	24	24	—	—	—
Letter of Credit (Long-term Debt)(c)	92	92	—	—	—
Insured Long-Term Debt(d)	100	—	—	—	100
Surety Bonds(e)	18	18	—	—	—
Total Commercial Commitments	$ 434	$ 334	$ —	$ —	$ 100

(a) Credit Facility—ComEd, along with Exelon, PECO and Generation, maintain a $1.5 billion 364-day credit facility to support commercial paper issuances. ComEd has a $200 million sublimit under the credit facility. At December 31, 2002, there were no borrowings against the credit facility. Additionally, at December 31, 2002, ComEd had $123 million in outstanding commercial paper.

(b) Letters of Credit (non-debt)—ComEd maintains non-debt letters of credit to provide credit support for certain transactions as requested by third parties.

(c) Letters of Credit (Long-Term Debt)—Direct-pay letters of credit issued in connection with variable-rate debt in order to provide liquidity in the event that it is not possible to remarket all of the debt as required following specific events, including changes in the basis of determining the interest rate on the debt.

(d) Insured Long-Term Debt—Borrowings that have been credit-enhanced through the purchase of insurance coverage equal to the amount of principal outstanding plus interest.

(e) Surety Bonds—Guarantees issued related to contract and commercial surety bonds, excluding bid bonds.

As part of a settlement agreement between ComEd and Chicago relating to ComEd's Chicago franchise agreement, ComEd and Chicago agreed to a revised combination of ongoing work under the franchise agreement and new initiatives that total approximately $1 billion in defined transmission and distribution expenditures by ComEd to improve electric service in Chicago, all of which has been expended through December 31, 2002.

Critical Accounting Estimates

See ComEd, PECO and Generation—Critical Accounting Estimates above for a discussion of ComEd's Critical Accounting Estimates.

Business Outlook and the Challenges in Managing Our Business

ComEd faces a number of challenges in achieving its vision and keeping its commitments to its customers and investors. ComEd may be significantly impacted by the end of its regulatory transition period in 2006. A significant challenge is that by existing law, after 2006, ComEd will not collect CTCs from customers who elect to receive generation services from alternative energy suppliers including the ComEd PPO. Additionally, the current bundled rate structure may be reset in a regulatory proceeding. It is difficult to predict the outcome of a potential regulatory proceeding to establish rates for 2007 and thereafter; nor is it possible to predict what changes may occur to the restructuring law in Illinois;

however, ComEd is undertaking various efforts to mitigate the 2007 challenge. This and other challenges that will affect how ComEd manages its business are described below.

ComEd must comply with numerous regulatory requirements in managing its business, which affect costs and responsiveness to changing events and opportunities.

ComEd's business is subject to regulation at the state and Federal levels. ComEd is regulated by the ICC which regulates the rates, terms and conditions of service; various business practices and transactions; financing; and transactions between ComEd and its affiliates. ComEd is also subject to regulation by the FERC, which regulates transmission rates and certain other aspects of its business. The regulations adopted by these state and Federal agencies affect the manner in which ComEd does business, its ability to undertake specified actions and the costs of its operations.

ComEd is involved in a number of regulatory proceedings as a part of the process of establishing the terms and rates for services.

These regulatory proceedings typically involve multiple parties, including governmental bodies, consumer advocacy groups and various consumers of energy, who have differing concerns but who have the common objective of limiting rate increases. The proceedings also involve various contested issues of law and fact and have a bearing upon the recovery of ComEd's costs through regulated rates. During the course of the proceedings, ComEd looks for opportunities to resolve contested issues in a manner that grant some certainty to all parties to the proceedings as to rates and energy costs.

Delivery Services Rate Case. ComEd is authorized to charge customers who purchase electricity from an alternative supplier for the use of its distribution system to deliver that electricity. These delivery service rates are set through proceedings before the ICC based upon, among other things, the operating costs associated with ComEd's distribution system and the capital investment that ComEd has made in its distribution system. In April 2002, the ICC issued an interim order that set delivery rates for ComEd's residential customers. The interim order was subject to an audit of test year (2000) expenditures, including capital expenditures. In October 2002, the ICC received the report on the audit of the test year expenditures by a consulting firm engaged by the ICC to perform the audit. The consulting firm recommended certain additional disallowances to test year expenditures and rate base levels. ComEd does not expect any change in delivery service rates to have a significant impact on results of operations in 2003. However, the estimated potential investment write-off, before income taxes, could be up to approximately $100 million if the ICC ultimately determines that all or some portion of ComEd's distribution plant is not recoverable through rates. In 2002, ComEd recorded a charge to earnings, before income taxes, of $12 million representing the estimated minimum probable exposure. ComEd is in negotiations with several parties to resolve the delivery service case.

2003 Agreement. On March 3, 2003, ComEd entered into an agreement with various Illinois electric retail market suppliers, key customer groups and governmental parties regarding several matters affecting ComEd's rates for electric service (Agreement). The Agreement contemplates a series of coordinated filings with the ICC, which must issue orders consistent with the Agreement in order for the provisions of the Agreement to become effective.

The Agreement addresses, among other things:

- ComEd's pending residential delivery services rate proceeding

  New residential delivery service rates would be set based upon substantially the same as the rates currently in effect under the interim order and would remain in effect through December 31, 2006, with a possible reopener in the event that a reexamination in 2005 shows that ComEd is either under-recovering or over-recovering by more than 15% based on those rates. In addition, a $109 million distribution system capital expenditure disallowance that was

  proposed in the pending proceeding by a consulting firm engaged by the ICC to audit ComEd's test year expenditures, would not be reflected in the revenue requirement. Under the Agreement, distribution system plant reflected in the rate filing would be considered prudent and used and useful for purposes of this and future rate proceedings.

- Illinois electricity market development

  There would be a modification of the methodology used to determine the market value energy credit. That credit is used to determine the price for specified market-based rate offerings by ComEd, and the rate for the CTC that ComEd is allowed to collect from customers who select an alternative retail electricity supplier. The credit would be adjusted upward through agreed upon "adders," which would take effect in June 2003 and would have the effect of reducing the CTC rate charged customers. The estimated annual revenue impact of the reduction in CTC revenues under the Agreement is approximately $65 million to $70 million. In addition, customers would be offered an option to lock-in CTC charges for longer periods. Currently, CTC charges are subject to change annually.

- Competitive service declarations that assist in mitigating ComEd's POLR obligations

  The Agreement provides for the withdrawal of certain of the outstanding appeals of the competitive declaration for service to customers having load requirements of three or more megawatts. Also, it establishes a process for achieving in June 2004 a similar competitive declaration for service to customers having load requirements of one to three megawatts.

- ComEd's ability to enter into a full-requirements PPA with Generation

  The parties to the Agreement would not contest extending ComEd's full requirements PPA, now in place through 2004, through 2006, replacing the partial requirements service for 2005 and 2006 in the existing agreement. The parties also would not contest ComEd's continued recovery of up to $73 million in nuclear decommissioning charges during 2005 and 2006, depending on the amount of energy that ComEd would purchase from Generation's nuclear plants formerly owned by ComEd.

- Funding of certain programs for customer and governmental groups

  The Agreement provides for a total of $51 million in funding to various consumer groups and governmental agencies for a variety of programs from 2003 through 2006. Those programs may include energy and environmental programs, efficiency products and services, residential consumer education, market development studies and installation of emergency generating equipment.

ComEd believes the Agreement assists in protecting the integrity of the CTC that it is allowed to collect from customers who choose an alternative supplier; sets a reasonable delivery service rate; provides customers and ComEd with greater price certainty and stability; enhances its relationship with regulatory, governmental and key customer groups; avoids the costs, uncertainty and time associated with litigation; and presents a proactive approach to increasing competition in the supply of electricity in Illinois.

In order for the Agreement to become effective, the ICC, which is not a party to the Agreement, must enter orders consistent with the Agreement by late March 2003 in various regulatory proceedings that are the subject of the Agreement. Although the parties to the Agreement have agreed as to the general content of those orders, there are other parties to the proceedings who are seeking changes or modifications to the proposed orders or otherwise seeking to delay or prevent the effectiveness of the Agreement. As a result, there can be no assurance that the Agreement will become effective.

If the Agreement becomes effective, ComEd would record a charge to earnings associated with the funding of specified programs and initiatives associated with the Agreement of $49 million on a present value basis before income taxes. This amount would be partially offset by the reversal of a $12 million (before income taxes) reserve established in the third quarter of 2002 for a potential capital disallowance in ComEd's delivery services rate proceeding, and a credit of $10 million (before income taxes) related to the capitalization of employee incentive payments provided for in the delivery services order. The net one-time charge for these items of $27 million (before income taxes) would be recognized upon receipt of necessary ICC approvals.

ComEd must maintain the availability and reliability of its delivery systems to meet customer expectations.

Each year increases in both customers and the demand for energy requires expansion and reinforcement of delivery systems to increase capacity and maintain reliability. Failures of the equipment or facilities used in those delivery systems could potentially interrupt energy delivery services and related revenues, and increase repair expenses and capital expenditures. Such failures, including prolonged or repeated failures, also could affect customer satisfaction and may increase regulatory oversight and the level of ComEd's maintenance and capital expenditures. In addition, under Illinois law, ComEd can be required to pay damages to its customers in the event of extended outages affecting large numbers of its customers.

ComEd must manage its costs due to the rate and equity return limitations imposed on ComEd's revenues.

Rate freezes in effect at ComEd currently limit the ability to recover increased expenses and the costs of investments in new transmission and distribution facilities. As a result, ComEd's future results of operations will depend on the ability of ComEd to deliver electricity in a cost-efficient manner, and to realize cost reductions to offset increased infrastructure investments and inflation.

Rate limitations. ComEd is subject to a legislatively mandated rate freeze on bundled retail rates that will remain effective until January 1, 2007.

Equity return limitation. ComEd is subject to a legislatively mandated cap on its return on common equity through the end of 2006. The cap is based on a two-year average of the U.S. Treasury long-term rates (25 years and above) plus 8.5%, and is compared to a two-year average return on ComEd's common equity. The legislation requires customer refunds equal to one-half of any excess earnings above the cap. ComEd is allowed to include regulatory asset amortization in the calculation of earnings. ComEd has not triggered the earnings sharing provision and currently does not expect to trigger the earnings sharing provision in the years 2003 through 2006. However, due to the historically low interest rates used in calculating the earnings cap, ComEd may be required to amortize additional regulatory assets.

ComEd has and will lose energy customers to other generation service providers, although it continues to provide delivery services and may have an obligation to provide generation service to those customers.

The revenues of ComEd will vary because of customer choice of generation suppliers. As a result of restructuring initiatives in Illinois, all of ComEd's retail electric customers can choose to purchase their generation supply from alternative suppliers. If customers do not choose an alternative generation supplier or take service under ComEd's PPO, ComEd is currently generally obligated to provide generation and delivery service to customers in its service territory at fixed rates, or in some instances, market-derived rates. In addition, customers who choose an alternative generation supplier may later return to ComEd, provided, however, that under Illinois law ComEd's obligation to provide generation

may be eliminated over time if the ICC finds that competitive supply options are available to certain classes of customers. ComEd remains obligated to provide transmission and distribution service to all customers regardless of their generation supplier. To the extent that customers leave traditional bundled tariffs and select a different generation provider, ComEd revenues are likely to decline.

At December 31, 2002, based on sales of energy approximately 27% of ComEd's small commercial and industrial (C&I) load and 61% of its large C&I load were purchasing their generation service from an alternative generation supplier or had chosen ComEd's PPO, a market-based price for energy. There are currently no certified alternative suppliers for the residential market in ComEd's service territory.

The number of customers choosing alternative generation suppliers depends in part on the prices being offered by those suppliers relative to the fixed prices that ComEd is authorized to charge by the ICC. As a result of the right of customer choice of generation suppliers, ComEd anticipates that its revenues and gross margins could be variable.

ComEd continues to serve as the POLR for energy for all customers in its service territory.

ComEd is required to make available generation service to all retail customers in its service territory, including customers that have taken energy from an alternative generation supplier. ComEd's customers can "switch," that is, they can choose an alternative generation supplier and then return to ComEd and then go back to an alternative supplier, and so on within limits. Because customers can switch, planning has a higher level of uncertainty than that traditionally experienced due to weather and the economy. In order to mitigate this risk with regard to its large commercial and industrial customers, on July 19, 2002, ComEd filed a request with the ICC to revise its POLR obligation in Illinois to be the back-up energy supplier to certain businesses. ComEd obtained permission from the ICC to limit the availability by June 2006 of Rate 6L for 370 of its largest energy customers. These are commercial and industrial customers, including heavy industrial plants, large office buildings, government facilities and a variety of other businesses with peak demands of at least three megawatts (MWs). ComEd's request affects a total of approximately 2,500 MWs. On November 14, 2002, the ICC allowed ComEd's request to go into effect as of June 2003. ComEd has no obligation to purchase power reserves to cover the load served by others. Presently, ComEd manages the POLR obligation through full requirements contracts with Generation, under which Generation is required to supply all of ComEd's power requirements. Because of the ability of customers to switch generation suppliers, there is uncertainty regarding the amount of ComEd load Generation must prepare for. The uncertainty increases Generation's costs. As a result, and in connection with its July 2002 ICC request, ComEd is discussing the POLR obligation issue with a number of parties including those who were parties to ComEd's rate request.

ComEd's long-term PPA provides a partial hedge to its customers' demand.

Because the bundled rates ComEd charges its customers are frozen for several years as mentioned previously in the "Rate limitations" section, its ability to recover increased costs with increases in rates charged to these customers is limited. Therefore, to effectively manage its obligation to provide power to meet its customers' demand, ComEd has established power supply agreements with Generation that reduce exposure to the volatility of market prices through 2006. Market prices relative to ComEd's bundled rates still influence switching behavior among retail customers.

ComEd's business may be significantly impacted by the end of the regulatory transition period in 2006.

Illinois electric utilities are allowed to collect CTCs from customers who choose an alternative supplier of electric generation service or choose a utility's PPO. CTCs were intended to assist electric utilities, such as ComEd, in recovering stranded costs that might not otherwise be recoverable in a fully competitive market. The CTC charge represents the difference between the competitive price of delivered energy (the sum of generation service at competitive prices and the regulated price of energy delivery) and recoveries under historical bundled rates, reduced by a mitigation factor. The CTC charges are updated annually. Over time, to facilitate the transition to a competitive market, the mitigation factor increases, thereby reducing the CTC charge. Under current law, ComEd will no longer collect CTCs at the end of 2006.

In 2001, ComEd collected $110 million of CTC revenue, while in 2002, CTC revenue collected increased to $306 million due to the change in the competitive price of delivered electricity, primarily due to lower wholesale prices and more customers choosing alternative energy suppliers or the ComEd PPO. ComEd anticipates CTC revenues to be in the range of $350 million to $400 million for 2003 based on current assumptions about the competitive price of delivered energy and customers' choice of electric suppliers. Based on increasing mitigation factors, ComEd expects CTC revenues to decline in 2004 through 2006. In 2006, CTC revenues are estimated to be approximately $250 to $300 million annually. In addition, the CTC is dependent on the ICC's determination of the market price of electricity. In a proceeding before the ICC, various market participants, including alternative providers and large customers, have proposed modifications to the method for determining the market price that, if accepted, could have the effect of reducing the CTC. If the ICC issues orders making the Agreement effective, modification to the method for determining the market price of electricity would have the effect of reducing CTC revenues by an estimated $65 million to $70 million annually, effective in June 2003. Under the current restructuring statute, in 2007 this revenue will drop to zero. Through 2006, ComEd will continue to have a bundled service obligation, particularly to residential and small commercial customers. ComEd's current bundled service is generally provided under an all-inclusive rate that does not separately break out charges for energy generation service and energy delivery service, but charges a single set of prices. Much like the CTC collections, this revenue stream is authorized by the legislature through the transition period. After the transition ends in 2006, ComEd's bundled rates may be reset through a regulatory approval process, which may include traditional or innovative pricing, including performance-based incentives to ComEd.

In order to address post-transition uncertainty, ComEd is constantly working with Illinois state and business community leadership to facilitate the development of a competitive electricity market while providing system reliability. This is particularly important as ComEd's costs to provide electricity to bundled residential and small commercial customers are capped by law at 110% of market. Transparent and liquid markets will help to minimize litigation over electricity prices and provide consumers assurance of equitable pricing. At the same time, ComEd is attempting to establish a regulatory framework for the post 2006 timeframe. To offset CTC revenue loss after 2006, ComEd is pursuing measures that would provide greater productivity, quality and innovation in the work practices across Exelon. Currently, it is difficult to predict the outcome of a potential regulatory proceeding to establish rates after 2006. Management believes that no one factor will solve the 2007 challenge, but that some combination of the components currently being worked on, together with other things Exelon and ComEd will do over the next four years, will address the 2007 challenge.

The ability to successfully manage the end of the transition period may affect ComEd's capital structure.

ComEd has approximately $4.9 billion of goodwill recorded at December 31, 2002. This goodwill was recognized and recorded in connection with the Merger. Under GAAP, the goodwill will remain at its recorded amount unless it is determined to be impaired, which is based upon an analysis of ComEd's cash flows. If an impairment is determined at ComEd, the amount of the impaired goodwill will be written-off and expensed at ComEd. Presently, ComEd has sufficient cash flows to support the recorded amount of goodwill and thus, no impairment has been recorded. For a further discussion of this subject, see the Goodwill discussion within ComEd, PECO and Generation—Critical Accounting

Estimates above. ComEd's cash flows include CTCs, which will cease at the end of 2006, unless there is a legislative or regulatory change and collections from traditional bundled customers at tariffed rates. Absent another source of revenues, to replace the loss of CTC revenue, all or a portion of the goodwill may become impaired. ComEd currently believes that there are a number of alternatives that could provide cash flows to support the goodwill. Under current regulations, a significant goodwill impairment may restrict ComEd's ability to pay dividends (see the Credit Issues section within Liquidity and Capital Resources above). ComEd is pursuing various solutions to address its ability to pay dividends if a significant goodwill impairment exists. However, based on Illinois legislation, goodwill impairments are excluded from determining whether or not the earnings cap amount has been met or exceeded (see the Equity return limitation discussion within Business Outlook and the Challenges in Managing Our Business above).

Weather affects electricity usage and, consequently, ComEd's results of operations.

Temperatures above normal levels in the summer tend to further increase summer cooling electricity demand and revenues, and temperatures below normal levels in the winter tend to further increase winter heating electricity demand and revenues. Because of seasonal pricing differentials, coupled with higher consumption levels, ComEd typically reports higher revenues in the third quarter of its fiscal year. However, extreme summer conditions or storms may stress ComEd's transmission and distribution systems, resulting in increased maintenance costs and limiting ComEd's ability to bring power in to meet peak customer demand. These extreme conditions may have detrimental effects on ComEd's operations.

Economic conditions and activity in ComEd's service territory directly affect the demand for electricity.

Economic conditions and activity in ComEd's service territory directly affect the demand for electricity. Higher levels of development and business activity generally increase the number of customers and their use of energy. ComEd's business plan reflects an increase in output growth of 1.5% per year on a weather-normalized basis. However, there is continued economic uncertainty and ComEd is currently evaluating the impact of reduced economic activity on the 2003 growth rate. Recessionary economic conditions, and the associated reduced economic activity, may adversely affect ComEd's results of operations.

ComEd's business is affected by the restructuring of the energy industry.

The electric utility industry in the United States is in transition. As a result of both legislative initiatives as well as competitive pressures, the industry has been moving from a fully regulated industry, consisting primarily of vertically integrated companies that combine generation, transmission and distribution, to a partially restructured industry, consisting of competitive wholesale generation markets and continued regulation of transmission and distribution. These developments have been somewhat uneven across the states as a result of the reaction to the problems experienced in California in 2000 and the more recently publicized problems of some energy companies. Illinois has adopted restructuring legislation designed to foster competition in the retail sale of electricity. A large number of states have not changed their regulatory structures.

Regional Transmission Organizations / Standard Market Design. To facilitate wholesale competition in the electric industry, FERC has required jurisdictional utilities to provide open access to their transmission systems. To foster the development of large regional wholesale markets, FERC issued Order 2000, encouraging the development of regional transmission organizations (RTOs) and the elimination of trade barriers between regions. FERC has also proposed a rulemaking to mandate a standard market design (SMD) for the wholesale markets. Order 2000 and the proposed SMD rule contemplate that the jurisdictional transmission owners in a region will turn over operating authority over their transmission facilities to an RTO or other independent entity for the purpose of providing

open transmission access. As a result, the independent entity will become the provider of the transmission service and the transmission owners will recover their revenue requirements through the independent entity. The transmission owners will remain responsible for maintaining and physically operating their transmission facilities. The SMD rulemaking proposal would also requirethe independent entities to operate an organized bid-based wholesale market for those who wish to sell their generation through the market and to implement a financially-based system for dealing with congestion on transmission lines known as "locational marginal pricing" (LMP). FERC has also issued proposals to encourage RTO development, independent control of the transmission grid and expansion of the transmission grid by providing enhanced returns on equity for transmission assets.

FERC Order 2000 has not led to the rapid development of RTOs and FERC has not yet finalized its SMD proposal, due in part to substantial opposition by some state regulators and other governmental officials. ComEd supports both of these proposals but cannot predict whether they will be successful, what impact they may ultimately have on ComEd's transmission rates, revenues and operation of ComEd's transmission facilities, or whether they will ultimately lead to the development of large, successful regional wholesale markets. To the extent that ComEd has POLR obligations, and may at some point no longer have long-term supply contracts with Generation for its load, the ability of ComEd to cost effectively serve its POLR load obligation will depend on the development of such markets.

Effective management of capital projects is important to ComEd's business.

ComEd's business is capital intensive and requires significant investments in energy transmission and distribution facilities, and in other internal infrastructure projects.

ComEd continues to make significant capital expenditures to improve the reliability of its transmission and distribution systems in order to provide a high level of service to its customers. ComEd expects that its capital expenditures will continue to exceed depreciation on its plant assets. ComEd's base rate freeze will generally preclude incremental rate recovery on any these incremental investments prior to January 1, 2007 (see the Rate limitations discussion within Business Outlook and the Challenges in Managing Our Business above).

Capital Markets / Financing Environment

In order to expand ComEd's operations and to meet the needs of current and future customers, ComEd invests in its business. The ability to finance ComEd's business and other necessary expenditures is affected by the capital-intensive nature of ComEd's operations and ComEd's current and future credit ratings. The capital markets also affect Exelon's benefit plan assets. Further discussions of ComEd's liquidity position can be found in the Liquidity and Capital Resources section above.

The ability to grow ComEd's business is affected by the ability to finance capital projects.

ComEd's business requires considerable capital resources. When necessary, ComEd secures funds from external sources by issuing commercial paper and, as required, long-term debt securities. ComEd actively manages its exposure to changes in interest rates through interest-rate swap transactions and its balance of fixed- and floating-rate instruments. Management currently anticipates primarily using internally generated cash flows and short-term financing through commercial paper to fund operations as well as long-term external financing sources to fund capital requirements as the needs and opportunities arise. The ability to arrange debt financing, to refinance current maturities and early retirements of debt, and the costs of issuing new debt are dependent on:

- credit availability from banks and other financial institutions,

- maintenance of acceptable credit ratings (see credit ratings in the credit issues section of Liquidity and Capital Resources above),
- investor confidence in ComEd and Exelon,
- general economic and capital market conditions,
- the success of current projects, and
- the perceived quality of new projects.

ComEd's credit ratings influence its ability to raise capital.

ComEd has investment grade ratings and has been successful in raising capital, which has been used to further its business initiatives. Failure to maintain investment grade ratings would require ComEd to incur higher financing costs.

Equity market performance affects Exelon's benefit plan asset values.

The sharp decline in the equity markets since the third quarter of 2000 has reduced the value of the assets held in trusts to satisfy the obligations of pension and postretirement benefit plans. If the markets continue to decline, Exelon may have higher funding requirements and pension and other postretirement benefit expense. Exelon will continue to manage the assets in the pension and postretirement benefit plans in order to achieve the best return possible in conjunction with

Exelon's overall risk management practices and diversified approach to investment. Please refer to the Critical Accounting Estimates section that more fully describes the quantitative financial statement effects of changes in the equity markets on the benefit plan assets.

ComEd's results of operations can be affected by inflation.

Inflation affects ComEd through increased operating costs and increased capital costs for transmission and distribution plant. As a result of the rate freezes imposed under the legislation in Illinois and price pressures due to competition, ComEd may not be able to pass the costs of inflation through to customers.

Other

ComEd may incur substantial cost to fulfill its obligations related to environmental matters.

ComEd's business is subject to extensive environmental regulation by local, state and Federal authorities. These laws and regulations affect the manner in which ComEd conducts its operations and make its capital expenditures. ComEd is subject to liability under these laws for the costs of remediating environmental contamination of property now or formerly owned by ComEd and of property contaminated by hazardous substances ComEd generated. Management believes that it has a responsible environmental management and compliance program; however, ComEd has incurred and expects to incur significant costs related to environmental compliance and site remediation and clean-up. Remediation activities associated with manufactured gas plant operations conducted by predecessor companies will be one source of such costs. Also, ComEd is currently involved in a number of proceedings relating to sites where hazardous substances have been deposited and may be subject to additional proceedings in the future.

As of December 31, 2002, ComEd's reserve for environmental investigation and remediation costs was $101 million, exclusive of decommissioning liabilities. ComEd has accrued and will continue to accrue amounts that management believes are prudent to cover these environmental liabilities, but ComEd cannot predict with any certainty whether these amounts will be sufficient to cover ComEd's environmental liabilities. Management cannot predict whether ComEd will incur other significant

liabilities for any additional investigation and remediation costs at additional sites not currently identified by ComEd, environmental agencies or others, or whether such costs will be recoverable from third parties.

ComEd's financial performance is affected by its ability to manage costs for security and liability insurance.

Security. In connection with the events of September 11, 2001, the electric industry has developed additional security guidelines. The electric industry, through the North American Electric Reliability Council (NERC), developed physical security guidelines, which were accepted by the U.S. Department of Energy. In 2003, FERC is expected to issue minimum standards to safeguard the electric grid system control. These standards are expected to be effective in 2004 and fully implemented by January 2005. Exelon participated in the development of these guidelines and ComEd is using them as a model for its security program.

Insurance. ComEd, through Exelon, carries property damage and liability insurance for its properties and operations. As a result of significant changes in the insurance marketplace, due in part to the September 11, 2001 terrorist acts, the available coverage and limits may be less than the amount of insurance obtained in the past and the recovery for losses due to terrorists acts may be limited. Exelon is self-insured to the extent that any losses may exceed the amount of insurance maintained.

The possibility of attack or war may adversely affect ComEd's results of operations, future growth and ability to raise capital.

Any military strikes or sustained military campaign may affect ComEd's operations in unpredictable ways, such as increased security measures and disruptions of fuel supplies and markets, particularly oil. Just the possibility that infrastructure facilities, such as electric generation, transmission and distribution facilities, would be direct targets of, or indirect casualties of, an act of terror or war may affect ComEd's operations. War and the possibility of war may have an adverse effect on the economy in general. A lower level of economic activity might result in a decline in energy consumption, which may adversely affect ComEd's revenues or restrict ComEd's future growth. Instability in the financial markets as a result of war may affect ComEd's ability to raise capital.

The introduction of new technologies could increase competition in ComEd's market.

While demand for electricity is generally increasing throughout the United States, the rate of construction and development of new, more efficient, electric generation facilities and distribution methodologies may exceed increases in demand in some regional electric markets. The introduction of new technologies could increase competition, which could lower prices and have an adverse effect on ComEd's results of operations or financial condition.

New Accounting Pronouncements

See ComEd, PECO and Generation—New Accounting Pronouncements above for a discussion of new accounting pronouncements.

PECO

General

On October 20, 2000, PECO became a wholly-owned subsidiary of Exelon as a result of the transactions relating to the Merger.

During January 2001, Exelon undertook a restructuring to separate its generation and other competitive businesses from its regulated energy delivery business. As part of the restructuring, the non-regulated operations and related assets and liabilities of PECO, representing the generation and enterprises business segments, were transferred to separate subsidiaries of Exelon. As a result, beginning January 2001, the operations of PECO consist of its retail electricity distribution and transmission business in southeastern Pennsylvania and its natural gas distribution business located in the Pennsylvania counties surrounding the City of Philadelphia. The estimated impact of the restructuring set forth herein reflects the effects of removing the generation and enterprises operations and obtaining energy and capacity from Generation under the terms of the PPA for the year ended December 31, 2000.

Results of Operations

Year Ended December 31, 2002 Compared To Year Ended December 31, 2001

Significant Operating Trends—PECO

	2002	2001	Variance	% Change
OPERATING REVENUES	$ 4,333	$ 3,965	$ 368	9.3%
OPERATING EXPENSES				
Purchased Power	1,669	1,352	317	23.4%
Fuel	348	450	(102)	(22.7%)
Operating and Maintenance	523	587	(64)	(10.9%)
Depreciation and Amortization	456	416	40	9.6%
Taxes Other Than Income	244	161	83	51.6%
Total Operating Expense	3,240	2,966	274	9.2%
OPERATING INCOME	1,093	999	94	9.4%
OTHER INCOME AND DEDUCTIONS				
Interest Expense	(370)	(413)	43	(10.4%)
Distributions on Company-Obligated Mandatorily Redeemable Preferred Securities of a Partnership which holds Solely Subordinated Debentures of the Company	(10)	(10)	—	—
Other, Net	32	46	(14)	(30.4%)
Total Other Income and Deductions	(348)	(377)	29	(7.7%)
INCOME BEFORE INCOME TAXES	745	622	123	19.8%
INCOME TAXES	259	197	62	31.5%
NET INCOME	486	425	61	14.4%
Preferred Stock Dividends	(8)	(10)	2	(20.0%)
NET INCOME ON COMMON STOCK	$ 478	$ 415	$ 63	15.2%

Net Income

Net income on common stock increased $63 million, or 15%, in 2002 as compared to 2001. The increase was a result of higher sales volume, favorable rate adjustments, lower operating and maintenance expense and lower interest expense on debt partially offset by increased taxes other than income and increased depreciation and amortization expense.

Operating Revenue

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

Retail Deliveries—(in GWhs)	2002	2001	Variance	% Change
Bundled Deliveries(1)				
Residential	10,365	8,073	2,292	28.4%
Small Commercial & Industrial	7,606	5,998	1,608	26.8%
Large Commercial & Industrial	14,766	12,960	1,806	13.9%
Public Authorities & Electric Railroads	852	765	87	11.4%
	33,589	27,796	5,793	20.8%
Unbundled Deliveries(2)				
Residential	1,971	3,105	(1,134)	(36.5%)
Small Commercial & Industrial	415	1,606	(1,191)	(74.2%)

Large Commercial & Industrial	557	2,352	(1,795)	(76.3%)
Public Authorities & Electric Railroads	—	7	(7)	(100.0%)
	2,943	7,070	(4,127)	(58.4%)
Total Retail Deliveries	36,532	34,866	1,666	4.8%

(1) Bundled service reflects deliveries to customers taking electric service under tariffed rates.

(2) Unbundled service reflects customers electing to receive electric generation service from an alternative energy supplier.

Electric Revenue	**2002**	**2001**	**Variance**	**% Change**
Bundled Revenue(1)				
Residential	$ 1,338	$ 1,028	$ 310	30.2%
Small Commercial & Industrial	865	682	183	26.8%
Large Commercial & Industrial	1,086	929	157	16.9%
Public Authorities & Electric Railroads	79	72	7	9.7%
	3,368	2,711	657	24.2%
Unbundled Revenue(2)				
Residential	145	235	(90)	(38.3%)
Small Commercial & Industrial	21	81	(60)	(74.1%)
Large Commercial & Industrial	16	64	(48)	(75.0%)
Public Authorities & Electric Railroads	—	1	(1)	(100.0%)
	182	381	(199)	(52.2%)
Total Electric Retail Revenues	3,550	3,092	458	14.8%
Wholesale and Miscellaneous Revenue(3)	234	219	15	6.8%
Total Electric Revenue	$ 3,784	$ 3,311	$ 473	14.3%

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

(2) Unbundled revenue reflects revenue from customers electing to receive generation from an alternative supplier, which include a distribution charge and a CTC charge.

(3) Wholesale and miscellaneous revenues include transmission revenue and other wholesale energy sales.

The changes in electric retail revenues in 2002, as compared to 2001, were attributable to the following:

	Variance
Customer Choice	$ 226
Volume	133
Weather	63
Rate Changes	45
Other Effects	(9)
Electric Retail Revenue	$ 458

- *Customer Choice.* All PECO customers have the choice to purchase energy from other suppliers. This choice generally does not impact kWh deliveries, but reduces revenue collected from customers because they are not obtaining generation supply from PECO.

  As of December 31, 2002, the customer load served by alternative suppliers was 1,002 MW or 12.8% as compared to 1,003 MW or 13.0% as of December 31, 2001. The percent of PECO's total retail deliveries for which PECO was electric supplier was 92.0% in 2002, compared to 79.8% in 2001. As of December 31, 2002, the number of customers served by alternative suppliers was 277,805 or 18.2% as compared to December 31, 2001 of 371,500 or 24.4%. The increases in customers and the percentage of load served by PECO primarily resulted from customers selecting or returning to PECO as their electric generation supplier.

-

Volume. Exclusive of weather impacts, higher delivery volume increased PECO's revenue $133 million compared to 2001, primarily related to increases in the residential and small commercial and industrial customer classes.

- *Weather.* The weather impact was favorable compared to the prior year as a result of warmer summer weather. Cooling degree-days increased 15% in 2002 compared to 2001. Heating degree-days increased 1% in 2002 compared to 2001.

- *Rate Changes.* The increase in revenues attributable to rate changes primarily reflects the expiration of a 6% reduction in PECO's electric rates during the first quarter of 2001 and a $50 million increase as a result of the increase in the gross receipts tax rate effective January 1, 2002. These increases are partially offset by the timing of a $60 million rate reduction in effect for 2001 and 2002.

  As permitted by the Pennsylvania Electric Act, the Pennsylvania Department of Revenue has calculated a 2002 Revenue Neutral Reconciliation (RNR) adjustment to gross receipts tax rate in order to neutralize the impact of electric restructuring on its tax revenues. In January 2002, the PUC approved the RNR adjustment to the gross receipts tax rate collected from customers. Effective January 1, 2002, PECO implemented the change in the gross receipts tax rate. The RNR adjustment increases the gross receipts tax rate, which increased both PECO's annual revenues and tax obligations by approximately $50 million in 2002. The RNR adjustment was under appeal. The case was remanded to the PUC and in August 2002, the PUC ruled that PECO is properly authorized to recover these costs. In December 2002, the PUC approved the inclusion of the RNR factor in PECO's base rates eliminating the need for an annual filing to obtain approval for recovery.

- *Other Effects.* Other items affecting revenue include an $11 million settlement of CTC's by a large customer in the first quarter of 2001.

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

	2002	2001	Variance
Deliveries in millions of cubic feet (mmcf)	85,545	81,528	4,017
Revenue	$ 549	$ 654	$ (105)

The changes in gas revenue for 2002, as compared to 2001, were attributable to the following:

	Variance
Rate Changes	$ (108)
Weather	2
Volume	1
Gas Revenue	$ (105)

- *Rate Changes.* The unfavorable variance in rates is attributable to an adjustment of the purchased gas cost recovery by the PUC in December 2001. The average rate per million cubic feet for 2002 was 20% lower than in 2001. PECO's gas rates are subject to periodic adjustments by the PUC and are designed to recover from or refund to customers the difference between actual cost of purchased gas and the amount included in base rates and to recover or refund increases or decreases in certain state taxes not recovered in base rates. Effective December 1, 2002, the PUC approved a reduction in the purchased gas adjustment of 4.5%.

- *Weather.* The weather impact was favorable, as a result of colder weather in 2002, as compared to 2001. Heating degree-days in PECO's service territory increased 1% in 2002 compared to 2001.

- *Volume.* Exclusive of weather impacts, higher delivery volume increased revenue by $1 million in 2002 compared to 2001. Total deliveries to customers increased 5% in 2002 compared to 2001, primarily as a result of customer growth and higher transportation volumes

Purchased Power

Purchased power expense in 2002 increased $317 million as compared to 2001. The increase in purchased power expense was primarily attributable to $210 million from customers in Pennsylvania selecting or returning to PECO as their electric generation supplier, higher PJM ancillary charges of $41 million, $38 million from higher delivery volume primarily related to electric sales and $28 million as a result of favorable weather conditions.

Fuel

Fuel expense in 2002 decreased $102 million as compared to 2001. This decrease was primarily attributable to a $108 million decrease from lower gas prices.

Operating and Maintenance

O&M expense in 2002 decreased $64 million, or 11%, as compared to 2001. The decrease in O&M expense was primarily attributable to a $23 million reduction in the allowance for the uncollectible accounts during 2002, and $6 million related to lower corporate allocations. The decrease is also attributable to $18 million of employee severance costs associated with the Merger, $12 million of incremental costs related to two storms, $7 million attributable to customer choice and $5 million associated with a write-off of excess and obsolete inventory, all of which occurred in 2001. These decreases are partially offset by $12 million related to additional costs associated with the deployment of automated meter reading technology during 2002.

Depreciation and Amortization

Depreciation and amortization expense in 2002 increased $40 million, or 10%, as compared to 2001 as follows:

	2002	2001	Variance	% Change
Competitive Transition Charge Amortization	$ 308	$ 271	$ 37	13.7%
Depreciation Expense	125	119	6	5.0%
Other Amortization Expense	23	26	(3)	(11.5%)
Total Depreciation and Amortization	$ 456	$ 416	$ 40	9.6%

The increase was primarily attributable to $37 million of additional amortization of PECO's CTC and an increase of $6 million related to depreciation expense associated with additional plant in service. The additional amortization of the CTC is in accordance with PECO's original settlement under the Pennsylvania Competition Act.

Taxes Other Than Income

Taxes other than income in 2002 increased $83 million, or 52%, as compared to 2001. The increase was primarily attributable to $72 million of additional gross receipts tax related to additional revenues and an increase in the gross receipts tax rate on electric revenue effective January 1, 2002. The increase was also attributable to $15 million related to an additional assessment of real estate taxes in 2002. These increases were partially offset by a decrease of $4 million for state sales and use tax in 2002.

Interest Charges

Interest charges consist of interest expense and distributions on Company-Obligated Mandatorily Redeemable Preferred Securities of a Partnership (COMRPS). Interest charges decreased $43 million, or 10%, in 2002 as compared to 2001. The decrease was primarily attributable to lower interest expense on long-term debt of $35 million as a result of less outstanding debt and refinancing of existing debt at lower interest rates, and $8 million in interest expense on a loan from ComEd in 2001.

Other Income and Deductions

Other income and deductions excluding interest charges decreased $14 million, or 30%, in, 2002 as compared to 2001. The decrease in other income and deductions was primarily attributable to intercompany interest income of $10 million, a gain on the settlement of an interest rate swap of $6 million and the favorable settlement of a customer contract of $3 million, all of which occurred in 2001.

Income Taxes

The effective tax rate was 34.8% in 2002 as compared to 31.7% in 2001. The increase in the effective tax rate was primarily attributable to an unfavorable tax adjustments recorded in 2002.

Preferred Stock Dividends

Preferred stock dividends in 2002 were consistent as compared to 2001.

Year Ended December 31, 2001 Compared To Year Ended December 31, 2000

Summary Financial Information—PECO

			Components of Variance		
	2001	2000	Restructuring Impact	Normal Operations	Total
OPERATING REVENUES	$ 3,965	$ 5,950	$ (2,577)	$ 592	$ (1,985)
Purchased Power and Fuel	1,802	2,127	(793)	468	(325)
Operating and Maintenance	587	1,791	(1,299)	95	(1,204)
Merger-Related Costs	—	248	(181)	(67)	(248)
Depreciation and Amortization	416	325	(142)	233	91
Taxes Other Than Income	161	237	(71)	(5)	(76)
Total Operating Expenses	2,966	4,728	(2,486)	724	(1,762)
OPERATING INCOME	999	1,222	(91)	(132)	(223)
OTHER INCOME AND DEDUCTIONS					
Interest Expense	(413)	(463)	48	2	50
Distributions on Company-Obligated	(10)	(8)	—	(2)	(2)

Mandatorily Redeemable Preferred Securities of a Partnership, which holds Solely Subordinated Debentures of the Company					
Equity in Earnings (Losses) of Unconsolidated Affiliates, net	—	(41)	41	—	41
Other, Net	46	41	(19)	24	5
INCOME BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE	622	751	(21)	(108)	(129)
INCOME TAXES	197	268	26	(97)	(71)
NET INCOME BEFORE CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE	425	483	(47)	(11)	(58)
CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE (net of income taxes)	—	24	(24)	—	(24)
NET INCOME	425	507	(71)	(11)	(82)
PREFERRED STOCK DIVIDENDS	(10)	(10)	—	—	—
NET INCOME ON COMMON STOCK	$ 415	$ 497	$ (71)	$ (11)	$ (82)

Net Income

Net income from normal operations decreased $11 million, or 3% in 2001 as compared to 2000. PECO's results from normal operations improved as a result of lower margins due to the unplanned return of certain commercial and industrial customers, milder weather, increased depreciation and amortization expense and higher interest expense partially offset by favorable rate adjustments.

Operating Revenues

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

Retail Deliveries—(in GWhs)	2001	2000	Variance	% Change
Bundled Deliveries(1)				
Residential	8,073	9,325	(1,252)	(13.4%)
Small Commercial & Industrial	5,998	3,918	2,080	53.1%
Large Commercial & Industrial	12,960	8,292	4,668	56.3%
Public Authorities & Electric Railroads	765	479	286	59.7%
	27,796	22,014	5,782	26.3%
Unbundled Deliveries(2)				
Residential	3,105	1,986	1,119	56.3%
Small Commercial & Industrial	1,606	3,550	(1,944)	(54.8%)
Large Commercial & Industrial	2,352	7,404	(5,052)	(68.2%)
Public Authorities & Electric Railroads	7	301	(294)	(97.7%)
	7,070	13,241	(6,171)	(46.6%)
Total Retail Deliveries	34,866	35,255	(389)	(1.1%)

(1) Bundled service reflects deliveries to customers taking electric service under tariffed rates.

(2) Unbundled service reflects customers electing to receive electric generation service from an alternative energy supplier.

Electric Revenue	2001	2000	Variance	% Change
Bundled Revenue(1)				
Residential	$ 1,028	$ 1,113	$ (85)	(7.6%)
Small Commercial & Industrial	682	422	260	61.6%
Large Commercial & Industrial	929	532	397	74.6%
Public Authorities & Electric Railroads	72	47	25	53.2%
	2,711	2,114	597	28.2%
Unbundled Revenue(2)				

Residential	235	135	100	74.1%
Small Commercial & Industrial	81	154	(73)	(47.4%)
Large Commercial & Industrial	64	180	(116)	(64.4%)
Public Authorities & Electric Railroads	1	11	(10)	(90.9%)
	381	480	(99)	(20.6%)
Total Electric Retail Revenues	3,092	2,594	498	19.2%
Wholesale and Miscellaneous Revenue(3)	219	247	(28)	(11.3%)
Total Electric Revenue	$ 3,311	$ 2,841	$ 470	16.5%

(1) Bundled revenue reflects revenue from customers taking electric service under tariffed rates, which include the cost of energy, the delivery cost of the transmission and distribution of the energy and a CTC charge.

(2) Unbundled revenue reflects revenue from customers electing to receive generation from an alternative energy supplier, which include a distribution charge and a CTC charge.

(3) Wholesale and miscellaneous revenues include transmission revenue and other wholesale energy sales.

The changes in electric retail revenues for 2001, as compared to 2000, were attributable to the following:

	Variance
Customer Choice	$ 276
Rate Changes	241
Weather	(5)
Other Effects	(14)
Retail Revenue	$ 498

- *Customer Choice.* All PECO customers had the choice to purchase energy from other suppliers throughout 2001. This choice generally does not impact kWh deliveries, but reduces revenue collected from customers because they are not obtaining generation supply from PECO. Customers who are served by an alternative supplier continue to pay CTCs.

As of December 31, 2001, the customer load served by alternative suppliers was 1,003 MWs or 13.0% as compared to the same prior year period of 2,631 MWs or 34.9%. For the year ended December 31, 2001, the percent of load sold by PECO increased by 17.2% to 79.8% of total retail deliveries as compared to 62.6% in 2000. This reduction in the customers and the percentage of load served by alternative suppliers, primarily resulted from small and large commercial and industrial customers selecting or returning to PECO as their electric generation supplier.

As of December 31, 2001, the number of customers served by alternative suppliers was 371,500 or 24.4% as compared to December 31, 2000 of 269,395 or 18.0%. The increase from the prior year is primarily a result of the CDS agreements for residential customers with the New Power and Green Mountain. As of December 31, 2001, there were 227,349 residential customers assigned to these generation providers as part of the agreement.

- *Rate Changes.* The increase in revenues attributable to rate changes reflects the expiration of a 6% reduction in PECO's electric rates in effect for 2000, partially offset by a $60 million rate reduction in effect for 2001.

- *Weather.* The weather impact was unfavorable compared to the prior year as a result of warmer winter weather partially offset by warmer summer weather. Cooling degree-days increased 34% in 2001 compared to 2000 while heating degree-days decreased 12% in 2001 compared to 2000.

- *Other Effects.* Other items affecting revenue during 2001 include:

  - *Volume.* Exclusive of weather impacts, lower delivery volume affected PECO's revenue by $21 million compared to 2000 primarily related to increases in the residential and small commercial and industrial customer classes.

  - *Other.* The payment of $29 million to Generation related to nuclear decommissioning cost recovery under an agreement effective September 2001 partially offset by an $11 million settlement of CTCs by a large customer in the first quarter of 2001.

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

	2001	2000	Variance
Deliveries in mmcf	81,528	91,686	(10,158)
Revenue	$ 654	$ 532	$ 122

The changes in gas revenue for 2001, as compared to 2000, were attributable to the following:

		Variance
Rate Changes	$	174
Weather		(38)
Volume		(14)
Gas Revenue	$	122

- *Rate Changes.* The favorable variance in price is attributable to an adjustment of the purchased gas cost recovery by the PUC effective in December 2000. The average price per million cubic feet for all customers for 2001 was 38% higher than in 2000.

- *Weather.* The unfavorable weather impact is attributable to warmer winter weather conditions. Heating degree-days decreased 12% in 2001 compared to 2000.

- *Volume.* Exclusive of weather impacts, lower delivery volume affected revenue by $14 million compared to 2000. Total volume of sales to retail customers decreased 11% compared to 2000, primarily as a result of slower economic conditions in 2001 offset by customer growth.

Purchased Power and Fuel

Purchased power and fuel expense for 2001 increased $468 million, or 35%, as compared to the same 2000 period, excluding the effects of the restructuring. The increase in purchased power and fuel expense was primarily attributable to $293 million from customers in Pennsylvania selecting or returning to PECO as their electric generation supplier, $174 million from increased prices related to gas and higher PJM ancillary charges of $31 million. These increases were partially offset by $24 million as a result of unfavorable weather conditions and $14 million attributable to lower delivery volume related to gas.

Operating and Maintenance

O&M expense for 2001 increased $95 million, or 19%, as compared to the same 2000 period, excluding the effects of the restructuring. The increase in O&M expense was primarily attributable to $20 million related to an increased allocation of corporate expense, $18 million related to additional employee severance costs in 2001 associated with the Merger, $17 million as a result of higher administrative and general costs for functions previously performed at Corporate, $14 million related to the deployment of automated meter reading technology during 2001, $12 million of incremental costs related to two storms in 2001, $9 million related to additional uncollectible accounts expense and $5 million associated with the write-off of excess and obsolete inventory.

Merger-Related Costs

Merger-related costs charged to income in 2000 were $248 million consisting of $132 million of direct incremental costs and $116 million for employee costs. Direct incremental costs represent expenses associated with completing the Merger, including professional fees, regulatory approval and settlement costs, and settlement of compensation arrangements. Employee costs represent estimated severance payments and pension and postretirement benefits provided under Exelon's merger separation plan for 642 eligible PECO employees who were expected to be involuntarily terminated before December 2002 upon completion of integration activities for the merged companies. Merger-related costs attributable to the operations transferred to Generation, Enterprises and BSC in the corporate restructuring were $181 million. The remaining $67 million is attributable to PECO's energy delivery segment. See ITEM 8. Financial Statements and Supplementary Data—PECO—Note 2 of the Notes to Consolidated Financial Statements.

Depreciation and Amortization

Depreciation and amortization expense for 2001 increased $233 million, or 127%, as compared to the same 2000 period, excluding the effects of the restructuring. The increase was primarily attributable to $214 million of additional amortization of PECO's CTC and an increase of $19 million related to depreciation expense associated with additional plant in service. The additional amortization of the CTC is in accordance with PECO's original settlement under the Pennsylvania Competition Act.

Taxes Other Than Income

Taxes other than income for 2001 decreased $5 million, or 3%, as compared to the same 2000 period, excluding the effects of the restructuring. The decrease was primarily attributable to the elimination of the gross receipts tax on gas sales effective July 1, 2000.

Interest Charges

Interest charges consist of interest expense and distributions on COMRPS. Interest charges for 2001 were consistent as compared to 2000.

Equity in Earnings (Losses) of Unconsolidated Affiliates

As part of the corporate restructuring, PECO's unconsolidated affiliates were transferred to Generation and Enterprises.

Other Income and Deductions

Other income and deductions excluding interest charges and equity in earnings (losses) of unconsolidated affiliates increased $24 million, or 109% in 2001 as compared to 2000, excluding the effects of the restructuring. The increase in other income and deductions was primarily attributable to intercompany interest income of $10 million in the third quarter of 2001, a gain on the settlement of an interest rate swap of $6 million and the favorable settlement of a customer contract of $3 million.

Income Taxes

The effective tax rate was 31.7% in 2001 as compared to 35.7% in 2000. The decrease in the effective tax rate was primarily attributable to tax benefits associated with the implementation of state tax planning strategies, the reduced impact of investment tax credit amortization and other tax adjustments recorded in 2001.

Cumulative Effect of a Change in Accounting Principle

In 2000, PECO recorded a benefit of $40 million ($24 million, net of tax) representing the cumulative effect of a change in accounting method for nuclear outage costs in conjunction with the synchronization of accounting policies in connection with the Merger.

Preferred Stock Dividends

Preferred stock dividends for 2001 were consistent as compared to 2000.

Liquidity and Capital Resources

PECO's business is capital intensive and requires considerable capital resources. PECO's capital resources are primarily provided by internally generated cash flows from operations and, to the extent necessary, external financing including the issuance of commercial paper. PECO's access to external financing at reasonable terms is dependent on its credit ratings and general business conditions, as well as that of the utility industry in general. Capital resources are used primarily to fund PECO's capital requirements, including construction, repayments of maturing debt and payment of dividends.

Cash Flows from Operating Activities

Cash flows provided by operations in 2002 were $880 million compared to $938 million in 2001. The decrease in cash flows from operating activities was primarily attributable to a $79 million decrease in other operating activities primarily a result of the change in pension obligation, a $26 million decrease in working capital, a $26 million decrease in deferred income taxes and a $23 million decrease in the provision for uncollectible accounts, partially offset by a $61 million increase in net income and a $37 million increase in CTC amortization. PECO's cash flow from operating activities primarily results from sales of electricity and gas to a stable and diverse base of retail customers at fixed prices. PECO's future cash flows will depend upon the ability to achieve operating cost reductions, and the impact of the economy, weather and customer choice on its revenues. Although the amounts may vary from period to period as a result of the uncertainties inherent in its business, PECO expects that it will continue to provide a reliable and steady source of internal cash flow from operations for the foreseeable future.

PECO participates in Exelon's defined benefit pension plans. Exelon's plans currently meet the minimum funding requirements of the Employment Retirement Income Security Act of 1974; however Exelon made a $150 million discretionary plan contribution in 2002, none of which was funded by PECO. Exelon also expects to make a discretionary plan contribution of $300 million to $350 million in 2003.

Cash Flows from Investing Activities

Cash flows used in investing activities in 2002 were $252 million compared to $241 million in 2001. The increase in cash flows used in investing activities was primarily attributable to an increase in capital expenditures. PECO's investing activities during 2002 were funded primarily by operating activities.

PECO's projected capital expenditures for 2003 are $270 million. Approximately one half of the budgeted 2003 expenditures are for capital additions to support customer and load growth and the remainder for additions and upgrades to existing facilities. PECO anticipates that it will obtain financing, when necessary, through borrowings, the issuance of preferred securities, or capital contributions from Exelon. PECO's proposed capital expenditures and other investments are subject to periodic review and revision to reflect changes in economic conditions and other factors.

Cash Flows from Financing Activities

Cash flows used in financing activities in 2002 were $597 million compared to $683 million in 2001. Cash flows used in financing activities are primarily attributable to debt service and payment of dividends to Exelon. In 2002, PECO issued $225 million of First and Refunding Mortgage Bonds. The proceeds of these bonds were used to repay commercial paper that PECO used to pay $222 million of First and Refunding Mortgage Bonds at maturity. Also in 2002, PECO made principal payments of $326 million on transition bonds and had net issuances of $200 million of commercial paper. PECO paid a $340 million dividend to Exelon during 2002 compared to a $342 million dividend in 2001.

Credit Issues

PECO meets its short-term liquidity requirements primarily through the issuance of commercial paper and borrowings from Exelon's intercompany money pool. PECO, along with Exelon, ComEd and Generation, participates in a $1.5 billion unsecured 364-day revolving credit facility with a group of banks. The credit facility became effective November 22, 2002 and includes a term-out option that allows any outstanding borrowings at the end of the revolving credit period to be repaid on November 21, 2004. Exelon may increase or decrease the sublimits of each of the participants upon written notification to the banks. As of December 31, 2002, PECO's sublimit was $400 million. The credit facility is used by PECO principally to support its commercial paper program. At December 31, 2002, PECO's Consolidated Balance Sheet reflects $200 million in commercial paper outstanding.

For 2002, the average interest rate on notes payable was approximately 1.51%. Certain of the credit agreements to which PECO is a party require it to maintain a cash from operations to interest expense ratio for the twelve-month period ended on the last day of any quarter. The ratio excludes revenues and interest expenses attributed to securitization debt, certain changes in working capital and distributions on preferred securities of subsidiaries. PECO's threshold for the ratio reflected in the credit agreement cannot be less than 2.25 to 1 for the twelve-month period ended December 31, 2002. At December 31, 2002, PECO was in compliance with the credit agreement thresholds.

At December 31, 2002, PECO's capital structure, excluding the deduction from shareholders' equity of the $1.8 billion receivable from Exelon, consisted of 28% common stock, 2% notes payable, 3% preferred securities and COMRPS, and 67% long-term debt. Long-term debt included $4.3 billion of transition bonds issued by PECO Energy Transition Trust representing 50% of capitalization.

To provide an additional short-term borrowing option that will generally be more favorable to the borrowing participants than the cost of external financing, Exelon operates an intercompany utility money pool. Participation in the money pool is subject to authorization by Exelon's corporate treasurer. ComEd and its subsidiary Commonwealth Edison of Indiana, Inc., PECO, Generation and BSC may participate in the money pool as lenders and borrowers, and Exelon as a lender. Funding of, and borrowings from, the money pool are predicated on whether such funding results in mutual economic benefits to each of the participants, although Exelon is not permitted to be a net borrower from the money pool. Interest on borrowings is based on short-term market rates of interest, or, if from an external source, specific borrowing rates. There were no material money pool transactions in 2002.

PECO's access to the capital markets, including the commercial paper market, and its financing costs in those markets are dependent on its securities ratings. None of PECO's borrowings are subject to default or prepayment as a result of a downgrading of securities ratings although such a downgrading could increase interest charges under certain bank credit facilities. The following table shows PECO's securities ratings at December 31, 2002:

	Securities	Moody's Investors Service	Standard & Poor's	Fitch Ratings
PECO	Senior secured debt	A2	A	A
	Commercial paper	P1	A2	F1

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

Under PUHCA, PECO is precluded from lending or extending credit or indemnity to Exelon and can pay dividends only from retained or current earnings. At December 31, 2002, PECO had retained earnings of $401 million.

Contractual Obligations, Commercial Commitments and Off-Balance Sheet Obligations

PECO's contractual obligations as of December 31, 2002 representing cash obligations that are considered to be firm commitments are as follows:

		Payment due within			
	Total	1 Year	2-3 Years	4-5 Years	Due after 5 Years
			(in millions)		
Long-Term Debt	$ 5,644	$ 689	$ 883	$ 1,141	$ 2,931
Notes Payable	200	200	—	—	—
COMRPS	128	—	—	—	128
Operating Leases	20	5	7	5	3
Total Contractual Obligations	$ 5,992	$ 894	$ 890	$ 1,146	$ 3,062

See ITEM 8. Financial Statements and Supplementary Data—PECO, Notes to Consolidated Financial Statements for additional information about:

- long-term debt see Note 11
- notes payable see Note 10
- COMRPS see Note 15
- operating leases see Note 18

PECO's commercial commitments as of December 31, 2002 representing commitments not recorded on the balance sheet but potentially triggered by future events, including obligations to make payment on behalf of other parties as well as financing arrangements to secure obligations of PECO, are as follows:

		Expiration within			
	Total	1 Year	2-3 Years	4-5 Years	After 5 Years
			(in millions)		
Credit Facility(a)	$ 400	$ 400	$ —	$ —	$ —
Letters of Credit (non-debt)(b)	29	29	—	—	—

Letter of Credit (Long-term Debt)(c)	17	17	—	—	—
Insured Long-Term Debt(d)	154	—	—	—	154
Surety Bonds(e)	46	46	—	—	—
Total Commercial Commitments	$ 646	$ 492	$ —	$ —	$ 154

(a) Credit Facility—PECO, along with Exelon, ComEd and Generation, maintain a $1.5 billion 364-day credit facility to support commercial paper issuances. PECO has a $400 million sublimit under the credit facility. At December 31, 2002, there are no borrowings against the credit facility. Additionally, at December 31, 2002, PECO had $200 million in outstanding commercial paper.

(b) Letters of Credit (non-debt)—PECO and certain of its subsidiaries maintain non-debt letters of credit to provide credit support for certain transactions as requested by third parties.

(c) Letters of Credit (Long-Term Debt)—Direct-pay letters of credit issued in connection with variable-rate debt in order to provide liquidity in the event that it is not possible to remarket all of the debt as required following specific events, including changes in the basis of determining the interest rate on the debt.

(d) Insured Long-Term Debt—Borrowings that have been credit-enhanced through the purchase of insurance coverage equal to the amount of principal outstanding plus interest.

(e) Surety bonds—Guarantees issued related to contract and commercial surety bonds, excluding bid bonds.

Off-Balance Sheet Obligations

PECO is party to an agreement with a financial institution under which it can sell or finance with limited recourse an undivided interest, adjusted daily, in up to $225 million of designated accounts receivable until November 2005. PECO entered into this agreement to diversify its funding sources at favorable floating interest rates. At December 31, 2002, PECO had sold a $225 million interest in accounts receivable, consisting of a $164 million interest in accounts receivable, which PECO accounted for as a sale under SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities—a Replacement of FASB Statement No. 125," and a $61 million interest in special-agreement accounts receivable which was accounted for as a long-term note payable. See ITEM 8. Financial Statements and Supplementary Data—PECO Note 8 of the Notes to Consolidated Financial Statements. PECO retains the servicing responsibility for these receivables. The Agreement requires PECO to maintain the $225 million interest, which, if not met, requires cash, which would otherwise be received by PECO under this program, to be held in escrow until the requirement is met. At December 31, 2002 and 2001, PECO met this requirement.

Critical Accounting Estimates

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

Business Outlook and the Challenges in Managing Our Business

PECO faces a number of challenges in achieving its vision and keeping its commitments to its customers and investors. These challenges that will affect how PECO manages its business are described below.

PECO must comply with numerous regulatory requirements in managing its business, which affect costs and responsiveness to changing events and opportunities.

PECO is subject to regulation at the state and Federal levels. PECO is regulated by the PUC, which regulates the rates, terms and conditions of service; various business practices and transactions; financing; and transactions between PECO and its affiliates. PECO is also subject to regulation by FERC, which regulates transmission rates, certain other aspects of its business and gas pipelines. The regulations adopted by these state and Federal agencies affect the manner in which PECO does business, its ability to undertake specified actions and the costs of its operations.

PECO is involved in a number of regulatory proceedings as a part of the process of establishing the terms and rates for services.

These regulatory proceedings typically involve multiple parties, including governmental bodies, consumer advocacy groups and various consumers of energy, who have differing concerns but who have the common objective of limiting rate increases. The proceedings also involve various contested issues of law and fact and have a bearing upon the recovery of PECO's costs through regulated rates. During the course of the proceedings, PECO looks for opportunities to resolve contested issues in a manner that grant some certainty to all parties to the proceedings as to rates and energy costs.

PECO must maintain the availability and reliability of its delivery systems to meet customer expectations.

Each year, increases in both customers and the demand for energy require expansion and reinforcement of delivery systems to increase capacity and maintain reliability. Failures of the equipment or facilities used in those delivery systems could potentially interrupt energy delivery services and related revenues, and increase repair expenses and capital expenditures. Such failures, including prolonged or repeated failures, also could affect customer satisfaction and may increase regulatory oversight and the level of PECO's maintenance and capital expenditures.

PECO must manage its costs due to the rate caps imposed on PECO.

Rate caps in effect at PECO currently limit PECO's ability to recover increased expenses and the costs of investments in new transmission and distribution facilities. PECO is subject to agreed-upon rate reductions of $200 million, in aggregate, for the period 2002 through 2005 and caps (subject to limited exceptions for significant increases in Federal or state income taxes or other significant changes in law or regulation that do not allow PECO to earn a fair rate of return) on its transmission and distribution rates through December 31, 2006 as a result of settlements previously reached with the PUC. As a result, PECO's future results of operations will depend on the ability of PECO to deliver electricity and natural gas, in a cost-efficient manner, and to realize cost reductions to offset increased infrastructure investments and inflation.

PECO has lost and will lose energy customers to other generation service providers, although it continues to provide delivery services and may have an obligation to provide generation service to those customers.

The revenues of PECO will vary because of customer choice of generation suppliers. As a result of restructuring initiatives in Pennsylvania, all of PECO's retail electric customers can choose to purchase their generation supply from alternative suppliers. If customers do not choose an alternative generation supplier PECO, is currently generally obligated to provide generation and delivery service to customers in its service territory at fixed rates. In addition, customers who choose an alternative generation supplier may later return to PECO. PECO remains obligated to provide transmission and distribution service to all customers regardless of their generation supplier. To the extent that customers leave traditional bundled tariffs and select a different generation provider, PECO's revenues are likely to decline.

At December 31, 2002, approximately 10% of PECO's small C&I load, 7% of its large C&I load and 21% of its residential load were purchasing their generation service from an alternative electric generation supplier.

PECO's Electric Restructuring Settlement established MST for residential and commercial customers such that if, on January 1, 2003, 50% of PECO's residential and commercial customers (by number of customers for residential and small commercial classes, and by load for large commercial classes) are not obtaining generation service from alternative generation suppliers, then non-shopping customers, up to the MSTs level, will be randomly assigned to alternative generation suppliers. The assigned customers have the right, at any time, to return to PECO or to switch to another supplier.

The number of customers choosing alternative generation suppliers depends in part on the prices being offered by those suppliers relative to the fixed prices that PECO is authorized to charge by the PUC.

PECO continues to serve as the POLR for energy for all customers in its service territory.

PECO is required to make available generation service to all retail customers in its service territory, including customers that have taken energy from an alternative generation supplier. PECO customers can "switch," that is, they can choose an alternative generation supplier and then return to PECO and then go back to an alternative supplier, and so on, within limits. Because customers can switch, planning for PECO has a higher level of uncertainty than that traditionally experienced due to weather and the economy. Presently, PECO manages the POLR obligation through a full requirements contract with Generation, under which Generation supplies PECO's power requirements. Because of the ability of customers to switch generation suppliers, there is uncertainty regarding the amount of PECO load that Generation must prepare for.

PECO's long-term PPA provides a hedge to its customers' demand.

Because the bundled rates PECO charges its customers are capped through 2010, as mentioned previously in the "Rate limitations" section, its ability to recover increased costs with increases in rates charged to these customers is limited. Therefore, to effectively manage its obligation to provide power to meet its customers' demand, PECO has established power supply agreements with Generation that reduce exposure to the volatility of market prices through 2010. Market prices relative to PECO's bundled rates still influence switching behavior among retail customers.

PECO's business may be significantly impacted by the end of the PECO regulatory transition period in 2010.

In Pennsylvania, as a mechanism for utilities to recover their allowed stranded costs, the Pennsylvania Electricity Generation Customer Choice and Competition Act (Competition Act) provides for the imposition and collection of non-bypassable CTCs on customers' bills. CTCs are assessed to and collected from all customers who have been assigned stranded cost responsibility and access the utilities' transmission and distribution systems. As the CTCs are based on access to the utility's transmission and distribution system, they are assessed regardless of whether such customer purchases electricity from the utility or an alternative electric generation supplier. The Competition Act provides, however, that the utility's right to collect CTCs is contingent on the continued operation, at reasonable availability levels, of the assets for which the stranded costs are being recovered, except where continued operation is no longer cost efficient because of the transition to a competitive market.

PECO has been authorized by the PUC to recover stranded costs of $5.3 billion ($4.6 billion of unamortized costs at December 31, 2002) over a twelve-year period ending December 31, 2010, with a return on the unamortized balance of 10.75%. PECO's recovery of stranded costs is based on the level of transition charges established in the settlement of PECO's restructuring case and the projected annual retail sales in PECO's service territory. Recovery of transition charges for stranded costs and PECO's allowed return on its recovery of stranded costs are included in revenues. In 2002, revenue attributable to stranded cost recovery was $850 million and is scheduled to increase to $932 million by 2010, the final year of stranded cost recovery. Amortization of PECO's stranded cost recovery, which is a regulatory asset, is included in depreciation and amortization. The amortization expense for 2002 was $308 million and will increase to $879 million by 2010. Thus, PECO's results will be adversely affected over the remaining period ending December 31, 2010 by the reduction in the unamortized balance of stranded costs and therefore the return received on that unamortized balance.

Weather affects electricity and gas usage and, consequently, PECO's results of operations.

Temperatures above normal levels in the summer tend to further increase summer cooling electricity demand and revenues, and temperatures below normal levels in the winter tend to further increase winter heating electricity and gas demand and revenues. Because of seasonal pricing differentials, coupled with higher consumption levels, PECO typically reports higher revenues in the third quarter. Extreme summer conditions or storms may stress PECO's transmission and distribution systems, resulting in increased maintenance costs and limiting its ability to bring power in to meet peak customer demand. These extreme conditions may have detrimental effects on PECO's operations.

Economic conditions and activity in PECO's service territory directly affect the demand for electricity.

Higher levels of development and business activity generally increase the number of customers and their use of energy. Sales growth on an annual basis is expected to be 0.6% in PECO's service territory. In the long-term, output growth for electricity is expected to be 0.6% per year. However, there is continued economic uncertainty. Recessionary economic conditions, and the associated reduced economic activity, may adversely affect PECO's results of operations.

Effective management of capital projects is important to PECO's business.

PECO's business is capital intensive and requires significant investments in energy transmission and distribution facilities, and in other internal infrastructure projects.

PECO continues to make significant capital expenditures to improve the reliability of its transmission and distribution systems in order to provide a high level of service to its customers. PECO's base rate caps will generally preclude incremental rate recovery on any of these incremental investments prior to January 1, 2011 (see the section titled "PECO must manage its costs due to the rate caps imposed on PECO" above).

Capital Markets / Financing Environment

In order to expand PECO's operations and to meet the needs of its current and future customers, PECO invests in its business. PECO's ability to finance its business and other necessary expenditures is affected by the capital intensive nature of its operations and PECO's current and future credit ratings. The capital markets also affect Exelon's benefit plan assets. Further discussions of PECO's liquidity position can be found in the Liquidity and Capital Resources section above.

PECO's ability to grow its business is affected by the ability to finance capital projects.

PECO's business requires considerable capital resources. When necessary, PECO secures funds from external sources by issuing commercial paper and, as required, long-term debt securities. PECO actively manages its exposure to changes in interest rates through interest-rate swap transactions and its balance of fixed- and floating-rate instruments. PECO currently anticipates primarily using internally generated cash flows and short-term financing through commercial paper to fund its operations as well as long-term external financing sources to fund capital requirements as the need arises. The ability to arrange debt financing, to refinance current maturities and early retirements of debt, and the costs of issuing new debt are dependent on:

- credit availability from banks and other financial institutions,
- maintenance of acceptable credit ratings (see credit ratings in the credit issues section of Liquidity and Capital Resources above),
- investor confidence in PECO and Exelon,
- general economic and capital market conditions and
- the success of current projects.

PECO's credit ratings influence its ability to raise capital.

PECO has investment grade ratings and has been successful in raising capital, which has been used to further its business initiatives. Failure to maintain investment grade ratings would require PECO to incur higher financing costs.

Equity market performance affects Exelon's benefit plan asset values.

The sharp decline in the equity markets since the third quarter of 2000 has reduced the value of the assets held in trusts to satisfy the obligations of pension and postretirement benefit plans. If the markets continue to decline, PECO may have higher funding requirements and pension and other postretirement benefit expense. Exelon will continue to manage the assets in the pension and postretirement benefit plans in order to achieve the best return possible in conjunction with its overall risk management practices and diversified approach to investment. Please refer to the Critical Accounting Estimates section that more fully describes the quantitative financial statement effects of changes in the equity markets on the benefit plan assets.

PECO's results of operations can be affected by inflation.

Inflation affects PECO through increased operating costs and increased capital costs for transmission and distribution plant. As a result of the rate caps imposed under the legislation in Pennsylvania, PECO is not able to pass the costs of inflation through to customers.

Other

PECO may incur substantial cost to fulfill its obligations related to environmental matters.

PECO's business is subject to extensive environmental regulation by local, state and Federal authorities. These laws and regulations affect the manner in which PECO conducts its operations and makes its capital expenditures. PECO is subject to liability under these laws for the costs of remediating environmental contamination of property now or formerly owned by PECO and of property contaminated by hazardous substances PECO generated. Management believes that it has a responsible environmental management and compliance program; however, PECO has incurred and expects to incur significant costs related to environmental compliance and site remediation and clean-up. Remediation activities associated with manufactured gas plant operations will be one source of such costs. Also, PECO is currently involved in a number of proceedings relating to sites where hazardous substances have been deposited and may be subject to additional proceedings in the future.

As of December 31, 2002, PECO's reserve for environmental investigation and remediation costs was $40 million, exclusive of decommissioning liabilities. PECO has accrued and will continue to accrue amounts that management believes are prudent to cover these environmental liabilities, but PECO cannot predict with any certainty whether these amounts will be sufficient to cover PECO's environmental liabilities. Management cannot predict whether PECO will incur other significant liabilities for any additional investigation and remediation costs at additional sites not currently identified by PECO, environmental agencies or others, or whether such costs will be recoverable from third parties.

PECO's financial performance is affected by its ability to manage costs for security and liability insurance.

Security. In connection with the events of September 11, 2001, the electric and gas industries have developed additional security guidelines. The electric industry, through the North American Electric Reliability Council (NERC), developed physical security guidelines, which were accepted by the U.S. Department of Energy. In 2003, FERC issued minimum standards to safeguard the electric grid system

control. These standards will be effective in 2004 and fully implemented by January 2005. The gas industry, through the American Gas Association, developed physical security guidelines that were accepted by the U.S. Department of Transportation. Exelon participated in the development of these guidelines and PECO is using them as a model for its security program.

Insurance. PECO, through Exelon, carries property damage and liability insurance for its properties and operations. As a result of significant changes in the insurance marketplace, due in part to the September 11, 2001 terrorist acts, the available coverage and limits may be less than the amount of insurance obtained in the past, and the recovery for losses due to terrorists acts may be limited. Exelon is self-insured to the extent that any losses may exceed the amount of insurance maintained.

The possibility of attack or war may adversely affect PECO's results of operations, future growth and ability to raise capital.

Any military strikes or sustained military campaign may affect PECO's operations in unpredictable ways, such as increased security measures. Just the possibility that infrastructure facilities, such as electric transmission and distribution facilities, would be direct targets of, or indirect casualties of, an act of terror or war may affect PECO's operations. War and the possibility of war may have an adverse effect on the economy in general. A lower level of economic activity might result in a decline in energy consumption, which may adversely affect PECO's revenues or restrict PECO's future growth. Instability in the financial markets as a result of war may affect PECO's ability to raise capital.

The introduction of new technologies could increase competition within PECO's markets.

While demand for electricity is generally increasing throughout the United States, the rate of construction and development of new, more efficient, electric generation facilities and distribution methodologies may exceed increases in demand in some regional electric markets. The introduction of new technologies could increase competition, which could lower prices and have an adverse affect on PECO's results of operations or financial condition.

New Accounting Pronouncements

See ComEd, PECO and Generation—New Accounting Pronouncements above for a discussion of new accounting pronouncements.

Generation

General

On October 20, 2000, Exelon became the parent corporation for PECO and ComEd as a result of the completion of the transactions related to the Merger. Generation has included the ComEd's generation-related results of operations in its consolidated financial statements beginning October 20, 2000. The estimated impact of the Merger set forth herein reflects the effects ComEd's generation related results of operations prior to October 20, 2000.

Results of Operations

Year Ended December 31, 2002 Compared To Year Ended December 31, 2001

Significant Operating Trends—Generation

	2002	2001	Variance	% Change
OPERATING REVENUES	$ 6,858	$ 6,826	$ 32	0.5%
OPERATING EXPENSES				
Purchased Power	3,294	3,106	188	6.1%
Fuel	959	889	70	7.9%
Operating and Maintenance	1,656	1,528	128	8.4%
Depreciation	276	282	(6)	(2.1)%
Taxes Other Than Income	164	149	15	10.1%
Total Operating Expense	6,349	5,954	395	6.6%
OPERATING INCOME	509	872	(363)	(41.6)%

OTHER INCOME AND DEDUCTIONS				
Interest Expense	(75)	(115)	40	34.8%
Equity in Earnings (Losses) of Unconsolidated Affiliates, net	87	90	(3)	(3.3)%
Other, Net	83	(8)	91	n.m.
Total Other Income and Deductions	95	(33)	128	n.m.
INCOME BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	604	839	(235)	(28.0)%
INCOME TAXES	217	327	(110)	(33.6)%
INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	387	512	(125)	(24.4)%
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES, (net of income taxes)	13	12	1	8.3%
NET INCOME	$ 400	$ 524	$ (124)	(23.7)%

Net Income

Generation's net income decreased by $124 million, or 24% in 2002. Net income was adversely impacted by a lower margin on wholesale energy sales due to depressed market prices for energy, a reduced supply of low-cost nuclear generation, and increased operating and maintenance expense. The decrease was partially offset by increased revenue from the acquisition of two generating plants in April 2002, increased investment income, decreased depreciation expense and decreased interest expense.

Operating Revenues

Operating revenues increased $32 million, or 1% in 2002. Sales to affiliates increased by $124 million. This increase was attributable to weather-related increased deliveries to PECO and ComEd. Revenue from marketing and trading decreased by $143 million, which was due to lower market prices on sales and losses sustained from proprietary trading activity. Market sales were negatively impacted by lower average market sales prices of $6.25/MWh. Excluding the benefit of $99 million of margin associated with the Texas plants acquisition, average market prices realized for the year ended December 31, 2002 were $7.44/MWh lower than the same 2001 period. The effect of the lower sales prices were partially offset by increased market sales volumes. Trading margin decreased $36 million, reflecting a $29 million loss for the year ended December 31, 2002 as compared to a $7 million gain in the same 2001 period.

Purchased Power

Purchased power expense increased $188 million, or 6% in 2002. This increase in purchased power expense was primarily attributable to a 15.8% increase in purchased power volume. This was partially offset by average purchased power cost decreasing by $4.11/MWh for the year ended December 31, 2002 as compared to the same 2001 period. This decrease in average purchased power cost was principally attributed to lower realized wholesale market prices realized and reduced transmission costs.

Fuel

Fuel expense increased $70 million in 2002. The increase was principally attributed to increased fossil fuel purchases related to new plant acquisitions in Texas and New England, as well as increased peaking production due to summer demand.

Operating Statistics

For the year ended December 31, 2002 and 2001, Generation's sales and the supply of these sales, excluding the trading portfolio, were as follows:

Sales (in GWhs)	2002	2001	% Change
Energy Delivery	118,473	116,917	1.3%
Exelon Energy	5,502	6,876	(20.0)%
Market Sales	83,565	72,333	15.5%
Total Sales	207,540	196,126	5.8%

Supply of Sales (in GWhs)	2002	2001	% Change
Nuclear Generation (1)	115,854	116,839	(0.8)%
Purchases—non-trading portfolio (2)	78,710	67,942	15.8%
Fossil and Hydro Generation	12,976	11,345	14.4%
Total Supply	207,540	196,126	5.8%

(1) Excluding AmerGen.

(2) Including PPAs with AmerGen.

Trading volume of 69,933 GWhs and 5,754 GWhs for the year ended December 31, 2002 and 2001, respectively, is not included in the table above. Generation's average revenue, supply cost, and margin on energy sales for the years ended December 31, 2002 and 2001 were as follows:

($/MWh)	2002	2001	% Change
Average Revenue			
Energy Delivery	$ 33.48	$ 32.55	2.9%
Exelon Energy	44.87	41.53	8.0%
Market Sales	30.75	37.00	(16.9)%
Total—excluding the trading portfolio	32.68	34.51	(5.3)%
Average Supply Cost (1)—excluding trading portfolio	$ 20.14	$ 20.26	(0.6)%
Average Margin—excluding the trading portfolio	$ 12.54	$ 14.25	(12.0)%

(1) Average supply cost includes purchased power and fuel costs.

	2002	2001
Nuclear fleet capacity factor (1)	92.7%	94.4%
Nuclear fleet production cost per MWh	$ 13.00	$ 12.78
Average purchased power cost for wholesale operations per MWh	$ 41.83	$ 45.94

(1) Including AmerGen and excluding Salem.

Operating and Maintenance

O&M expense increased $128 million, or 9%, for the year ended December 31, 2002 compared to the same period in 2001. The increase was due to the additional O&M expense of $80 million arising from an increased number of nuclear plant refueling outages during 2002 compared to 2001. Also, O&M expense increased $21 million due to plants acquired in 2002, as well as additional allocated corporate costs, including executive severance. These additional expenses were partially offset by other operating cost reductions, including $8 million related to fewer employees, a $10 million reduction in Generation's severance accrual and other cost reductions from Exelon's Cost Management Initiative. The severance reduction represents a reversal of costs previously charged to operating expense.

Depreciation

Depreciation expense decreased $6 million, or 2%, for the year ended December 31, 2002 compared to 2001. This decrease is due to a $42 million reduction in depreciation expense arising from the extension of the useful lives on certain generation facilities in 2001, partially offset by $32 million of additional depreciation expense on capital additions placed in service, including the Southeast Chicago Energy Project in July 2002, and two generating plants acquired in April 2002.

Taxes Other Than Income

Taxes other than income increased $15 million, or 10%, for the year ended December 31, 2002 compared to the same period in 2001 due primarily to an $8 million increase in property taxes.

Interest Expense

Interest expense decreased $40 million, or 35%, for the year ended December 31, 2002, compared to the same period in 2001. The decrease is due to $19 million of lower interest related to a lower interest rate on the spent nuclear fuel obligation, and $33 million of lower affiliate interest expense. This decrease was partially offset by a $21 million increase in interest expense due to newly acquired long-term debt.

Equity in Earnings of Unconsolidated Affiliates, net

Equity in earnings of unconsolidated affiliates decreased $3 million, or 3%, in 2002 compared to 2001. This decrease was due to a $5 million decrease in Generation's equity earnings in AmerGen, primarily due to an increase in pension, medical, and incentive cost, partially offset by an increase in revenue. This decrease was partially offset by an increase of $2 million in Generation's equity earnings in Sithe.

Other, Net

Other, Net increased $91 million in 2002, compared to 2001. The increase was primarily due to a $103 million increase in decommissioning trust fund investment income, partially offset by a $6 million decrease in affiliate interest income, and a $6 million decrease due to losses on the disposal and retirement of Generation assets.

Income Taxes

The effective income tax rate was 35.9% for 2002 compared to 39.0% for 2001. This decrease was primarily attributable to tax-exempt interest deductions in 2002 and other tax benefits recorded in 2002.

Cumulative Effect of Changes in Accounting Principles

On January 1, 2002, Generation adopted SFAS No. 141 resulting in a benefit of $13 million (net of income taxes of $9 million).

On January 1, 2001, Generation adopted SFAS No. 133, as amended, resulting in a benefit of $12 million (net of income taxes of $7 million).

Year Ended December 31, 2001 Compared to Year Ended December 31, 2000

The October 20, 2000 merger of PECO and Unicom, and the January 1, 2001 corporate restructuring, significantly impacted Generation's results of operations. To provide a more meaningful analysis of results of operations, the financial analysis below identifies the portion of the components of net income variance that is attributable to the former ComEd generation business unit results of operations and the portion of the variance that results from normal operations attributable to changes in Generation's underlying operations. The merger variance represents the former ComEd generation business unit results for the year ended December 31, 2000 prior to the October 20, 2000 acquisition date as well as the effect of merger-related costs incurred in 2000. The 2000 effects of the merger and

restructuring were developed using estimates of various items, including allocation of corporate overheads and intercompany transactions.

				Components of Variance	
Generation	**2001**	**2000**	**Variance**	**Merger Variance**	**Normal Operations**
OPERATING REVENUES	$ 6,826	$ 3,274	$ 3,552	$ 2,772	$ 780
OPERATING EXPENSES					
Purchased Power and Fuel	3,995	1,846	2,149	1,690	459
Operating & Maintenance	1,528	800	728	868	(140)
Depreciation	282	123	159	83	76
Taxes Other Than Income	149	64	85	108	(23)
Total Operating Expenses	5,954	2,833	3,121	2,749	372
OPERATING INCOME	872	441	431	23	408
OTHER INCOME AND DEDUCTIONS					
Interest expense	(115)	(41)	(74)	(33)	(41)
Equity in Earnings of Unconsolidated Affiliates, net	90	4	86	—	86
Other, Net	(8)	16	(24)	—	(24)
Total Other Income and Deductions	(33)	(21)	(12)	(33)	21
INCOME BEFORE INCOME TAXES AND CUMULATIVE EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLES	839	420	419	(10)	429
INCOME TAXES	327	160	167	(9)	176
INCOME BEFORE CUMULATIVE EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLES	512	260	252	(1)	253
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES (net of income taxes)	12	—	12	—	12
NET INCOME	$ 524	$ 260	$ 264	$ (1)	$ 265

Net Income

Generation's net income increased $265 million for 2001, compared to 2000 excluding the effects of the Merger. This increase was primarily attributable to higher margins on increased market and affiliate wholesale energy sales, coupled with reduced operating expenses at the nuclear plants, partially offset by additional depreciation and decommissioning expense.

Operating Revenues

Operating revenues increased $780 million for 2001, compared to 2000 excluding the effects of the Merger. Operating revenue increased due to higher market prices for energy. The increase in wholesale market prices, particularly in the PJM and MAIN regions, was conversely affected by higher fossil fuel prices. In addition, 2001 energy marketing activity resulted in mark-to-market gains of $16 million on non-trading contracts, and $14 million on trading contracts. This was partially offset by $6 million in realized trading losses.

Purchased Power and Fuel

Purchased power and fuel costs increased $459 million for 2001, compared to 2000, excluding the effects of the Merger. This increase was due to increased fuel prices in the first quarter of 2001

compared to the same period in the prior year. Also, Generation experienced an increase in volume sold during the peak demand season in 2001 compared to 2000.

Operating and Maintenance

O&M expenses decreased $140 million for 2001, compared to 2000, excluding the effects of the Merger. O&M expenses were favorably affected by reductions in labor costs due to a decline in the number of employees and fewer nuclear outages in 2001 than in 2000, which offset the effect of increases in litigation-related expenses of $30 million.

Depreciation

Depreciation expense increased $76 million for 2001, compared to 2000, excluding the effects of the Merger. The increase in depreciation expense was primarily due to an increase in decommissioning expense of $140 million resulting from the discontinuance of regulatory accounting practices associated with decommissioning costs for the former ComEd operating nuclear generating stations, partially offset by a $90 million reduction in depreciation and decommissioning expense attributable to the extension of estimated service lives of generating plants.

Taxes Other Than Income

Taxes other than income taxes decreased $23 million for 2001, compared to 2000. Taxes other than income taxes decreased as a result of a reduction in payroll taxes due to a decline in the number of employees and a reduction in property taxes due to property value reassessments.

Interest Expense

Interest expense increased $41 million for 2001, compared to 2000, excluding the effects of the Merger. This increase was primarily attributable to increased interest charges of $23 million on the note payable to Exelon, interest charges of $26 million due to the issuance of $700 million of 6.95% senior unsecured notes in a 144A offering in June 2001, $23 million of additional interest due to a full year of interest charges on the spent fuel obligation compared to only two months in 2000 for the former ComEd generating stations, and $15 million of interest charges from affiliates. These increases were partially offset by capitalized interest of approximately $17 million.

Equity in Earnings of Unconsolidated Affiliates, net

Equity in earnings of unconsolidated affiliates increased $86 million for 2001, compared to 2000. Equity in earnings of unconsolidated affiliates increased primarily due to additional earnings of AmerGen and Sithe of $86 million in 2001 reflecting a full year of operations for Sithe and AmerGen's Oyster Creek plant in 2001.

Other, Net

Other, Net decreased $24 million for 2001, compared to 2000. Investment income decreased by $29 million due to net realized losses of $127 million partially offset by interest and dividend income of $67 million on the nuclear decommissioning trust funds reflecting the discontinuance of regulatory accounting practices associated with nuclear decommissioning costs for the nuclear stations formerly owned by ComEd. The decrease in investment income was also offset by increased income of $31 million due to money market interest and interest on the loan to Sithe recorded in 2001.

Income Taxes

The effective income tax rate was 39.0% for 2001 as compared to 38.1% for 2000. The increase in the effective income tax rate was primarily attributable to a higher effective state income tax rate due to operations in Illinois subsequent to the merger and a reduction in investment tax credit amortization.

Cumulative Effect of Changes in Accounting Principles

On January 1, 2001, Generation adopted SFAS No. 133, resulting in a benefit of $12 million (net of income taxes of $7 million).

Liquidity and Capital Resources

Generation's business is capital intensive and requires considerable capital resources. Generation's capital resources are primarily provided by internally generated cash flows from operations and, to the extent necessary, external financings including the issuance of commercial paper and borrowings or capital contributions from Exelon. Generation's access to external financing at reasonable terms is dependent on its credit ratings and general business conditions, as well as that of the utility industry in general. Capital resources are used primarily to fund Generation's capital requirements, including construction, investments in new and existing ventures, repayments of maturing debt and the payment of dividends. Any future acquisitions could require external financing or borrowings or capital contributions from Exelon.

Cash Flows from Operating Activities

Cash flows provided by operations were $1,138 million in 2002, compared to $1,274 million in 2001. The decrease in cash flows from operating activities is primarily due to a $124 million decrease in net income, and a $197 million decrease in cash flow related to working capital. This decrease is partially offset by a

$185 million increase in cash flows related to other operating activities not included in working capital. Generation's cash flows from operating activities primarily result from the sale of electric energy to wholesale customers, including Generation's affiliated companies, as well as settlements arising from Generation's trading activities. Generation's future cash flow from operating activities will depend upon future demand and market prices for energy and the ability to continue to produce and supply power at competitive costs.

Generation participates in Exelon's defined benefit pension plans. Exelon's plans currently meet the minimum funding requirements of the Employment Retirement Income Security Act of 1974; however, Exelon made a discretionary plan contribution in 2002 of $150 million, of which $60 million was funded by Generation. Exelon also expects to make a discretionary plan contribution in 2003 of $300 million to $350 million.

Cash Flows from Investing Activities

Cash flows used in investing activities were $1,674 million in 2002, compared to $1,043 million in 2001. Capital expenditures, including investment in nuclear fuel, were $990 million in 2002. In addition to the 2002 capital expenditures, Generation purchased two natural-gas and oil-fired generating plants from TXU on April 25, 2002. The $443 million purchase was funded with commercial paper, which Exelon issued and Generation is repaying from cash flows from operations. The balance of Generation's short-term borrowings at December 31, 2002 attributable to the plants purchased from TXU, was approximately $70 million. Investing activities also included a $2 million use of cash for the November 1, 2002 purchase of the Sithe New England assets. The $2 million use is net of $12 million of cash acquired. The remainder of the purchase was financed with a $534 million note issued to Sithe.

In February 2002, Generation entered into an agreement to loan AmerGen up to $75 million at an interest rate of one-month LIBOR plus 2.25%. In July 2002, the loan agreement and the loan were increased to $100 million and the maturity date was extended to July 1, 2003. As of December 31, 2002, the balance of the loan to AmerGen was $35 million. Generation has agreed to make capital contributions to AmerGen of 50% of the purchase price of any acquisitions that AmerGen makes. Generation's capital expenditures are expected to be funded by internally generated funds, Generation's borrowings or capital contributions from Exelon.

Cash Flows from Financing Activities

Cash flows provided by financing activities were $370 million in 2002, compared to cash used of $11 million in 2001. During 2002, Generation obtained a $348 million loan from Exelon, which included $331 million for the acquisition of two generating plants. The prior year amount represented net distributions of $136 million to Exelon and the issuance of long-term debt of $821 million. Also, in 2001, Generation repaid $696 million it had borrowed from Exelon related to the acquisition of a 49.9% interest in Sithe.

Financing activities in 2002 exclude the non-cash issuance of a $534 million note issued to Sithe for the November 1, 2002 acquisition of the Sithe New England assets and approximately $1.0 billion of Sithe New England long-term debt, which is reflected in Generation's Consolidated Balance Sheets as of December 31, 2002.

Credit Issues

Generation meets its short-term liquidity requirements primarily through intercompany borrowings from Exelon and the issuance of commercial paper. Generation, along with Exelon, ComEd and PECO, participates in a $1.5 billion unsecured 364-day revolving credit facility with a group of banks. The credit facility became effective on November 22, 2002 and includes a term-out option that allows any outstanding borrowings at the end of the revolving credit period to be repaid on November 21, 2004. Exelon may increase or decrease the sublimits of each of the participants upon written notification to these banks. As of December 31, 2002, there was no sublimit for Generation. The credit facility is expected to be used by Generation principally to support its commercial paper program.

Certain of the credit agreements to which Generation is a party require it to maintain a cash from operations to interest expense ratio for the twelve-month period ended on the last day of any quarter. The ratio excludes certain changes in working capital and interest on Sithe New England's debt. Generation's threshold for the ratio reflected in the credit agreement cannot be less than 3.25 to 1 for the twelve-month period ended December 31, 2002. At December 31, 2002, Generation was in compliance with the credit agreement thresholds.

At December 31, 2002, Generation's capital structure consisted of 49% common stock, 15% notes payable and 36% long-term debt.

To provide an additional short-term borrowing option that will generally be more favorable to the borrowing participants than the cost of external financing, Exelon operates an intercompany money pool. Participation in the money pool is subject to authorization by the Exelon corporate treasurer. ComEd and its subsidiary Commonwealth Edison of Indiana, Inc., PECO, Generation and Business Services Company may participate in the money pool as lenders and borrowers, and Exelon as a lender. Funding of, and borrowings from, the money pool are predicated on whether such funding results in mutual economic benefits to each of the participants, although Exelon is not permitted to be a net borrower from the money pool. Interest on borrowings is based on short-term market rates of interest, or specific borrowing rates if the funds are provided by external financing. There have been no material money pool transactions in 2002.

Generation's access to the capital markets and its financing costs in those markets are dependent on its securities ratings. None of Generation's borrowings is subject to default or prepayment as a result of a downgrading of securities ratings although such a downgrading could increase interest charges under certain bank credit facilities. From time to time Generation enters into energy commodity and other derivative transactions that require the maintenance of investment grade ratings. Failure to maintain investment grade ratings would allow the counterparty to terminate the derivative and settle the transaction on a net present value basis. The following table shows Generation's securities ratings at December 31, 2002:

Securities	Moody's Investors Service	Standard & Poor's	Fitch Ratings

Generation	Senior unsecured debt	Baa1	A-	BBB+
	Commercial paper	P2	A2	F2

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

Under PUHCA, Generation can only pay dividends from undistributed or current earnings. Generation is precluded from lending or extending credit or indemnity to Exelon. At December 31, 2002, Generation had undistributed earnings of $924 million.

Contractual Obligations, Commercial Commitments and Off-Balance Sheet Obligations

Generation's contractual obligations as of December 31, 2002 are as follows:

		Payment Due within			
	Total	1 Year	2-3 Years	4-5 Years	Due After 5 Years
			(in millions)		
Long-Term Debt	$ 2,137	$ 5	$ 1	$ 1,036	$ 1,095
Short-Term Note to Sithe	534	534	—	—	—
Note Payable to Exelon Corporation	329	329	—	—	—
Operating Leases	592	32	45	51	464
Purchased Power Obligations	14,729	2,677	2,987	1,856	7,209
Spent Nuclear Fuel Obligations	858	—	—	—	858
Total Contractual Obligations	$ 19,179	$ 3,577	$ 3,033	$ 2,943	$ 9,626

See ITEM 8. Financial Statements and Supplementary Data—Generation, Notes to Consolidated Financial Statements for additional information about:

- Long-Term Debt see Note 10
- Short-Term Note to Sithe see Note 4
- Notes payable to Exelon for the acquisition of generating plants from TXU see note 16
- Operating Leases see Note 13
- Purchased Power Obligations see Note 13
- Spent Nuclear Fuel Obligation see Note 9

Generation has a long-term supply agreement through December 2022 with Distrigas to guarantee physical gas supply to Mystic 8 and Mystic 9 generating units. Under the agreement, prices are indexed to New England gas markets.

Generation has an obligation to decommission its nuclear power plants. Generation's current estimate of decommissioning costs for the nuclear plants owned by Generation is $7.4 billion in current year (2003) dollars. Nuclear decommissioning activity occurs primarily after a plant is retired. Based on the extended license lives of its nuclear plants, Generation will begin decommissioning its plants from 2014 through 2056, with expenditures primarily occurring when its operating plants are decommissioned, during the period from 2029 through 2056. At December 31, 2002, the decommissioning liability, which is recognized over the life of the plant, was recorded in Generation's Consolidated Balance Sheets as Accumulated Depreciation and Deferred Credits and Other Liabilities in the amounts of $2.8 billion and $1.4 billion, respectively. To fund future decommissioning costs, Generation held $3.1 billion of investments in trust funds, including net unrealized gains and losses, at December 31, 2002.

Generation's commercial commitments as of December 31, 2002, representing commitments not recorded on the balance sheet but potentially triggered by future events, including obligations to make payment on behalf of other parties and financing arrangements to secure its obligations, are as follows:

		Expiration within			
	Total	2003	2004-2005	2006-2007	2008 and beyond
Credit Facility(a)	$ —	$ —	$ —	$ —	$ —
Letters of Credit (non-debt)(b)	11	6	5	—	—
Letters of Credit (Long-Term Debt)(c)	346	195	151	—	—
Performance Guarantees(d)	101	—	—	—	101
Surety Bonds(e)	43	—	—	—	43
Energy Marketing Contract Guarantees(f)	1	1	—	—	—
Nuclear Insurance Guarantee(g)	134	—	—	—	134
Sithe New England Equity Guarantee(h)	38	38	—	—	—
Total Commercial Commitments	$ 674	$ 240	$ 156	$ —	$ 278

(a) Credit Facility—Exelon, along with ComEd, PECO and Generation, maintain a $1.5 billion 364-day credit facility to support commercial paper issuances. At December 31, 2002, there were no borrowings against the credit facility. Generation does not have a sublimit under the facility. Additionally, at December 31, 2002, Generation did not have any commercial paper outstanding.

(b) Letters of Credit (non-debt)—Non-debt letters of credit maintained to provide credit support for certain transactions as requested by third parties.

(c) Letters of Credit (Long-Term Debt)—Direct-pay letters of credit issued in connection with variable-rate debt in order to provide liquidity in the event that it is not possible to remarket all of the debt as required following specific events, including changes in the basis of determining the interest rate on the debt.

(d) Performance Guarantees—Guarantees issued to ensure execution under specific contracts.

(e) Surety Bonds—Guarantees issued related to contract and commercial surety bonds, excluding bid bonds.

(f) Energy Marketing Contract Guarantees—Guarantees issued to ensure performance under energy commodity contracts.

(g) Nuclear Insurance Guarantee—Guarantees of nuclear insurance required under the Price-Anderson Act. This amount relates to Generation's guarantee of AmerGen's plants. Exelon has a $1.2 billion guarantee relating to Generation's directly owned plants that is not included in this amount.

(h) Sithe New England Equity Guarantee—See ITEM 8. Financial Statements and Supplementary Data—Generation Note 4 of the Notes to Consolidated Financial Statements for further information on the $38 million guarantee. After construction of the SBG facilities is complete, Generation could be required to guarantee up to an additional $42 million in order to ensure that the SBG facilities have adequate funds available for potential outage and other operating costs and requirements.

Sithe Boston Generation Project Debt. In November 2002, Generation purchased the assets of Sithe New England. Sithe Boston Generating, LLC (SBG), a project subsidiary of Sithe New England has a $1.25 billion credit facility (SBG Facility), most of which is available to finance the construction projects of SBG. The outstanding balance of this facility at December 31, 2002 was $1.0 billion. The SBG Facility provides that if these construction projects are not completed by June 12, 2003, the SBG Facility lenders will have the right, but will not be required, to, among other things, declare all amounts then outstanding under the SBG Facility and the interest rate swap agreements to be due. Generation believes that the construction projects will be substantially complete by June 12, 2003, but that all of the approvals required under the SBG Facility may not be issued by that date. Generation is currently evaluating whether the requirements of the SBG Facility relating to the construction projects can be satisfied by June 12, 2003. In the event that the requirements are not expected to be satisfied by June 12, 2003, Generation will contact the SBG Facility lenders concerning an amendment or waiver of these provisions of the SBG Facility. Generation currently expects that arrangements for such an amendment or waiver, if necessary, can be successfully negotiated with the SBG Facility lenders.

Unconsolidated Equity Investments. Generation is a 49.9% owner of Sithe and accounts for the investment as an unconsolidated equity investment. The Sithe New England asset purchase did not affect the accounting for Sithe as an equity investment. Separate from the Sithe New England transaction, Generation is subject to a PCA that gives Generation the right to Call the remaining 50.1% of Sithe, and gives the other Sithe shareholders the right to Put their interest to Generation. At the time of the purchase of Sithe in 2000, the other remaining interests in Sithe were held by Vivendi (34.2%), Marubeni (14.9%) and Sithe management (1%). If the Put option is exercised, Generation has the obligation to complete the purchase. At the end of this exercise period, which is December 2005, if Generation has not exercised its Call option and the other stockholders have not exercised their Put rights, Generation will have an additional one-time option to purchase shares from the other stockholders to bring Generation's ownership in Sithe from the current 49.9% to 50.1% of Sithe's total outstanding common stock.

The PCA originally provided that the Put and Call options became exercisable as of December 18, 2002 and expired in December 2005. However, upon Apollo Energy, LLC's (Apollo) purchase of Vivendi's and Sithe management's ownership shares, Apollo agreed to delay the effective date of its Put right until June 1, 2003 and, if certain conditions are met, until September 1, 2003. There are also certain events that could trigger Apollo's Put right becoming effective prior to June 1, 2003 including Exelon being downgraded below investment grade by Standard and Poor's Rating Group or Moody's Investors Service, Inc., a stock purchase agreement between Generation and Apollo being executed and subsequently terminated, or the occurrence of any event of default, other than a change of control, under certain Generation or Apollo credit agreements. Depending on the triggering event, the Put price of approximately $460 million, growing at a market rate of interest, needs to be funded within 18 or 30 days of the Put being exercised. There have been no changes to the Put and Call terms with respect to Marubeni's remaining interest.

The delay in the effective date of Apollo's Put right allows Generation to explore a further restructuring of its investment in Sithe. Generation is continuing discussions with Apollo and Marubeni regarding restructuring alternatives that are designed in part to resolve its ownership limitations of Sithe's qualifying facilities. In addition, Generation is exploring the sale of its interest in Sithe. In the event of a sale, Generation may recognize a one-time loss. Generation would hope to implement any

additional restructuring or a sale of its Sithe investment in 2003. If Generation is unsuccessful in restructuring the Sithe transaction or selling its interest and, as a result, purchases the remaining 50.1% of Sithe under the PCA, Generation will proceed to implement measures to address the ownership of the qualified facilities as well as divest non-strategic assets, for which the outcome is uncertain.

If Generation exercises its option to acquire the remaining outstanding common stock in Sithe, or if all the other stockholders exercise their Put Rights, the purchase price for Apollo's 35.2% interest will be approximately $460 million, growing at a market rate of interest. The additional 14.9% interest will be valued at fair market value subject to a floor of $141 million and a ceiling of $290 million.

If Generation increases its ownership in Sithe to 50.1% or more, Sithe may become a consolidated subsidiary and Generation's financial results may include Sithe's financial results from the date of purchase. At December 31, 2002, Sithe had total assets of $2.6 billion and total debt of $1.3 billion. This $1.3 billion includes $624 million of subsidiary debt incurred primarily to finance the construction of six new generating facilities, $461 million of subordinated debt, $103 million of line of credit borrowings, $43 million of current portion of long-term debt and capital leases, $30 million of capital leases, and excludes $453 million of non-recourse project debt associated with Sithe's equity investments. For the year ended December 31, 2002, Sithe had revenues of $1.0 billion. As of December 31, 2002, Generation had a $478 million equity investment in Sithe.

Additionally, the debt on the books of Generation's unconsolidated equity investments and joint ventures is not reflected on Generation's Consolidated Balance Sheets. Generation estimates that this debt, including Sithe's debt described in the preceding paragraph, totals approximately $1.3 billion and that Generation's portion of that amount, based on its ownership interest in the investments, is approximately $673 million.

Generation's equity investment in AmerGen was $160 million and $95 million at December 31, 2002 and 2001, respectively. Generation and British Energy, Generation's joint venture partner in AmerGen, have each agreed to provide up to $100 million to AmerGen at any time that the Management Committee of AmerGen determines that, in order to protect the public health and safety and/or to comply with NRC requirements, these funds are necessary to meet ongoing operating expenses or to safely maintain any AmerGen plant. The current financial condition of British Energy has been the focus of media attention recently. Generation cannot predict the ability of British Energy to provide funds to AmerGen. However, Generation does not believe this will impact AmerGen's ability to conduct its business.

Other

Generation's cash flow hedges are impacted by commodity prices. These hedge contracts primarily represent forward sales of Generation's excess capacity that it expects to deliver. The majority of these contracts are for delivery within one year. These contracts have specified credit limits pursuant to standardized contract terms and require that cash collateral be posted when the limits are exceeded. When power prices increase relative to Generation's forward sales prices, it can be subject to collateral calls if Generation exceeds its credit limits. However, when power prices return to previous levels or when Generation delivers the power under its forward contracts, the collateral would be returned to Generation with no impact on its results of operations. Generation believes that it has sufficient capability to fund any collateral requirements that could be reasonably expected to occur

---

The NRC regulates the sufficiency of Generation's nuclear decommissioning trust funds. Generation is required to provide to the NRC a biennial report by unit (annually for the retired units) addressing Generation's ability to meet the NRC estimated funding levels (NRC Funding Levels) with scheduled contributions and earnings of the decommissioning trust funds. As of December 31, 2002, Generation has a number of units, which, due to current market conditions, are being funded at a rate less than anticipated with respect to the NRC's Funding Levels. Generation's calculations indicate that over time Generation may need to adjust its funding levels by up to $190 million, or less than 5% of the total. Generation will submit its biennial report to the NRC at the end of March 2003. At that time, Generation will address potential actions, in accordance with NRC requirements, to assure that Generation will remain adequately funded compared to the NRC Funding Levels. Taking into account anticipated license extensions, long-term earnings of fund investments and other factors, Generation still believes that scheduled regulated collections from ComEd and PECO customers will provide adequate funding to decommission its nuclear facilities in accordance with regulatory requirements in spite of any temporary shortfall in NRC Funding Levels.

Critical Accounting Estimates

See ComEd, PECO and Generation—Critical Accounting Estimates above for a discussion of Generation's Critical Accounting Estimates.

Business Outlook and the Challenges in Managing Our Business

Generation faces a number of challenges in achieving its vision and keeping its commitments to its customers and investors; however, there are two principal areas where Generation focuses its attention. First, Generation's financial performance is significantly affected by the availability and utilization of its generation facilities. As the largest U.S. nuclear generator, Generation faces operational and regulatory risks that, if not managed diligently, could have significant adverse consequences. Second, Generation's results of operations are directly affected by wholesale energy prices. Energy prices are driven by demand factors such as weather and economic conditions in Generation's service territories. They are also driven by supply factors in the regions where Generation operates currently have excess capacity. Over the last several years, wholesale prices of electricity have generally been low. The possibility of continued low wholesale prices, coupled with a continued economic recessionary trend, could adversely affect Generation's business. These and other challenges that will affect how Generation manages its business are described below.

Generation operates a fleet of generating assets and markets the output of a portfolio of supply, which includes 100% owned assets, co-owned facilities and purchased power. As discussed previously, Generation has entered into long-term PPAs with ComEd and PECO. The majority of Generation's portfolio is used to provide power under these agreements. To the extent the portfolio is not needed to supply power to ComEd or PECO, its output is sold on the wholesale market. Generation's ability to grow is dependent upon its ability to cost-effectively meet ComEd's and PECO's load requirements, to manage its power portfolio and to effectively handle the changes in the wholesale power markets.

Generation's financial performance may be affected by liabilities arising from its ownership and operation of nuclear facilities.

The ownership and operation of nuclear facilities involve certain risks, including: mechanical or structural problems; inadequacy or lapses in maintenance protocols; the impairment of reactor operation and safety systems due to human error; the costs of storage, handling and disposal of nuclear material; and uncertainties with respect to the technological and financial aspects of decommissioning

---

nuclear facilities at the end of their useful lives. The following are among the more significant of these risks:

Operational risk. Operations at any nuclear generation plant could degrade to the point where Generation would have to shut down the plant. If this were to happen, the process of identifying and correcting the causes of the operational downgrade to return the plant to operation could require significant time and expense, resulting in both lost revenue and increased purchased power and fuel expense to meet its supply commitments. For plants operated by Generation but not wholly-owned by Generation, Generation could incur liabilities to the co-owners. Generation may choose to close a plant rather than incur substantial costs to restart the plant.

Nuclear accident risk. Although the safety record of nuclear reactors has been very good, accidents and other unforeseen problems have occurred both in the United States and elsewhere. The consequences of an accident can be severe and may include loss of life and property damage. Any resulting liability from a nuclear accident could exceed Generation's insurance coverages and significantly affect its results of operations or financial position. See ITEM 8. Financial Statements and Supplementary Data—Generation Note 13 of the Notes to Consolidated Financial Statements for further discussion of nuclear insurance.

Nuclear regulation. The NRC may modify, suspend or revoke licenses and impose civil penalties for failure to comply with the Atomic Energy Act, the regulations under it or the terms of the licenses of nuclear facilities. Changes in regulations by the NRC that require a substantial increase in capital expenditures or that result in increased operating or decommissioning costs could adversely affect Generation's results of operations or financial condition. Events at nuclear plants owned by others, as well as those owned by Generation, may initiate such actions. Additional security requirements could also be imposed.

Plant life extensions. In 2001, Generation extended the estimated lives of certain nuclear stations. This change in estimate reflects the current and planned applications to the NRC to renew the operating licenses of Generation's nuclear stations. These applications for renewal, if approved by the NRC, will allow Generation to operate these plants for an additional 20 years longer than originally authorized. Nuclear station service life extensions are subject to NRC approval of an extension of existing NRC operating licenses, which are generally 20 years. Generation continues to fully believe that any such applications for renewal of operating licenses will be approved. However, if the NRC does not extend the operating licenses for Generation's nuclear stations, Generation's results of operations could be adversely affected by increased depreciation rates and accelerated future decommissioning payments.

Generation's financial performance is affected in large measure by the availability and use of its nuclear generation capacity.

Nuclear capacity factors. Generation capacity factors, particularly nuclear capacity factors, significantly affect its results of operations. Nuclear plant operations involve substantial fixed operating costs, but produce electricity at low marginal costs due to low variable fuel costs. Consequently, to be successful, Generation must consistently operate its nuclear generating facilities at high capacity factors. Generation's nuclear fleet performed at a 92.7% capacity factor (which represents the percentage of the total maximum energy that could be produced if facilities were operating full-time year round) in 2002 and is targeted to operate at a 94.2% capacity factor in 2003. In calculating capacity factors, Generation's nuclear fleet includes the AmerGen plants and excludes the Salem generation facility, which is operated by Public Service Enterprise Group Incorporated (PSE&G). Lower capacity factors would increase its operating costs and could require Generation to generate additional energy from its fossil or hydroelectric facilities or purchase additional energy in the spot or forward markets in order to satisfy its obligations to ComEd and PECO and other committed third-party sales. These sources

generally are at a higher cost than Generation otherwise would have incurred to generate energy from its nuclear stations.

Refueling outage scheduling at nuclear plants affects availability and costs. Outages at nuclear stations to replenish fuel require the station to be "turned off." Refueling outages are planned to occur once every 18 to 24 months and currently average approximately 22 days in duration. Generation has significantly decreased the length of refueling outages in recent years. However, when refueling outages last longer than anticipated or Generation experiences unplanned outages, Generation faces lower margins due to higher energy replacement costs and/or lower energy sales. Each twenty-day outage, depending on the capacity of the station, will decrease the total nuclear annual capacity factor between 0.1% and 0.4%. The number of refueling outages, including AmerGen, will decrease to eight in 2003 from eleven in 2002. Maintenance and capital expenditures are expected to decrease by approximately $45 million and $10 million, respectively, in 2003 as compared to 2002 as a result of fewer nuclear refueling outages.

Nuclear fuel quality may affect costs. The quality of nuclear fuel utilized by Generation can affect the efficiency and costs of its operations. Certain Generation nuclear units have recently identified to have a limited number of fuel performance issues. While actions have been taken in accordance with Generation's policies and procedures to ensure there are no public, personnel or operational issues, evaluation continues and further actions are under consideration. These actions, such as down powers, mid-cycle outages, and/or accelerated replacement of suspect fuel assemblies, will result in increased costs in 2003. In March 2003, a decision was made to replace suspect fuel assemblies at the Quad Cities Unit 1 facility. The 2003 impact from this decision is estimated to be approximately $20 million, before income taxes. Generation continues to evaluate other units that utilize similar fuel assemblies, but there currently are no plans to replace this fuel on an accelerated basis.

Generation is directly affected by wholesale energy prices.

Generation sells energy in the wholesale markets after meeting its contractual commitments to Energy Delivery and other parties. These sales expose Generation to the risks of rising and falling prices in those markets, and cash flows may vary accordingly. The amount of generation capacity that is exposed to the volatility of market prices depends inversely on the level of demand at ComEd and PECO.

The wholesale prices of electricity have generally been lower than historical levels over the last few years. A continued trend of low wholesale electricity prices could negatively affect Generation's results of operations. Factors that affect wholesale energy prices include the overall demand for energy, fossil fuel costs and excess capacity within the industry.

Demand for energy. An increased demand for energy will normally cause energy prices to increase; however, if this increase in demand drives an incremental increase in supply, energy prices may be less affected. The demand for energy is directly affected by weather conditions and economic conditions in Generation's service territories.

Weather conditions. Generation's operations are affected by weather, which affects demand for electricity as well as operating conditions. Generation manages its business based upon normal weather assumptions. To the extent that weather is warmer in the summer or colder in the winter than assumed, Generation may require greater resources to meet its contractual requirements to ComEd and PECO. Extreme summer conditions or storms may affect the availability of generation capacity and transmission, limiting Generation's ability to send power to where it is sold. These conditions, which may not have been fully anticipated, may have an adverse affect by causing Generation to seek additional capacity at a time when wholesale markets are tight or to seek to sell excess capacity at a time when those markets are weak. Generation does incorporate contingencies into its planning for extreme weather conditions, including reserving capacity to meet summer loads at levels representative of warmer than normal weather conditions.

Economic conditions. Economic conditions and activity in ComEd's and PECO's service territories directly affect the demand for electricity and gas. Changes in economic conditions and activity in ComEd's and PECO's service territories and in other parts of the United States can affect the level of operations required in the generating facilities as well as the prevailing prices of electricity and gas in the wholesale markets in which Generation does business.

Fossil fuel costs. At any given time, the open market wholesale price of electricity is affected by the cost of supplying one more unit of electricity to the market at that time. Many times the next unit of electricity supplied would be supplied from generating stations fueled by fossil fuels, primarily natural gas. Consequently, the open market wholesale price of electricity may reflect the cost of gas plus the spark spread, the cost to convert gas to electricity. Therefore, changes in the cost of gas may impact the open market wholesale price of electricity.

Excess capacity. In addition to being affected by demand factors such as weather, the economy, and fossil fuel costs, energy prices are also impacted by the amount of supply available in a region. In the markets where Generation sells power, there has been a significant increase in the number of new power plants coming on-line which has driven down power prices over the last few years. An "excess supply" problem currently exists in many parts of the country. A key factor for Generation's future earnings is the timing of a return to more normal levels in the supply-demand balance within the regions where Generation operates.

The scope and scale of Generation's nuclear generation resources provide a cost advantage in meeting its contractual commitments and enable Generation to sell power in the wholesale markets.

The generation assets transferred to Generation by ComEd and PECO during the 2001 corporate restructuring, the generating plants acquired in 2002 and Generation's investments in Sithe and AmerGen provide a critical mass of generation capacity and a leadership position in energy wholesale markets. Generation's resources, including AmerGen, include interest in 11 nuclear generation stations, consisting of 19 units, which generated 125,916 GWhs, or more than half of Generation's total supply in 2002. As the largest generator of nuclear power in the United States, Generation can take advantage of its scale and scope to negotiate favorable terms for the materials and services required. Generation's nuclear plants benefit from stable fuel costs, minimal environmental impact from operations, and a safe operating history.

Generation's financial performance will be affected by its ability to effectively operate and integrate the assets of Sithe New England into its business and to market the output.

In November 2002, Generation acquired the generating assets of Sithe New England, which includes 2,421 MWs of gas-fired combined facilities under construction and several operating generating facilities, which together with the assets under construction total 4,066 MWs of capacity. The facilities under construction (Mystic 8, Mystic 9, and Fore River) are currently in the final stages of construction and testing. Generation anticipates commercial operation dates during the second quarter of 2003. These projects have experienced delays in construction and any further delays could adversely affect Generation's results. See further discussion of the Sithe Boston Generation Project Debt in the Liquidity and Capital Resources section of ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Generation. With the continued low wholesale energy prices, Generation anticipates that the effects of its Sithe investment and the Sithe New England acquisition will be dilutive to earnings by approximately $125 million before income taxes in 2003.

Power Team has not fully committed the output from these facilities into the New England markets. As such, the uncommitted capacity of the Sithe New England assets is subject to the fluctuations in market demand and market prices.

Substantially all of the natural gas requirements for Mystic 8 and Mystic 9 will be supplied through a twenty-year natural gas contract that became effective on December 1, 2002 with Distrigas. The Distrigas facilities consist of a LNG import terminal located adjacent to the Mystic station. Generation is anticipating an additional pipeline gas supply arrangement to supplement LNG supplies to be in service by early 2005. In the interim, any disruption in LNG supplies to the Distrigas facilities could restrict the operating abilities of Mystic 8 and Mystic 9.

The interaction between ComEd and PECO's businesses and Generation's businesses provide a partial hedge.

The price of power purchased and sold in the open wholesale energy markets can vary significantly in response to market conditions. Both ComEd and PECO have entered into long-term agreements for the next several years with Generation to procure the power at fixed rates needed to meet the demand of their customers. The amounts provided to affiliates vary from month to month; however, delivery requirements are generally highest in the summer when wholesale power prices are also generally highest. Therefore, energy committed to serve ComEd and PECO customers is not exposed to the price uncertainty of the open wholesale energy market. Consequently, Generation has limited its earnings exposure to the volatility of the wholesale energy market to the energy generated beyond the ComEd and PECO requirements, as well as any other contracted longer term obligations. Generally, between 60% and 70% of Generation's electricity generated serves ComEd and PECO customers. Generation expects such levels to decrease to between 55% and 60% as a result of activating the acquired Sithe New England plants, which are currently under construction. One of the responsibilities of Power Team is to establish a hedging strategy, incorporating the load obligations of ComEd and PECO, to minimize the contracted volatility of Generation's earnings and cash flows, and to maximize the value of economic generation in excess of that needed to serve ComEd and PECO requirements.

Generation's financial performance depends on its ability to respond to competition in the energy industry.

As a result of industry restructuring, numerous generation companies created by the disaggregation of vertically integrated utilities have become active in the wholesale power generation business. In addition, independent power producers (IPP) have become prevalent in the wholesale power industry. In recent years, IPPs and the generation companies of disaggregated utilities have installed new generating capacity at a pace greater than the growth of electricity demand. As a result, the energy generation business is currently suffering from over capacity in certain parts of the country, which reduces wholesale energy prices. As discussed above, Generation is well positioned because it has entered into agreements for the next several years with ComEd and PECO to sell the power needed to meet the demand of their customers. These agreements provide a mechanism to enhance stability in Generation's earnings and limit its exposure to the negative effects of wholesale markets.

The commencement of commercial operation of new generating facilities in the regional markets where Generation has facilities or contracts for power, such as the Midwest, Mid-Atlantic, Northeast and South (including certain sections of Texas), would likely decrease wholesale power market prices in those regions, which could have a negative effect on Generation's business and results of operations.

Generation's financial performance may be affected by the marketing, trading and risk management activities of Power Team.

Generation's wholesale marketing unit, Power Team,

- uses Generation's energy generation portfolio, transmission rights and its power marketing expertise to manage delivery of energy to wholesale customers, including ComEd and PECO, under long-term and short-term contracts,
- participates in the wholesale energy market to hedge its open energy (power and fossil fuels) positions,
- manages commodity and counterparty credit risks through the use of documented risk and credit policies, and
- uses its energy market expertise to engage in trading activities for speculative purposes on a limited basis.

Power Team has substantial experience in energy markets, generation dispatch and the requirements for the physical delivery of power. Power Team may buy power to meet the energy demand of its customers, including ComEd and PECO. These purchases may be made for more than the energy demanded by Power Team's customers. Power Team then sells this open position, along with Generation's capacity not used to meet customer demand, in the wholesale energy market.

Power Team began proprietary trading activities in 2001, but this activity accounts for a small portion of Power Team's efforts. In 2002, proprietary trading activities resulted in an $18 million after-tax reduction in earnings. Power Team will continue proprietary trading activities but in a more limited capacity given the current lack of liquidity of power markets and reduced number of creditworthy counterparties.

Power Team has managed to avoid the recent managerial problems experienced in the energy trading industry through the strict adherence to prudent risk management practices. However, the recent failures of energy companies and their related energy trading practices over the last year have diminished the size and depth of the wholesale energy market. Generation cannot predict how this will affect Power Team's trading operations in the future.

Generation depends on counterparties fulfilling their obligations.

Generation's trading, marketing and contracting operations are exposed to the risk that counterparties, which owe Generation money or energy as a result of market transactions, will not perform their obligations. In order to evaluate the viability of Generation's counterparties, Generation has implemented credit risk management procedures designed to mitigate the risks associated with these transactions. Energy supplied by third-party generators, including AmerGen and Sithe, under long-term agreements represents a significant portion of Generation's overall capacity. These third-party generators face operational risks such as those that Generation faces, and their ability to perform also depends on their financial condition. In the event the counterparties to these arrangements fail to perform, Generation might be forced to honor the underlying commitment at then-current market prices and incur additional losses, to the extent of amounts, if any, already paid to the counterparties. Generation manages counterparty credit risk through established policies, including counterparty credit limits, and in some cases, requiring deposits and letters of credit to be posted by certain counterparties. Generation's counterparty credit limits are based on a scoring model that considers a variety of factors, including leverage, liquidity, profitability, credit ratings and risk management capabilities. Generation has entered into payment netting agreements or enabling agreements that allow for payment netting with the majority of its large counterparties. These agreements reduce Generation's exposure to counterparty risk by providing for the offset of amounts payable to the counterparty against amounts receivable from the counterparty. The credit department monitors current and forward credit exposure to counterparties and their affiliates, both on an individual and an aggregate basis.

See the Credit Risk section in ITEM 7A. Quantitative and Qualitative Disclosures about Market Risk—Generation for further discussions on specific credit risk matters such as Generation's potential counterparty exposures, including Dynegy Inc. (Dynegy).

Generation's business is also affected by the restructuring of the energy industry.

Regional Transmission Organizations/Standard Market Design. Generation is dependent on wholesale energy markets and open transmission access and rights by which it delivers power to its wholesale customers, including ComEd and PECO. Generation uses the wholesale regional energy markets to sell power that it does not need to satisfy long-term contractual obligations, to meet long-term obligations not provided by its own resources, and to take advantage of price opportunities.

Wholesale spot markets have only been implemented in certain areas of the country and each market has unique features that may create trading barriers between the markets. Although FERC has proposed initiatives, including Order 2000 and the proposed SMD rule, to encourage the development of large regional, uniform markets and to eliminate trade barriers, these initiatives have not yet led to the development of such markets all across the country. PJM's market strongly resembles FERC's proposal, and both the New England Independent System Operator (NE-ISO) and the New York Independent System operator (NYISO) are implementing market reforms. Generation strongly encourages the development of standardized energy markets and support FERC's standardization efforts as being essential to wholesale competition in the energy industry and to Generation's ability to compete on a national basis and to meet its long-term contractual commitments efficiently.

Approximately 26% of Generation's current generation resources are located in the region encompassed by PJM. If the PJM market is expanded to the Midwest, 82% of Generation's current assets will be located within the expanded market. The PJM market has been the most liquid regional market and is largely consistent with the standard market design proposed by FERC. Generation's future results of operations may be impacted by the successful expansion of that market to the Midwest and the implementation of any market changes mandated by FERC.

Provider of Last Resort. As noted, ComEd and PECO have a POLR obligation that they have largely assigned to Generation through the full requirements contracts that it has with Generation. Currently both ComEd and PECO have entered into PPAs with Generation to provide 100% of their respective energy requirements. ComEd's PPA with Generation is for 100% of its required load through 2004 at fixed prices, and in 2005 and 2006 it equals 100% of the output of ComEd's former nuclear plants, now owned by Generation at market based prices. PECO's PPA with Generation is a full load requirements contract through 2010. Exelon intends to revise the PPA between ComEd and Generation to be a full requirements contract in 2005 and 2006. Additionally, the PPAs between Generation, ComEd and PECO may be extended beyond their current expiration dates. ComEd and PECO continue to work on resolution of the POLR issues with their respective state regulatory commissions and other market participants.

Effective management of capital projects is important to Generation's business.

Generation's business is capital intensive and requires significant investments in energy generation and in other internal infrastructure projects. As mentioned previously, as part of Generation's recent acquisition of the assets of Sithe New England, Generation is in the process of completing the construction of three high-efficiency generating facilities with projected capacity of 2,421 MWs of energy. The inability to effectively manage the capital projects, such as the Sithe New England facilities, could adversely affect Generation's results from operations.

Capital Markets/Financing Environment

In order to expand Generation's operations and to meet the needs of its current and future customers, Generation invests in its businesses. Generation's ability to finance its business and other necessary expenditures is affected by the capital intensive nature of its operations and its current and future credit ratings. The capital markets also affect its decommissioning trust funds and benefit plan assets. Further discussions of Generation's liquidity position can be found in the Liquidity and Capital Resources section above.

Generation's ability to grow its business is affected by its ability to finance capital projects.

Generation's businesses require considerable capital resources. When necessary, Generation secures funds, through Exelon, from external sources by issuing commercial paper and, as required, long-term debt securities. Generation actively manages its exposure to changes in interest rates through interest-rate swap transactions and its balance of fixed- and floating-rate instruments. Generation currently anticipates primarily using internally generated cash flows and short-term financing through commercial paper (issued through Exelon) to fund its operations as well as long-term external financing sources to fund capital requirements as the needs and opportunities arise. Generation's ability to arrange debt financing, to refinance current maturities and early retirements of debt, and the costs of issuing new debt are dependent on:

- credit availability from banks and other financial institutions,
- maintenance of acceptable credit ratings (see Generation's Credit Ratings above in the credit issues section of Liquidity and Capital Resources),
- investor confidence in Generation and Exelon,
- investor confidence in regional wholesale power markets,
- general economic and capital market conditions,
- the success of current projects, and
- the perceived quality of new projects.

Generation's credit ratings influence its ability to raise capital.

Generation has investment grade ratings and has been successful in raising capital, which has been used to further its business initiatives. Also, from time to time, Generation enters into energy commodity and other contracts that require the maintenance of investment grade ratings. Failure to maintain investment grade ratings would require Generation to incur higher financing costs and would allow, but not in most instances require, counterparties to energy commodity contracts to terminate the contracts and settle the transaction. Also, the failure to maintain investment grade ratings would restrict Generation's access to the wholesale energy markets.

Equity market performance affects Generation's decommissioning trust funds and Exelon's benefit plan asset values.

The sharp decline in the equity markets since the third quarter of 2000 has reduced the value of the assets held in trusts to satisfy the obligations of pension and postretirement benefit plans and the eventual nuclear generation station decommissioning requirements. If the markets continue to decline, Exelon may have higher funding requirements and pension and other postretirement benefit expense. Exelon will continue to manage the assets in the pension and postretirement benefit plans and nuclear decommissioning trusts in order to achieve the best return possible in conjunction with Exelon's overall risk management practices and diversified approach to investment. See ITEM 7. ComEd, PECO,

Gneration—Critical Accounting Estimates section that more fully describes the quantitative financial statement effects of changes in the equity markets on the nuclear decommissioning trust funds and benefit plan assets.

Other

Generation may incur substantial cost to fulfill its obligations related to environmental matters.

Generation's businesses are subject to extensive environmental regulation by local, state and Federal authorities. These laws and regulations affect the manner in which Generation conducts its operations and makes its capital expenditures. These regulations affect how Generation handles air and water emissions and solid waste disposal and are an important aspect of Generation's operations. In addition, Generation is subject to liability under these laws for the costs of remediating environmental contamination of property now or formerly owned by ComEd or PECO and of property contaminated by hazardous substances generated. Generation believes that it has a responsible environmental management and compliance program; however, Generation has incurred and expects to incur significant costs related to environmental compliance and site remediation and clean-up. Generation is currently involved in a number of proceedings relating to sites where hazardous substances have been deposited and may be subject to additional proceedings in the future.

As of December 31, 2002, Generation's reserve for environmental investigation and remediation costs was $15 million, exclusive of decommissioning liabilities. Generation has accrued and will continue to accrue amounts that management believes are prudent to cover these environmental liabilities, but Generation cannot predict with any certainty whether these amounts will be sufficient to cover its environmental liabilities. Generation cannot predict whether it will incur other significant liabilities for any additional investigation and remediation costs at additional sites not currently identified by Generation, environmental agencies or others, or whether such costs will be recoverable from third parties.

Generation's financial performance is affected by its ability to manage costs for security and liability insurance.

Security. Generation does not fully know the impact that future terrorist attacks or threats of terrorism may have on its industry in general and on itself in particular. The events of September 11, 2001 have affected Generation's operating procedures and costs. Generation has initiated security measures to safeguard its employees and critical operations and is actively participating in industry initiatives to identify methods to maintain the reliability of its energy production and delivery systems. Generation has met or exceeded all security measures mandated by the NRC for nuclear plants after the September 11, 2001 terrorist attacks. These security measures resulted in increased costs in 2002 of $19 million, of which approximately $10 million was capitalized. On a continuing basis, Generation is evaluating enhanced security measures at certain critical locations, enhanced response and recovery plans and assessing long-term design changes and redundancy measures. Additionally, the energy industry is working with governmental authorities to ensure that emergency plans are in place and critical infrastructure vulnerabilities are addressed in order to maintain the reliability of the country's energy systems. These measures will involve additional expense to develop and implement, but will provide increased assurances as to Generation's ability to continue to operate under difficult times.

Nuclear liability insurance. The Price-Anderson Act limits the liability of nuclear reactor owners for claims that could arise from a single incident. The current limit is $9.5 billion and is subject to change to account for the effects of inflation and changes in the number of licensed reactors. As required by the Price-Anderson Act, Generation carries nuclear liability insurance in the maximum available amount (currently $300 million per site). Claims exceeding that amount are covered through mandatory participation in a financial protection pool. The Price-Anderson Act expired on August 1,

2002, but existing facilities, such as those owned and operated by Generation, remain covered. The provisions of the Price-Anderson Act related to commercial facilities have been extended through 2003. The extension affects facilities obtaining NRC operating licenses in 2003. Existing facilities are unaffected by the extension.

Other insurance. In addition to nuclear liability insurance, Generation also carries property damage and liability insurance for its properties and operations. As a result of significant changes in the insurance marketplace, due in part to the September 11, 2001 terrorist acts, the available coverage and limits may be less than the amount of insurance obtained in the past, and the recovery for losses due to terrorists acts may be limited. Generation is self-insured to the extent that any losses may exceed the amount of insurance maintained.

A claim that exceeds the amounts available under Generation's property damage and liability insurance would negatively affect its results of operations. NEIL, a mutual insurance company to which Generation belongs, provides property and business interruption insurance for its nuclear operations. In recent years, NEIL has made distributions to its members. Generation's distribution for 2002 was $40 million, which was recorded as a reduction to O&M expense on its Consolidated Statements of Income. Generation cannot predict the level of future distributions.

The possibility of attack or war may adversely affect Generation's results of operations, future growth and ability to raise capital.

Any military strikes or sustained military campaign may affect Generation's operations in unpredictable ways, such as increased security measures and disruptions of fuel supplies and markets, particularly oil and LNG. Just the possibility that infrastructure facilities, such as electric generation, transmission and distribution facilities, would be direct targets of, or indirect casualties of, an act of terror or war may affect Generation's operations. War and the possibility of war may have an adverse effect on the economy in general. A lower level of economic activity might result in a decline in energy consumption, which may adversely affect Generation's revenues or restrict its future growth. Instability in the financial markets as a result of war may affect Generation's ability to raise capital.

The introduction of new technologies could increase competition within Generation's markets.

While demand for electricity is generally increasing throughout the United States, the rate of construction and development of new, more efficient, electric generation facilities and distribution methodologies may exceed increases in demand in some regional electric markets. The introduction of new technologies could increase competition, which could lower prices and have an adverse affect on Generation's results of operations or financial condition.

New Accounting Pronouncements

See ComEd, PECO and Generation—New Accounting Pronouncements above for a discussion of new accounting pronouncements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Exelon

The information required by this Item is incorporated herein by reference to the information appearing under the subheading "Quantitative and Qualitative Disclosures About Market Risk" under "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Exhibit 99-3 to Exelon's Current Report on Form 8-K dated February 21, 2003.

ComEd

ComEd is exposed to market risks associated with credit, interest rates and commodity price. The inherent risk in market sensitive instruments and positions is the potential loss arising from adverse changes in commodity prices, counterparty credit, and interest rates. Exelon's corporate Risk Management Committee (RMC) sets forth risk management philosophy and objectives for Exelon and its subsidiaries through a corporate policy, and establishes procedures for risk assessment, control and valuation, counterparty credit approval, and the monitoring and reporting of derivative activity and risk exposures. The RMC is chaired by Exelon's chief risk officer and includes the chief financial officer, general counsel, treasurer, vice president of corporate planning and officers from each of the business units. The RMC reports to the board of directors on the scope of ComEd's derivative activities.

Credit Risk

ComEd is obligated to provide service to all electric customers within its franchised territories and the resulting broad customer base mitigates ComEd's credit risk exposure. For the year ended December 31, 2002, ComEd's ten largest customers represented approximately 3% of its retail electric revenues. ComEd manages credit risk using credit and collection policies which are regulated by the ICC.

Interest Rate Risk

ComEd uses a combination of fixed rate and variable rate debt to reduce interest rate exposure. Interest rate swaps may be used to adjust exposure when deemed appropriate based upon market conditions. ComEd also utilizes forward-starting interest rate swaps and treasury rate locks to lock in interest rate levels in anticipation of future financing. These strategies are employed to maintain the lowest cost of capital. As of December 31, 2002, a hypothetical 10% increase in the interest rates associated with variable rate debt would result in a $1 million decrease in pre-tax earnings for 2003.

ComEd has entered into fixed-to-floating interest rate swaps in order to maintain its targeted percentage of variable rate debt, associated with debt issuances in the aggregate amount of $485 million fixed-rate obligation. At December 31, 2002, these interest rate swaps had an aggregate fair market value of $41 million based on the present value difference between the contract and market rates at December 31, 2002.

ComEd has forward-starting interest rate swaps in the aggregate amount of $630 million to lock in interest rate levels in anticipation of future financings. At December 31, 2002, these interest rate swaps, designated as cash flow hedges, had a fair market value exposure of $52 million. As it remained probable that the debt issuances, the forecasted future transactions these swaps were hedging, would occur, although the issuances had been delayed, ComEd continued to account for these interest rate swap transactions as hedges. In connection with ComEd's January 22, 2003 issuance of $700 million in First Mortgage Bonds, ComEd settled swaps, in the aggregate notional amount of $550 million, for a payment of $43 million, which will be recorded as a regulatory asset and amortized over the life of the debt issuance.

In 2002, ComEd settled $450 million of forward-starting interest rate swaps and paid $10 million to the counterparties.

The aggregate fair value of the interest rate swaps, designated as fair value hedges, that would have resulted from a hypothetical 50 basis point decrease in the spot yield at December 31, 2002 is estimated to be $49 million. If these derivative instruments had been terminated at December 31, 2002, this estimated fair value represents the amount that would be paid by the counterparties to ComEd.

The aggregate fair value of the interest rate swaps, designated as fair value hedges, that would have resulted from a hypothetical 50 basis point increase in the spot yield at December 31, 2002 is

estimated to be $33 million. If these derivative instruments had been terminated at December 31, 2001, this estimated fair value represents the amount to be paid by the counterparties to ComEd.

The aggregate fair value exposure of the interest rate swaps, designated as cash flow hedges, that would have resulted from a hypothetical 50 basis point decrease in the spot yield at December 31, 2002 is estimated to be $69 million. If these derivative instruments had been terminated at December 31, 2002, this estimated fair value represents the amount that would be paid by ComEd to the counterparties.

The aggregate fair value exposure of the interest rate swaps, designated as fair value hedges, that would have resulted from a hypothetical 50 basis point increase in the spot yield at December 31, 2002 is estimated to be $36 million. If these derivative instruments had been terminated at December 31, 2002, this estimated fair value represents the amount to be paid by ComEd to the counterparties.

Commodity Price Risk

As part of the 2001 corporate restructuring, ComEd entered into a PPA with Generation to meet its retail customer obligations at fixed prices. ComEd's principal exposure to commodity price risk is in relation to revenues collected from customers who elect the PPO at market-based prices, and CTC revenues which are calculated to provide the customer with a credit for the market price for electricity. ComEd has performed a sensitivity analysis to determine the net impact of a 10% decrease in the average around-the-clock market price of electricity. Because the decrease in revenues from customers electing the PPO is significantly offset by increased CTC revenues, ComEd does not believe that its exposure to such a market price decrease would be material.

PECO

PECO is exposed to market risks associated with credit and interest rates. The inherent risk in market sensitive instruments and positions is the potential loss arising from adverse changes in counterparty credit and interest rates. Exelon's corporate RMC sets forth risk management philosophy and objectives through a corporate policy, and establishes procedures for risk assessment, control and valuation, counterparty credit approval, and the monitoring and reporting of derivative activity and risk exposures. The RMC is chaired by the chief risk officer and includes the chief financial officer, general counsel, treasurer, vice president of corporate planning and officers from each of the business units. The RMC reports to the board of directors on the scope of Exelon's derivative activities. As a result of the PPA with Generation, PECO does not believe it is subject to material commodity price risk.

Credit Risk

Credit risk for PECO is managed by its credit and collection policies, which is consistent with state regulatory requirements. PECO is obligated to provide service to all electric customers within its franchised service territories. As a result, PECO has a broad customer base. For the year ended December 31, 2002, PECO's ten largest customers represented approximately 8% of its retail electric revenues. PECO records a provision for uncollectible accounts, based upon historical experience and third-party studies, to provide for the potential loss from nonpayment by these customers.

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

Interest Rate Risk

PECO uses a combination of fixed rate and variable rate debt to reduce interest rate exposure. Interest rate swaps may be used to adjust exposure when deemed appropriate based upon market conditions. PECO also utilizes forward-starting interest rate swaps and treasury rate locks to lock in interest rate levels in anticipation of future financing. As of December 31, 2002, a hypothetical 10% increase in the interest rates associated with variable rate debt would not have a material impact on pre-tax earnings for 2003.

During 2002, PECO entered into forward-starting interest rate swaps, with an aggregate notional amount of $200 million, in anticipation of the issuance of debt at PECO. These interest rate swaps were designated as cash flow hedges. In connection with bond issuances in 2002, PECO settled these forward- starting interest rate swaps resulting in a $5 million pre-tax loss recorded in OCI, which is being amortized over the life of the related debt.

PECO has entered into interest rate swaps to manage interest rate exposure associated with the floating rate series of transition bonds issued to securitize PECO's stranded cost recovery. At December 31, 2002, these interest rate swaps had an aggregate fair market value exposure of $22 million based on the present value difference between the contract and market rates at December 31, 2002.

PECO also has interest rate swaps in place to satisfy counterparty credit requirements in regards to the floating rate series of transition bonds which are mirror swaps of each other. These swaps are not designated as cash flow hedges; therefore, they are required to be marked-to-market if there is a difference in their values. Since these swaps offset each other, a mark-to-market adjustment is not expected to occur.

The aggregate fair value exposure of the interest rate swaps that would have resulted from a hypothetical 50 basis point decrease in the spot yield at December 31, 2002 is estimated to be $23 million. If these derivative instruments had been terminated at December 31, 2002, this estimated fair value represents the amount that would be paid by PECO to the counterparties.

The aggregate fair value exposure of the interest rate swaps that would have resulted from a hypothetical 50 basis point increase in the spot yield at December 31, 2002 is estimated to be $20 million. If these derivative instruments had been terminated at December 31, 2002, this estimated fair value represents the amount to be paid by PECO to the counterparties.

Generation

Generation is exposed to market risks associated with commodity price, credit, interest rates and equity prices. The inherent risk in market sensitive instruments and positions is the potential loss arising from adverse changes in commodity prices, counterparty credit, interest rates and equity security prices. Exelon's corporate RMC sets forth risk management philosophy and objectives through a corporate policy, and establishes procedures for risk assessment, control and valuation, counterparty credit approval, and the monitoring and reporting of derivative activity and risk exposures. The RMC is chaired by Exelon's chief risk officer and includes the chief financial officer, general counsel, treasurer, vice president of corporate planning and officers from each of the Exelon business units. The RMC reports to the Exelon Board of Directors on the scope of Generation's derivative and risk management activities.

Commodity Price Risk

Commodity price risk is associated with market price movements resulting from excess or insufficient generation, changes in fuel costs, market liquidity and other factors. Trading activities and non-trading marketing activities include the purchase and sale of electric capacity and energy and fossil

---

fuels, including oil, gas, coal and emission allowances. The availability and prices of energy and energy-related commodities are subject to fluctuations due to factors such as weather, governmental environmental policies, changes in supply and demand, state and Federal regulatory policies and other events.

Normal Operations and Hedging Activities

Electricity available from Generation's owned or contracted generation supply in excess of its obligations to customers, including Energy Delivery's retail load, is sold into the wholesale markets. To reduce price risk caused by market fluctuations, Generation enters into physical contracts as well as derivative contracts, including forwards, futures, swaps, and options, with approved counterparties to hedge its anticipated exposures. The maximum length of time over which cash flows related to energy commodities are currently being hedged is 4 years. Generation has an estimated 90% hedge ratio in 2003 for its energy marketing portfolio. This hedge ratio represents the percentage of Generation's forecasted aggregate annual generation supply that is committed to firm sales, including sales to ComEd and PECO's retail load. ComEd's and PECO's retail load assumptions are based on forecasted average demand. The hedge ratio is not fixed and will vary from time to time depending upon market conditions, demand, and energy market option volatility and actual loads. During peak periods the amount hedged declines to meet the commitment to ComEd and PECO. Market price risk exposure is the risk of a change in the value of unhedged positions. Absent any opportunistic efforts to mitigate market price exposure, the estimated market price exposure for Generation's non-trading portfolio associated with a ten percent reduction in the annual average around-the-clock market price of electricity is an approximately $37 million decrease in net income. This sensitivity assumes a 90% hedge ratio and that price changes occur evenly throughout the year and across all markets. The sensitivity also assumes a static portfolio. Generation expects to actively manage its portfolio to mitigate market price exposure. Actual results could differ depending on the specific timing of, and markets affected by, price changes, as well as future changes in Generation's portfolio.

Proprietary Trading

Activities. Generation began to use financial contracts for proprietary trading purposes in the second quarter of 2001. Proprietary trading includes all contracts entered into purely to profit from market price changes as opposed to hedging an exposure. These activities are accounted for on a mark-to-market basis. The proprietary trading activities are a complement to Generation's energy marketing portfolio and represent a very small portion of its overall energy marketing activities. For example, the limit on open positions in electricity for any forward month represents less than 1% of Generation's owned and contracted supply of electricity. The trading portfolio is subject to stringent risk management limits and policies, including volume, stop-loss and value-at-risk limits.

Generation's energy contracts are accounted for under SFAS No. 133. Most non-trading contracts qualify for the normal purchases and normal sales exemption to SFAS No. 133 discussed in Critical Accounting Estimates. Those that do not are recorded as assets or liabilities on the balance sheet at fair value. Changes in the fair value of qualifying hedge contracts are recorded in OCI, and gains and losses are recognized in earnings when the underlying transaction occurs. Changes in the fair value of derivative contracts that do not meet hedge criteria under SFAS No. 133 and the ineffective portion of hedge contracts are recognized in earnings on a current basis.

The following detailed presentation of the trading and non-trading marketing activities at Generation is included to address the recommended disclosures by the energy industry's Committee of Chief Risk Officers. Generation does not consider its proprietary trading to be a significant activity in its business; however, Generation believes it is important to include these risk management disclosures.

The following table describes the drivers of Generation's energy trading and marketing business and gross margin included in the income statement for the year ended December 31, 2002. Normal operations and hedging activities represent the marketing of electricity available from Generation's owned or contracted generation, including ComEd and PECO's retail load, sold into the wholesale market. As the information in this table highlights, mark-to-market activities represent a small portion of the overall gross margin for Generation. Accrual activities, including normal purchases and sales, account for the majority of the gross margin. The mark-to-market activities reported here are those relating to changes in fair value due to external movement in prices. Further delineation of gross margin by the type of accounting treatment typically afforded each type of activity is also presented (i.e., mark-to-market vs. accrual accounting treatment).

	Normal Operations and Hedging Activities(a)	Proprietary Trading	Total
Mark-to-Market Activities:			
Unrealized Mark-to-Market Gain/(Loss)			
Origination Unrealized Gain/(Loss) at Inception	$ —	$ —	$ —
Changes in Fair Value Prior to Settlements	26	(29)	(3)
Changes in Valuation Techniques and Assumptions	—	—	—
Reclassification to Realized at Settlement of Contracts	(20)	20	—
Total Change in Unrealized Fair Value	6	(9)	(3)
Realized Net Settlement of Transactions Subject to Mark-to-Market	20	(20)	—
Total Mark-to-Market Activities Gross Margin	$ 26	$ (29)	$ (3)
Accrual Activities:			
Accrual Activities Revenue	$ 6,785	$ —	$ 6,785
Hedge Gains/(Losses) Reclassified from OCI	76	—	76
Total Revenue—Accrual Activities	6,861	—	6,861
Purchased Power and Fuel	4,230	—	4,230
Hedges of Purchased Power and Fuel Reclassified from OCI	23	—	23
Total Purchased Power and Fuel	4,253	—	4,253
Total Accrual Activities Gross Margin	2,608	—	2,608
Total Gross Margin	$ 2,634	$ (29)	$ 2,605(b)

(a)

Normal Operations and Hedging Activities only include derivative contracts Power Team enters into to hedge anticipated exposures related to its owned and contracted generation supply, but excludes its owned and contracted generating assets.

(b) Total Gross Margin represents revenue, net of purchased power and fuel expense for Generation.

The following table provides detail on changes in Generation's mark-to-market net asset or liability balance sheet position from January 1, 2002 to December 31, 2002. It indicates the drivers behind changes in the balance sheet amounts. This table will incorporate the mark-to-market activities that are immediately recorded in earnings, as shown in the previous table, as well as the settlements from OCI

to earnings and changes in fair value for the hedging activities that are recorded in Accumulated Other Comprehensive Income on the Consolidated Balance Sheets.

	Normal Operations and Hedging Activities	Proprietary Trading	Total
Total Mark-to-Market Energy Contract Net Assets at January 1, 2002	$ 78	$ 14	$ 92
Total Change in Fair Value during 2002 of Contracts Recorded in Earnings	26	(29)	(3)
Reclassification to Realized at Settlement of Contracts Recorded in Earnings	(20)	20	—
Reclassification to Realized at Settlement from OCI	(53)	—	(53)
Effective Portion of Changes in Fair Value—Recorded in OCI	(210)	—	(210)
Purchase/Sale of Existing Contracts or Portfolios Subject to Mark-to-Market	11	—	11
Total Mark-to-Market Energy Contract Net Assets (Liabilities) at December 31, 2002	$ (168)	$ 5	$ (163)

The following table details the balance sheet classification of the Mark-to-Market Energy Contract Net Assets recorded as of December 31, 2002:

	Normal Operations and Hedging Activities	Proprietary Trading	Total
Current Assets	$ 186	$ 6	$ 192
Noncurrent Assets	46	—	46
Total Mark-to-Market Energy Contract Assets	232	6	238
Current Liabilities	(276)	—	(276)
Noncurrent Liabilities	(124)	(1)	(125)
Total Mark-to-Market Energy Contract Liabilities	(400)	(1)	(401)
Total Mark-to-Market Energy Contract Net Assets (Liabilities)	$ (168)	$ 5	$ (163)

The majority of Generation's contracts are non-exchange traded contracts valued using prices provided by external sources, primarily price quotations available through brokers or over-the-counter, on-line exchanges. Prices reflect the average of the bid-ask midpoint prices obtained from all sources that Generation believes provide the most liquid market for the commodity. The terms for which such price information is available varies by commodity, by region and by product. The remainder of the assets represents contracts for which external valuations are not available, primarily option contracts. These contracts are valued using the Black model, an industry standard option valuation model. The fair values in each category reflect the level of forward prices and volatility factors as of December 31, 2002 and may change as a result of changes in these factors. Management uses its best estimates to determine the fair value of commodity and derivative contracts it holds and sells. These estimates consider various factors including closing exchange and over-the-counter price quotations, time value, volatility factors and credit exposure. It is possible, however, that future market prices could vary from those used in recording assets and liabilities from energy marketing and trading activities and such variations could be material.

The following table, which presents maturity and source of fair value of mark-to-market energy contract net assets, provides two fundamental pieces of information. First, the table provides the source of fair value used in determining the carrying amount of Generation's total mark-to-market asset or

liability. Second, this table provides the maturity, by year, of Generation's net assets/liabilities, giving an indication of when these mark-to-market amounts will settle and generate or require cash.

	Maturities within						
	2003	2004	2005	2006	2007	2008 and Beyond	Total Fair Value
Normal Operations, qualifying cash flow hedge contracts(1):							
Prices provided by other external sources	$ (124)	$ (48)	$ (9)	$ (5)	$ —	$ —	$ (186)

Total	$ (124)	$ (48)	$ (9)	$ (5)	$ —	$ —	$ (186)
Normal Operations, other derivative contracts(2):							
Actively quoted prices	$ 26	$ 4	$ —	$ —	$ —	$ —	$ 30
Prices provided by other external sources	—	3	2	2	—	—	7
Prices based on model or other valuation methods	7	(11)	(4)	(9)	(2)	—	(19)
Total	$ 33	$ (4)	$ (2)	$ (7)	$ (2)	$ —	$ 18
Proprietary Trading, other derivative contracts(3):							
Actively quoted prices	$ (4)	$ —	$ —	$ —	$ —	$ —	$ (4)
Prices provided by other external sources	6	(3)	—	—	—	—	3
Prices based on model or other valuation methods	5	1	—	—	—	—	6
Total	$ 7	$ (2)	$ —	$ —	$ —	$ —	$ 5
Average tenor of proprietary trading portfolio(4)							1.5 years

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

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

(3) Mark-to-market gains and losses on trading contracts are recorded in earnings.

(4) Following the recommendations of the Committee of Chief Risk Officers, the average tenor of the proprietary trading portfolio measures the average time to collect value for that portfolio. Generation measures the tenor by separating positive and negative mark-to-market values in its proprietary trading portfolio, estimating the mid-point in years for each and then reporting the highest of the two mid-points calculated. In the event that this methodology resulted in significantly different absolute values of the positive and negative cash flow streams, Generation would use the mid-point of the portfolio with the largest cash flow stream as the tenor.

The table below provides details of effective cash flow hedges under SFAS No. 133 included in the balance sheet as of December 31, 2002. The data in the table gives an indication of the magnitude of SFAS No. 133 hedges Generation has in place, however, given that under SFAS No. 133 not all hedges are recorded in OCI, the table does not provide an all-encompassing picture of Generation's hedges. The table also includes a roll-forward of Accumulated Other Comprehensive Income on the Consolidated Balance Sheets related to cash flow hedges for the year ended December 31, 2002, providing insight into the drivers of the changes (new hedges entered into during the period and

changes in the value of existing hedges). Information related to energy merchant activities is presented separately from interest rate hedging activities.

	Total Cash Flow Hedge Other Comprehensive Income Activity, Net of Income Tax		
	Power Team Normal Operations and Hedging Activities	Interest Rate and Other Hedges(1)	Total Cash Flow Hedges
Accumulated OCI, January 1, 2002	$ 47	$ 1	$ 48
Changes in Fair Value	(128)	(9)	(137)
Reclassifications from OCI to Net Income	(33)	—	(33)
Accumulated OCI Derivative Gain/(Loss) at December 31, 2002	$ (114)	$ (8)	$ (122)

(1) Includes interest rate hedges at Generation.

Generation uses a Value-at-Risk (VaR) model to assess the market risk associated with financial derivative instruments entered into for proprietary trading purposes. The measured VaR represents an estimate of the potential change in value of Generation's proprietary trading portfolio.

The VaR estimate includes a number of assumptions about current market prices, estimates of volatility and correlations between market factors. These estimates, however, are not necessarily indicative of actual results, which may differ because actual market rate fluctuations may differ from forecasted fluctuations and because the portfolio may change over the holding period.

Generation estimates VaR using a model based on the Monte Carlo simulation of commodity prices that captures the change in value of forward purchases and sales as well as option values. Parameters and values are back tested daily against daily changes in mark-to-market value for proprietary trading activity. VaR assumes that normal market conditions prevail and that there are no changes in positions. Generation uses a 95% confidence interval, one-day holding period, one-tailed statistical measure in calculating its VaR. This means that Generation may state that there is a one in 20 chance that if prices move against its portfolio positions, its pre-tax loss in liquidating its portfolio in a one-day holding period would exceed the calculated VaR. To account for unusual events and loss of liquidity, Generation uses stress tests and scenario analysis.

For financial reporting purposes only, Generation calculates several other VaR estimates. The higher the confidence interval, the less likely the chance that the VaR estimate would be exceeded. A longer holding period considers the effect of liquidity in being able to actually liquidate the portfolio. A two-tailed test considers potential upside in the portfolio in addition to the potential downside in the

portfolio considered in the one-tailed test. The following table provides the VaR for all proprietary trading positions of Generation as of December 31, 2002.

	Proprietary Trading VaR
95% Confidence Level, One-Day Holding Period, One-Tailed	
Period End	$ 0.2
Average for the Period	1.4
High	5.0
Low	0.2
95% Confidence Level, Ten-Day Holding Period, Two-Tailed	
Period End	$ 0.3
Average for the Period	1.5
High	5.3
Low	0.1
99% Confidence Level, One-Day Holding Period, Two-Tailed	
Period End	$ 0.9
Average for the Period	4.6
High	16.7
Low	0.4

Credit Risk

Generation has credit risk associated with counterparty performance on energy contracts which includes, but is not limited to, the risk of financial default or slow payment. Generation manages counterparty credit risk through established policies, including counterparty credit limits, and in some cases, requiring deposits and letters of credit to be posted by certain counterparties. Generation's counterparty credit limits are based on a scoring model that considers a variety of factors, including leverage, liquidity, profitability, credit ratings and risk management capabilities. Generation has entered into payment netting agreements or enabling agreements that allow for payment netting with the majority of its large counterparties, which reduce Generation's exposure to counterparty risk by providing for the offset of amounts payable to the counterparty against amounts receivable from the counterparty. The credit department monitors current and forward credit exposure to counterparties and their affiliates, both on an individual and an aggregate basis.

The following table provides information on Generation's credit exposure, net of collateral, as of December 31, 2002. Credit exposure, in the below table, is defined as net accounts receivable as well as any net in-the-money forward mark-to-market exposure. Exposures are shown net, if such agreements with counterparties are in place. It further delineates that exposure by the credit rating of the counterparties and provides guidance on the concentration of credit risk to individual counterparties and an indication of the maturity of a company's credit risk by credit rating of the counterparties. The

figures in the table below do not include sales to Generation's affiliates or exposure through Independent System Operators (ISOs) which are discussed below.

Rating	Total Exposure Before Credit Collateral	Credit Collateral	Net Exposure	Number Of Counterparties Greater than 10% of Net Exposure	Net Exposure Of Counterparties Greater than 10% of Net Exposure
Investment Grade	$ 156	$ —	$ 156	2	$ 71
Split Rating	—	—	—	—	—
Non-Investment Grade	17	11	6	—	—
No External Ratings					
Internally Rated—Investment Grade	27	4	23	4	16
Internally Rated—Non-Investment Grade	4	2	2	—	—
Total	$ 204	$ 17	$ 187	6	$ 87

	Maturity of Credit Risk Exposure			
Rating	Less than 2 Years	2-5 Years	Exposure Greater than 5 Years	Total Exposure Before Credit Collateral

Investment Grade	$ 117	$ 39	$ —	$ 156
Split Rating	—	—	—	—
Non-Investment Grade	17	—	—	17
No External Ratings				
Internally Rated—Investment Grade	27	—	—	27
Internally Rated—Non-Investment Grade	4	—	—	4
Total	$ 165	$ 39	$ —	$ 204

Generation is a counterparty to Dynegy in various energy transactions. In early July 2002, the credit ratings of Dynegy were downgraded to below investment grade by two credit rating agencies. As of December 31, 2002, Generation had a net receivable from Dynegy of approximately $3 million and, consistent with the terms of the existing credit arrangement, has received collateral in support of this receivable. Generation also has credit risk associated with Dynegy through Generation's equity investment in Sithe. Sithe is a 60% owner of the Independence generating station (Independence), a 1,040-MW gas-fired qualified facility that has an energy-only long-term tolling agreement with Dynegy, with a related financial swap arrangement. As of December 31, 2002, Sithe had recognized an asset on its balance sheet related to the fair market value of the financial swap agreement with Dynegy that is marked to market under the terms of SFAS No. 133. If Dynegy is unable to fulfill the terms of this agreement, Sithe would be required to impair this financial swap asset. Generation estimates, as a 49.9% owner of Sithe, that the impairment would result in an after-tax reduction of its earnings of approximately $10 million.

In addition to the impairment of the financial swap asset, if Dynegy were unable to fulfill its obligations under the financial swap agreement and the tolling agreement, Generation would likely incur a further impairment associated with Independence. Depending upon the timing of Dynegy's failure to fulfill its obligations and the outcome of any restructuring initiatives, Generation could realize an after-tax charge of between $0 and $130 million. In the event of a sale of Generation's investment in Sithe to a third party, proceeds from the sale could be negatively impacted between $65 million and $100 million (after-tax).

Additionally, the future economic value of AmerGen's PPA with Illinois Power Company, a subsidiary of Dynegy, could be impacted by events related to Dynegy's financial condition.

Generation participates in the following established, real-time energy markets, which are administered by ISOs: PJM, New England ISO, New York ISO, California ISO, Midwest ISO, Inc., Southwest Power Pool, Inc. and Texas, which is administered by the Electric Reliability Council of Texas. In these areas, power is traded through bilateral agreements between buyers and sellers and in certain of these areas power is traded on the spot markets that are operated by the ISOs. For sales into the spot markets administered by the ISOs, the ISO maintains financial assurance policies that are established and enforced by those administrators. The credit policies of the ISOs may under certain circumstances require that losses arising from the default of one member on spot market transactions be shared by the remaining participants. Non-performance or non-payment by a major counterparty could result in a material adverse impact on Generation's financial condition, results of operations or net cash flows.

Interest Rate Risk

Generation uses a combination of fixed rate and variable rate debt to reduce interest rate exposure. Generation also uses interest rate swaps when deemed appropriate to adjust exposure based upon market conditions. These strategies are employed to achieve a lower cost of capital. As of December 31, 2002, a hypothetical 10% increase in the interest rates associated with variable rate debt would result in a $4 million decrease in pre-tax earnings for 2003.

Under the terms of the Sithe Boston Generation, LLC (SBG) credit facility, SBG is required to effectively fix the interest rate on 50% of borrowings under the facility through its maturity in 2007. As of December 31, 2002, Generation has entered into interest rate swap agreements, which have effectively fixed the interest rate on $861 million of notional principal, or 83% of borrowings outstanding under the SBG credit facility at December 31, 2002. The fair market value exposure of these swaps, designated as cash flow hedges, is $92 million.

The aggregate fair value exposure of the interest rate swaps designated as cash flow hedges that would have resulted from a hypothetical 50 basis point decrease in the spot yield at December 31, 2002 is estimated to be $108 million. If the derivative instruments had been terminated at December 31, 2002, this estimated fair value represents the amount Generation would pay to the counterparties.

The aggregate fair value exposure of the interest rate swaps designated as cash flow hedges that would have resulted from a hypothetical 50 basis point increase in the spot yield at December 31, 2002 is estimated to be $76 million. If the derivative instruments had been terminated at December 31, 2002, this estimated fair value represents the amount Generation would pay to the counterparties.

Equity Price Risk

Generation maintains trust funds, as required by the NRC, to fund certain costs of decommissioning its nuclear plants. As of December 31, 2002, Generation's decommissioning trust funds are reflected at fair value on its Consolidated Balance Sheet. The mix of securities in the trust funds is designed to provide returns to be used to fund decommissioning and to compensate for inflationary increases in decommissioning costs. However, the equity securities in the trust funds are exposed to price fluctuations in equity markets, and the value of fixed rate, fixed income securities are exposed to changes in interest rates. Generation actively monitors the investment performance of the trust funds and periodically reviews asset allocation in accordance with its nuclear decommissioning trust fund investment policy. A hypothetical 10% increase in interest rates and decrease in equity prices would result in a $172 million reduction in the fair value of the trust assets. See Defined Benefit Pension and Other Postretirement Welfare Benefits section of ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Generation—Critical Accounting Estimates for information regarding the pension and other postretirement benefit trust assets.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Exelon

The information required by this Item is incorporated herein by reference to the Consolidated Statements of Income for the years 2002, 2001 and 2000; Consolidated Statements of Cash Flows for the years 2002, 2001 and 2000; Consolidated Balance Sheets as of December 31, 2002 and 2001; Consolidated Statements of Changes in Shareholders' Equity for the years 2002, 2001 and 2000 and Consolidated Statements of Comprehensive Income for the years 2002, 2001 and 2000; and Notes to Consolidated Financial Statements appearing in Exhibit 99-4 to Exelon's Current Report on Form 8-K dated February 21, 2003.

ComEd

Report of Independent Accountants

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

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(2)(i) present fairly, in all material respects, the financial position of Commonwealth Edison Company and Subsidiary Companies (ComEd) at December 31, 2002 and 2001, and the results of their operations and their cash flows for the years ended December 31, 2002 and 2001 and for the periods from October 20, 2000 to December 31, 2000 and from January 1, 2000 to October 19, 2000, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2)(ii) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and the financial statement schedule are the responsibility of ComEd's management; our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 3 to the consolidated financial statements, effective October 20, 2000, Exelon Corporation acquired Unicom Corporation, the parent company of ComEd at that date, in a business combination accounted for as a purchase. As a result of the acquisition, the consolidated financial information for the period after the acquisition is presented on a different cost basis than that for the periods before the acquisition and therefore, is not comparable. As discussed in Note 2 to the consolidated financial statements, as part of a corporate restructuring undertaken on January 1, 2001 by Exelon Corporation, the parent company of ComEd, all of ComEd's generation-related and certain other operations, assets and liabilities of ComEd were transferred to affiliated companies of ComEd.

As discussed in Note 1 to the consolidated financial statements, ComEd changed its method of accounting for derivative instruments and hedging activities effective January 1, 2001.

As discussed in Note 4 to the consolidated financial statements, ComEd changed its method of accounting for goodwill effective January 1, 2002.

PricewaterhouseCoopers LLP

Chicago, Illinois
January 29, 2003, except for Note 19 for which the date is March 17, 2003.

Commonwealth Edison Company and Subsidiary Companies
Consolidated Statements of Income

	For the Years Ended December 31,		For the periods Oct. 20-Dec. 31,	Jan. 1-Oct. 19,
	2002	2001	2000	2000
	(in millions)			
Operating Revenues				
Operating Revenues	$ 6,061	$ 6,125	$ 1,297	$ 5,625
Operating Revenues from Affiliates	63	81	13	77
Total Operating Revenues	6,124	6,206	1,310	5,702
Operating Expenses				
Purchased Power and Fuel	26	14	322	1,655

Purchased Power from Affiliate	2,559	2,656	—	—
Operating and Maintenance	828	846	423	1,653
Operating and Maintenance from Affiliates	136	135	—	—
Merger-Related Costs	—	—	14	53
Depreciation and Amortization	522	665	130	868
Taxes Other Than Income	287	296	83	425
Total Operating Expenses	4,358	4,612	972	4,654
Operating Income	1,766	1,594	338	1,048
Other Income and Deductions				
Interest Expense	(480)	(555)	(127)	(475)
Interest Expense from Affiliates	(4)	(10)	—	—
Distributions on Company-Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trusts Holding Solely the Company's Subordinated Debt Securities	(30)	(30)	(6)	(24)
Interest Income from Affiliates	31	79	29	150
Other, Net	13	35	2	127
Total Other Income and Deductions	(470)	(481)	(102)	(222)
Income Before Income Taxes	1,296	1,113	236	826
Income Taxes	506	506	103	227
Net Income	790	607	133	599
Preferred and Preference Stock Dividends	—	—	—	3
Net Income on Common Stock	$ 790	$ 607	$ 133	$ 596

See Notes to Consolidated Financial Statements

Commonwealth Edison Company and Subsidiary Companies
Consolidated Statements of Cash Flows

	For the Years Ended December 31,		For the periods	
			Oct. 20-Dec. 31,	Jan. 1-Oct. 19,
	2002	2001	2000	2000
	(in millions)			
Cash Flows from Operating Activities				
Net Income	$ 790	$ 607	$ 133	$ 599
Adjustments to reconcile Net Income to Net Cash Flows provided by Operating Activities:				
Depreciation and Amortization	522	665	174	1,012
(Gain)/Loss on Forward Share Arrangements	—	—	—	(113)
Reversal of Provision for Revenue Refunds	—	(15)	—	—
Provision for Uncollectible Accounts	50	42	16	30
Deferred Income Taxes	118	14	72	861
Merger-Related Costs	—	—	14	53
Early Retirement and Separation Program	—	—	—	28
Midwest Independent System Operator Exit Fees	—	(36)	—	—
Other Operating Activities	(13)	(25)	(69)	(159)
Changes in Working Capital:				
Accounts Receivable	(72)	76	(37)	96
Inventories	(9)	16	97	17
Accounts Payable, Accrued Expenses & Current Liabilities	135	149	65	(1,334)
Change in Receivables and Payables to Affiliates, net	461	(149)	—	(10)
Other Current Assets	1	2	59	(6)
Net Cash Flows provided by Operating Activities	1,983	1,346	524	1,074

Cash Flows from Investing Activities				
Investment in Plant, net	(780)	(869)	(207)	(1,224)
Proceeds from Nuclear Decommissioning Trust Funds	—	—	288	1,251
Investment in Nuclear Decommissioning Trust Funds	—	—	(377)	(1,290)
Change in Receivables from Affiliates	14	400	(441)	288
Other Investments	—	—	(63)	139
Other Investing Activities	7	11	—	9
Net Cash Flows used in Investing Activities	(759)	(458)	(800)	(827)
Cash Flows from Financing Activities				
Issuance of Long-Term Debt, net of issuance costs	752	—	—	450
Common Stock Repurchases	—	—	—	(153)
Retirement of Long-Term Debt	(1,551)	(542)	(84)	(755)
Change in Short-Term Debt	71	—	—	(5)
Redemption of Preferred Securities of Subsidiaries	—	—	—	(71)
Change in Restricted Cash	(24)	19	50	175
Dividends on Capital Stock	(470)	(483)	(95)	(260)
Common Stock Forward Repurchases	—	—	—	(67)
Nuclear Fuel Lease Principal Payments	—	—	—	(270)
Other Financing Activities	(9)	—	—	—
Net Cash Flow used in Financing Activities	(1,231)	(1,006)	(129)	(956)
Increase (Decrease) in Cash and Cash Equivalents	(7)	(118)	(405)	(709)
Cash and Cash Equivalents at beginning of period	23	141	546	1,255
Cash and Cash Equivalents at end of period	$ 16	$ 23	$ 141	$ 546

See Notes to Consolidated Financial Statements

Commonwealth Edison Company and Subsidiary Companies
Consolidated Balance Sheets

	December 31,	
	2002	2001
	(in millions)	
Assets		
Current Assets		
Cash and Cash Equivalents	$ 16	$ 23
Restricted Cash	65	41
Accounts Receivable, net		
Customer	782	745
Other	72	87
Inventories, at average cost	65	56
Deferred Income Taxes	20	52
Receivables from Affiliates	15	6
Other	14	15
Total Current Assets	1,049	1,025
Property, Plant and Equipment, net	7,744	7,351
Deferred Debits and Other Assets		
Regulatory Assets	447	667
Investments	54	64
Goodwill, net	4,916	4,902
Receivables from Affiliates	1,300	1,314
Other	320	304
Total Deferred Debits and Other Assets	7,037	7,251
Total Assets	$ 15,830	$ 15,627
Liabilities and Shareholders' Equity		
Current Liabilities		
Notes Payable	$ 71	$ —

Long-Term Debt Due Within One Year	698	849
Accounts Payable	201	144
Accrued Expenses	477	374
Payables to Affiliates	416	218
Customer Deposits	81	90
Other	79	122
Total Current Liabilities	2,023	1,797
Long-Term Debt	5,268	5,850
Deferred Credits and Other Liabilities		
Deferred Income Taxes	1,650	1,671
Unamortized Investment Tax Credits	51	55
Pension Obligation	91	151
Non-Pension Postretirement Benefits Obligation	138	146
Payables to Affiliates	224	297
Other	297	248
Total Deferred Credits and Other Liabilities	2,451	2,568
Commitments and Contingencies		
Company-Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trusts Holding the Company's Subordinated Debt Securities	330	329
Shareholders' Equity		
Common Stock	1,588	2,048
Preference Stock	7	7
Other Paid in Capital	4,239	5,057
Receivable from Parent	(615)	(937)
Retained Earnings	577	257
Treasury Stock, at cost	—	(1,344)
Accumulated Other Comprehensive Income, net	(38)	(5)
Total Shareholders' Equity	5,758	5,083
Total Liabilities and Shareholders' Equity	$ 15,830	$ 15,627

See Notes to Consolidated Financial Statements

Commonwealth Edison Company and Subsidiary Companies
Consolidated Statements of Changes in Shareholders' Equity

(in millions)

	Common Stock	Preferred and Preference Stock	Other Paid-in Capital	Receivable from Parent	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total Shareholders' Equity
Balance, December 31, 1999	$ 2,678	$ 9	$ 2,211	$ —	$ 433	$ 8	$ (27)	$ 5,312
Net Income	—	—	—	—	599	—	—	599
Preferred and Preference Stock Redemptions	—	(2)	—	—	—	—	—	(2)
Capital Stock Expense	—	—	—	—	(1)	—	—	(1)
Common Stock Dividends	—	—	—	—	(238)	—	—	(238)
Preferred and Preference Stock Dividends	—	—	—	—	(1)	—	—	(1)
Common Stock Repurchases	—	—	—	—	—	—	(153)	(153)
Stock Forward Repurchase Contract	—	—	—	—	—	—	(993)	(993)
Other Comprehensive Income, net of income taxes of $0	—	—	—	—	—	(2)	—	(2)
Balance, October 19, 2000	2,678	7	2,211	—	792	6	(1,173)	4,521
Net Income	—	—	—	—	133	—	—	133
Merger Fair Value Adjustments	—	—	3,177	—	(792)	(6)	—	2,379
Common Stock Repurchases	—	—	—	—	—	—	(850)	(850)
Balance, December 31, 2000	2,678	7	5,388	—	133	—	(2,023)	6,183
Net Income	—	—	—	—	607	—	—	607
Receivable from Parent	—	—	1,062	(1,062)	—	—	—	—
Repayment of Receivable from Parent	—	—	—	125	—	—	—	125
Retirement of Treasury Shares	(630)	—	(1,393)	—	—	—	2,023	—
Merger Fair Value Adjustments	—	—	24	—	—	—	—	24
Corporate Restructuring	—	—	(24)	—	—	—	(1,344)	(1,368)
Common Stock Dividends	—	—	—	—	(483)	—	—	(483)
Other Comprehensive Income, net of income taxes of $(1)	—	—	—	—	—	(5)	—	(5)
Balance, December 31, 2001	2,048	7	5,057	(937)	257	(5)	(1,344)	5,083
Net Income	—	—	—	—	790	—	—	790
Repayment of Receivable from Parent	—	—	—	322	—	—	—	322

Allocation of Tax Benefit from Parent	—	—	28	—	—	—	—	28
Retirement of Treasury Shares	(460)	—	(884)	—	—	—	1,344	—
Merger Fair Value Adjustments	—	—	38	—	—	—	—	38
Common Stock Dividends	—	—	—	—	(470)	—	—	(470)
Other Comprehensive Income, net of income taxes of $(23)	—	—	—	—	—	(33)	—	(33)
Balance, December 31, 2002	$ 1,588	$ 7	$ 4,239	$ (615)	$ 577	$ (38)	$ —	$ 5,758

See Notes to Consolidated Financial Statements

Commonwealth Edison Company and Subsidiary Companies
Consolidated Statements of Comprehensive Income

	For the Years Ended December 31,		For the Periods	
			Oct. 20-Dec. 31,	Jan.1-Oct. 19
	2002	2001	2000	2000
		(in millions)		
Net Income	$ 790	$ 607	$ 133	$ 599
Other Comprehensive Income				
Cash Flow Hedge Fair Value Adjustment, net of income taxes of $(21) and $0, respectively	$ (30)	$ (1)	$ —	$ —
Foreign Currency Translation Adjustment, net of income taxes of $0	—	(1)	—	—
Unrealized Gain (Loss) on Marketable Securities, net of income taxes of $(1), $(1), $0 and $0, respectively	(3)	(3)	—	(2)
Merger Fair Value Adjustment	—	—	(6)	—
Total Other Comprehensive Income	(33)	(5)	(6)	(2)
Total Comprehensive Income	$ 757	$ 602	$ 127	$ 597

See Notes to Consolidated Financial Statements

Commonwealth Edison Company and Subsidiary Companies
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions, unless otherwise noted)

1. Significant Accounting Policies

Description of Business. As a result of the corporate restructuring, effective January 1, 2001 (see Note 2—Corporate Restructuring), Commonwealth Edison Company's (ComEd's) generation and other competitive businesses were separated from its regulated energy delivery business. As a result, the operations of ComEd consist of its retail electricity sales, distribution and transmission businesses to 3.6 million retail customers. ComEd's retail electric service territories are located principally in northern Illinois including metropolitan Chicago, spanning an area of approximately 11,300 square miles.

Basis of Presentation. The consolidated financial statements of ComEd include the accounts of ComEd, Commonwealth Edison Company of Indiana, Inc., Edison Development Canada Inc., Edison Finance Partnership, ComEd Financing I, ComEd Financing II, ComEd Funding LLC (ComEd Funding), and ComEd Transitional Funding Trust (ComEd Funding Trust). All significant intercompany transactions have been eliminated. Although the accounts of ComEd Funding and ComEd Funding Trust, which are Special Purpose Entities (SPEs), are included in the consolidated financial statements, as required by generally accepted accounting principles (GAAP), ComEd Funding and ComEd Funding Trust are separate legal entities from ComEd. The assets of the SPEs are not available to creditors of ComEd and the transitional property held by the SPEs are not assets of ComEd.

Accounting policies for regulated operations are in accordance with those prescribed by the regulatory authorities having jurisdiction, principally the Illinois Commerce Commission (ICC), the Federal Energy Regulatory Commission (FERC) and the Securities and Exchange Commission (SEC) under the Public Utility Holding Company Act of 1935 (PUHCA).

ComEd, a regulated electric utility, is a principal subsidiary of Exelon Corporation (Exelon), which owns 99.9% of ComEd's common stock. ComEd was the principal subsidiary of Unicom Corporation (Unicom) prior to the merger with Exelon. See Note 3—Merger for further discussion of the merger. The merger was accounted for using the purchase method of accounting in accordance with GAAP. The effects of the purchase method are reflected on the financial statements of ComEd as of the merger date. Accordingly, the financial statements presented for the period after the merger reflect a new basis of accounting. ComEd's financial statements for 2000, separated by a bold black line, are presented for periods prior to and subsequent to the merger.

Accounting for the Effects of Regulation. ComEd accounts for its regulated electric operations in accordance with Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation," requiring ComEd to record in the financial statements the effects of the rate regulation to which these operations are currently subject. Use of SFAS No. 71 is applicable to the utility operations of ComEd that meet the following criteria: third-party regulation of rates; cost-based rates; and a reasonable assumption that all costs will be recoverable from customers through rates. ComEd believes that it is probable that regulatory assets associated with these operations will be recovered. If a separable portion of ComEd's business no longer meets the provisions of SFAS No. 71, ComEd is required to eliminate the financial statement effects of regulation for that portion.

Use of Estimates. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ

from those estimates. Areas in which significant estimates have been made include, but are not limited to, the accounting for unbilled revenue, derivatives, goodwill impairment analysis, environmental costs, retirement benefit costs and prior to the corporate restructuring nuclear decommissioning liabilities.

Segment Information. ComEd operates in one segment—energy delivery. Energy delivery consists of the retail electricity distribution and transmission business of ComEd in northern Illinois.

Revenues. Operating revenues are generally recorded as service is rendered or energy is delivered to customers. At the end of each month, ComEd accrues an estimate for the unbilled amount of energy delivered or services provided to its customers. (See Note 7—Accounts Receivable.)

Nuclear Fuel. Prior to the corporate restructuring in which ComEd's nuclear generating stations were transferred to Exelon Generation Company, LLC (Generation) (see Note 2—Corporate Restructuring), the cost of nuclear fuel was capitalized and charged to fuel expense using the unit of production method. Estimated costs of nuclear fuel storage and disposal were charged to expense as the related fuel was consumed.

Stock-Based Compensation. ComEd uses the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" (SFAS No. 123). The table below shows the effect on net income had ComEd elected to account for its stock-based compensation plans using the fair value method under SFAS No. 123 for the years ended December 31, 2002, 2001 and 2000:

	For the Years Ended December 31,		For the periods		
			Oct. 20-Dec. 31,	I	Jan. 1-Oct. 19,
	2002	2001	2000	I	2000
	(in millions)				
Net income—as reported	$ 790	$ 607	$ 133	I	$ 596
Deduct: Total stock-based compensation expense determined under fair value based method for all awards, net of income taxes	13	10	10	I	3
Pro forma net income	$ 777	$ 597	$ 123	I	$ 593

Income Taxes. Deferred Federal and state income taxes are provided on all significant temporary differences between the book basis and tax basis of assets and liabilities, transactions that reflect taxable income in a year different from book income and tax carryforwards. Investment tax credits previously used for income tax purposes have been deferred on ComEd's Consolidated Balance Sheets and are recognized in book income over the life of the related property. ComEd and its subsidiaries file a consolidated Federal and state income tax returns with Exelon, and was previously included in Unicom's consolidated income tax returns. Income taxes of the consolidated group are allocated to ComEd based on the separate return method. (See Note 11—Income Taxes)

Gains and Losses on Reacquired Debt. Recoverable gains and losses on reacquired debt related to regulated operations are deferred and amortized to interest expense over the period consistent with rate recovery for ratemaking purposes. In 2000, prior to the corporate restructuring, gains and losses on reacquired debt were recognized in ComEd's Consolidated Statements of Income as incurred (see Note 6—Supplemental Financial Information).

Comprehensive Income. Comprehensive income includes all changes in equity during a period except those resulting from investments by and distributions to shareholders. Comprehensive income is reflected in the Consolidated Statements of Changes in Shareholders' Equity and the Consolidated Statements of Comprehensive Income.

Cash and Cash Equivalents. ComEd considers all temporary cash investments purchased with an original maturity of three months or less to be cash equivalents.

Restricted Cash. Restricted cash reflects escrowed cash to be applied to the principal and interest payments on the transitional trust notes.

Marketable Securities. Marketable securities are classified as available-for-sale securities and are reported at fair value, with the unrealized gains and losses, net of tax, reported in other comprehensive income. Prior to the corporate restructuring (see Note 2—Corporate Restructuring), unrealized gains and losses on marketable securities held in the nuclear decommissioning trust funds were reported in accumulated depreciation for operating units and as a reduction of regulatory assets for retired units. At December 31, 2002 and 2001, ComEd had no held-to-maturity or trading securities.

Property, Plant and Equipment. Property, plant and equipment is recorded at cost. ComEd evaluates the carrying value of property, plant and equipment and other long-term assets based upon current and anticipated undiscounted cash flows, and recognizes an impairment when it is probable that such estimated cash flows will be less than the carrying value of the asset. Measurement of the amount of impairment, if any, is based upon the difference between carrying value and fair value. The cost of maintenance, repairs and minor replacements of property are charged to maintenance expense as incurred. Upon retirement, the cost of regulated property plus removal costs less salvage, is charged to accumulated depreciation in accordance with the provisions of SFAS No. 71. For unregulated property, the cost and accumulated depreciation of property, plant and equipment retired or otherwise disposed of are removed from the related accounts and included in the determination of the gain or loss on disposition (see Note 8—Property, Plant and Equipment).

Depreciation, Amortization and Decommissioning. Depreciation, including a provision for estimated removal costs as authorized by the ICC, is provided over the estimated service lives of property, plant, and equipment on a straight line basis. Annual depreciation provisions for financial reporting purposes, expressed as a percentage of average service life for each asset category are presented below:

Asset Category	2002	2001	2000
Electric—Transmission and Distribution	3.74%	5.20%	5.83%
Electric—Generation	—	—	4.83%
Other Property and Equipment	7.92%	5.95%	7.31%

Effective July 1, 2002, ComEd has lowered its depreciation rates based on a new depreciation study reflecting its significant construction program in recent years, changes in and development of new technologies, and changes in estimated plant service lives since the last depreciation study. The annualized reduction in depreciation expense, based on December 31, 2001 plant balances, is estimated to be approximately $100 million ($60 million, net of income taxes). As a result of the change, net income for the year ended December 31, 2002 increased approximately $48 million ($29 million, net of income taxes).

Amortization of regulatory assets is provided over the recovery period specified in the related legislation or regulatory agreement. See Note 5—Regulatory Issues regarding the regulatory accounting treatment for the nuclear generating stations transferred to Generation. Goodwill associated with the merger was amortized on a straight line basis over 40 years in 2001 and 2000. Accumulated amortization of goodwill was $149 at December 31, 2001. Effective January 1, 2002, under SFAS No. 142 "Goodwill and Other Intangible Assets"(SFAS 142), goodwill recorded by ComEd is no longer subject to amortization (see the New Accounting Pronouncement section of this note).

ComEd's estimate of the costs for decommissioning nuclear generating stations transferred to Generation is currently included in regulated rates. Prior to the corporate restructuring the amounts

recovered from customers were deposited in trust accounts and invested for funding of future costs for current and retired plants. ComEd accounted for the current period cost of decommissioning by recording a charge to depreciation expense and a corresponding liability in accumulated depreciation for its operating nuclear units and a reduction to regulatory assets for its retired units. Subsequent to the corporate restructuring, amounts recovered from customers are remitted to Generation.

Capitalized Interest. ComEd uses SFAS No. 34, "Capitalization of Interest Costs," to calculate the costs during construction of debt funds used to finance its non-regulated construction projects. ComEd did not record any capitalized interest in 2002 and 2001, but did record capitalized interest of $5 million in 2000.

Allowance for Funds Used During Construction (AFUDC) is the cost, during the period of construction, of debt and equity funds used to finance construction projects for regulated operations. AFUDC of $18 million, $17 million and $19 million in 2002, 2001 and 2000, respectively, was recorded as a charge to Construction Work in Progress and as a non-cash credit to AFUDC which is included in Other Income and Deductions. The rates used for capitalizing AFUDC are computed under a method prescribed by regulatory authorities.

Capitalized Software Costs. Costs incurred during the application development stage of software projects which are developed or obtained for internal use are capitalized. At December 31, 2002 and 2001, net capitalized software costs totaled $153 million and $104 million, respectively, reflecting $39 million and $17 million in accumulated amortization, respectively. Such capitalized amounts are amortized ratably over the expected lives of the projects when they become operational, not to exceed 10 years. Certain capitalized software is being amortized over 15 years pursuant to regulatory approval. During 2002, 2001 and 2000, ComEd amortized capitalized software costs of $23 million, $14 million and $11 million, respectively.

Derivative Financial Instruments. ComEd accounts for derivative financial instruments pursuant to SFAS No. 133, "Accounting for Derivatives and Hedging Activities" (SFAS 133). Under the provisions of SFAS 133, all derivatives are recognized on the balance sheet at their fair value unless they qualify for a normal purchases and normal sales exception. Changes in the fair value of the derivative financial instrument are recognized in earnings unless specific hedge accounting criteria are met. A derivative financial instrument can be designated as a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (fair value hedge), or a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge). Changes in the fair value of a derivative that is highly effective as, and is designated and qualifies as a fair value hedge, along with the gain or loss on the hedged asset or liability that is attributable to the hedged risk, are recorded in earnings. Changes in the fair value of a derivative that is highly effective as, and is designated as and qualifies as a cash flow hedge are recorded in other comprehensive income, until earnings are affected by the variability of cash flows being hedged.

In connection with Exelon's Risk Management Policy, ComEd enters into derivatives to effectively convert fixed rate debt to floating rate debt, manage its exposure to fluctuations in interest rates related to planned future debt issuances prior to their actual issuance, as well as exposure to changes in the fair value of outstanding debt which is planned for early retirement.

Prior to the adoption of SFAS No. 133, ComEd applied hedge accounting only if the derivative reduced the risk of the underlying hedged item and was designated at the inception of the hedge, with respect to the hedged item. ComEd recognized any gains or losses on these derivatives when the underlying physical transaction affected earnings.

New Accounting Pronouncements. In June 2001, the FASB issued SFAS No. 143, "Asset Retirement Obligations" (SFAS No. 143).

SFAS No. 143 provides accounting requirements for retirement obligations associated with tangible long-lived assets. Retirement obligations associated with long-lived assets included within the scope of SFAS No. 143 are those for which there is a legal obligation to settle under existing or enacted law, statute, written or oral contract or by legal construction under the doctrine of promissory estoppel. ComEd adopted SFAS No. 143 on January 1, 2003 at which time a retirement obligation of approximately $1 million was recorded related to ComEd's obligation to remove underground storage tanks at the end of their useful lives.

The retirement obligation liability reflects the fair value of the obligation at the balance sheet date. The liability recorded represents an obligation for the future retirement of certain assets and, as a result, accretion expense will be accrued on this liability until such time as the obligation is satisfied. Additionally, the standard requires the accrual of an asset related to the obligation, which will be amortized over the remaining lives of the assets. The net difference between the asset recognized and the liability recorded upon adoption of SFAS No. 143 will be recorded as a regulatory asset.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" (SFAS No. 146). SFAS No. 146 requires that the liability for costs associated with exit or disposal activities be recognized when incurred, rather than at the date of a commitment to an exit or disposal plan. SFAS No. 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002.

In November 2002, the FASB released FASB Interpretation (FIN) No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (FIN No. 45), providing for expanded disclosures and recognition of a liability for the fair value of the obligation undertaken by the guarantor. Under FIN No. 45, guarantors are required to disclose the nature of the guarantee, the maximum amount of potential future payments, the carrying amount of the liability and the nature and amount of recourse provisions or available collateral that would be recoverable by the guarantor. ComEd has adopted the disclosure requirements under FIN No. 45, (see Note 16—Commitments and Contingencies) which were effective for financial statements for periods ended after December 15, 2002. The recognition and measurement provisions of FIN No. 45 are effective, on a prospective basis, for guarantees issued or modified after December 31, 2002.

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities" (FIN No. 46). FIN No. 46 addresses consolidating certain variable interest entities and applies immediately to variable interest entities created after January 31, 2003. The impact, if any, of adopting FIN 46 on ComEd's consolidated financial position, results of operations and cash flows, has not been fully determined.

See Note 4—Adoption of New Accounting Pronouncements for discussion of the impact of new accounting pronouncements adopted by ComEd.

Reclassifications. Certain prior year amounts have been reclassified for comparative purposes. These reclassifications had no effect on net income or shareholders' equity.

2. Corporate Restructuring

During January 2001, Exelon undertook a corporate restructuring to separate its generation and other competitive businesses from its regulated energy delivery businesses at ComEd and PECO Energy Company (PECO). As part of the restructuring, the generation-related operations and assets and liabilities of ComEd were transferred to Generation. Additionally, certain operations and assets and liabilities of ComEd were transferred to Exelon Business Services Company (BSC). As a result, effective January 1, 2001, the operations of ComEd consist of its retail electricity distribution and transmission business in northern Illinois.

The corporate restructuring had the following effect on the Condensed Consolidated Balance Sheets of ComEd:

Decrease in Assets:		
Current Assets	$	(397)
Property, Plant and Equipment, net		(781)
Investments		(85)
Other Noncurrent Assets		(2,629)
Decrease (Increase) in Liabilities:		
Current Liabilities		799
Long-Term Debt		—
Deferred Income Taxes		(24)
Other Noncurrent Liabilities		2,212
Net Assets Transferred	$	(905)

Consideration, based on the net book value of the net assets transferred, was as follows:

Treasury Stock Received	$	1,344
Other Paid in Capital		24
Notes Payable—Affiliates		(463)
Total Consideration	$	905

In connection with the restructuring, ComEd assigned its respective rights and obligations under various purchased power and fuel supply agreements to Generation. Additionally, ComEd entered into a purchased power agreement (PPA) with Generation.

Under the PPA between ComEd and Generation, Generation has agreed to supply all of ComEd's load requirements through 2004. Prices for this energy vary depending upon the time of day and month of delivery. During 2005 and 2006, ComEd's PPA is a partial requirements agreement under which ComEd will purchase all of its required energy and capacity from Generation, up to the available capacity of the nuclear generating plants formerly owned by ComEd and transferred to Generation. Under the terms of the PPA, Generation is responsible for obtaining any required transmission service, subject to ComEd's obligation to obtain network service over the ComEd system. The PPA also specifies that prior to 2005, ComEd and Generation will jointly determine and agree on a market-based price for energy delivered under the PPA for 2005 and 2006. In the event that the parties cannot agree to market-based prices for 2005 and 2006 prior to July 1, 2004, ComEd has the option of terminating the PPA effective December 31, 2004. ComEd will obtain any additional supply required from market sources in 2005 and 2006, and subsequent to 2006, will obtain all of its supply from market sources, which could include Generation.

The obligation for decommissioning ComEd's nuclear facilities and the related trust fund assets were transferred to Generation concurrently with the transfer of the generating plants and the related Nuclear Regulatory Commission (NRC) operating licenses as of January 1, 2001. ComEd had historically accounted for the current period's cost of decommissioning by recording a charge to depreciation expense and a corresponding liability in accumulated depreciation for its operating units and a reduction to regulatory assets for retired units (in current year dollars) on a straight-line basis over the NRC operating license life of the plants. As of December 31, 2000, ComEd's cumulative liability of $2.1 billion was recorded as a component of accumulated depreciation. Additionally, a $1.3 billion liability representing the present value of the estimated cost of decommissioning nuclear units previously retired was recorded as a long-term liability. These liabilities, as well as investments in trust fund assets of $2.7 billion to fund the costs of decommissioning, were transferred to Generation.

Additionally, as part of the corporate restructuring, ComEd's liability to the U.S. Department of Energy (DOE) for payment of its one-time fee for spent nuclear fuel disposal was transferred to Generation. As of December 31, 2000, this liability, including accrued interest, was $810 million. Also, provisions for nuclear insurance were assumed by Generation under terms and conditions commensurate with those previously borne by ComEd.

3. Merger

On October 20, 2000, Exelon became the parent corporation of PECO and ComEd as a result of the completion of the transactions contemplated by an Agreement and Plan of Exchange and Merger, as amended (Merger Agreement), among PECO, Unicom Corporation (Unicom) and Exelon. Pursuant to the Merger Agreement, Unicom merged with and into Exelon (Merger). In the Merger, each share of the outstanding common stock of Unicom was converted into 0.875 shares of common stock of Exelon plus $3.00 in cash. As a result of the Merger, Unicom ceased to exist and its subsidiaries, including ComEd, became subsidiaries of Exelon.

The Merger was accounted for using the purchase method of accounting. Purchase transactions resulting in one entity becoming substantially wholly-owned by the acquiror establish a new basis of accounting in the acquired entity's records for the purchased assets and liabilities. Thus, the purchase price has been allocated to the underlying assets purchased and liabilities assumed based on their estimated fair values at the acquisition date. As a result of the application of the purchase method of accounting, the following fair value adjustments as adjusted to reflect final purchase price allocation, including the elimination of accumulated depreciation, retained earnings and other comprehensive income, were recorded in ComEd's Consolidated Balance Sheets:

	Total
Increase (Decrease) in Assets:	
Property, Plant and Equipment, net	$ (4,791)
Goodwill	5,065
Other Assets	(253)
(Increase) Decrease in Liabilities and Shareholders' Equity:	
Deferred Income Taxes	$ 1,753
Unamortized Investment Tax Credits	401
Merger Severance Obligation	(319)
Pension and Postretirement Benefit Obligations	471
Long-Term Debt and Preferred Securities	116
Other Liabilities	(2)
Other Paid in Capital	(3,239)
Retained Earnings	792
Accumulated Other Comprehensive Income	6

Reductions to the carrying value of property, plant and equipment balances primarily reflect the fair value of the nuclear generating assets based on discounted cash flow analyses and independent appraisals. Adjustments to deferred income taxes, long-term debt and preferred securities, and other assets and liabilities were recorded based on the estimate of fair market value. Reductions to unamortized investment tax credits represent the adjustment of nuclear generating asset investment tax credits to fair value. Merger severance obligations relating to ComEd's employee exit costs were recorded in the purchase price allocation. Reductions to pension and postretirement benefit obligations primarily reflect elimination of unrecognized net actuarial gains, prior service costs and transition obligations.

Goodwill represents the purchase price allocation to ComEd of the cost in excess of net assets acquired in the Merger, which was amortized over a forty year period for 2000 and 2001. Annual amortization of goodwill related to the Merger of $126 million was discontinued upon adoption of SFAS 142.

Goodwill associated with the Merger increased by $262 million in 2001 as a result of the finalization of the purchase price allocation. The adjustment resulted primarily from the after-tax effects of a reduction of the regulatory asset for decommissioning retired nuclear plants, additional employee separation costs and the finalization of other purchase price allocations.

Merger-Related Costs. In association with the Merger, ComEd recorded certain reserves for restructuring costs. The reserves associated with Unicom were recorded as part of the application of purchase accounting and did not affect results of operations, consistent with FASB Emerging Issue Task Force (EITF) Issue 95-3, "Recognition of Liabilities in Connection with a Purchase Business Combination."

Merger costs included in purchase price allocation. The purchase price allocation as of December 31, 2000 included a liability of $307 million for Unicom employee costs and liabilities of approximately $39 million for estimated costs of exiting various business activities of former Unicom that were not compatible with the strategic business direction of Exelon.

During 2001, ComEd finalized plans for consolidation of functions, including negotiation of an agreement with the International Brotherhood of Electrical Workers Local 15 regarding severance benefits to union employees. Also, in January of 2001, ComEd transferred a portion of its employee related liabilities to Generation, Enterprises and BSC as part of the corporate restructuring. During 2002, ComEd reduced its reserve by $9 million due to the elimination of identified positions through normal attrition, which did not require payments under ComEd's merger separation plans, and a determination that certain positions would not be eliminated by the end of 2002 as originally planned due to a change in certain business plans. The reduction in the reserve was recorded as a purchase price adjustment to goodwill. In 2001 and 2002, ComEd recorded adjustments to the purchase price allocation as follows:

	Original Estimate	Adjustments: Transfer	Adjustments: 2001(a)	Adjustments: 2002(a)	Adjusted Liabilities
Employee severance payments	$ 128	$ (64)	$ 17	$ (7)	$ 74
Other benefits	21	(13)	8	(2)	14
Employee severance payments and other benefits	149	(77)	25	(9)	88
Actuarially determined pension and postretirement costs	158	(82)	10	—	86(b)
Unicom employee cost—ComEd	$ 307	$ (159)	$ 35	$ (9)	$ 174

(a) The increase is a result of the identification in 2001 of additional positions to be eliminated, partially offset by the 2002 elimination of identified positions through normal attrition and changes in certain business plans.

(b) The reduction reflects lower estimated pension and post retirement welfare benefits reflecting revised actuarial estimates.

The following table provides a reconciliation of ComEd's reserve for employee severance and other benefits associated with the Merger:

Adjusted employee severance and other benefits reserve	$ 88
Payments to employees in 2000	(5)
Payments to employees in 2001	(29)
Payments to employees in 2002	(41)
Employee severance and other benefits reserve as of December 31, 2002(1)	$ 13

(1) Relates to certain benefits that are being paid over a period of years.

The following table provides a reconciliation of the former Unicom positions that were expected to be eliminated as a result of the Merger:

Estimate at October 20, 2000	1,022
2001 adjustments(a)	206
Total positions	1,228
Employees terminated in 2000	65
Employees terminated in 2001	334
Employees terminated in 2002	513
Normal attrition	211
Business plan changes(b)	105
Total Positions	1,228

(a) The increase is a result of the identification of additional positions to be eliminated in 2001.

(b) The reduction is due to a determination in the third quarter of 2002, that certain positions would not be eliminated by the end of 2002 as originally planned due to a change in certain business plans.

4. Adoption of New Accounting Pronouncements

SFAS No. 142. In 2001, the FASB issued SFAS No. 142. ComEd adopted SFAS No. 142 as of January 1, 2002. SFAS No. 142 establishes new accounting and reporting standards for goodwill and intangible assets. Other than goodwill, ComEd does not have significant other intangible assets recorded on its consolidated balance sheets. Under SFAS No. 142, goodwill is no longer subject to amortization, however, goodwill is subject to an assessment for impairment using a two-step fair value based test, the first step of which must be performed at least annually, or more frequently if events or circumstances indicate that goodwill might be impaired. The first step compares the fair value of a reporting unit to its carrying amount, including goodwill. If the carrying amount of the reporting unit exceeds its fair value, the second step is performed. The second step compares the carrying amount of the goodwill to the fair value of the goodwill. If the fair value of goodwill is less than the carrying amount, an impairment loss is reported as a reduction to goodwill and a charge to operating expense, except at the transition date, when the loss is reflected as a cumulative effect of a change in accounting principle.

As of December 31, 2001, ComEd's Consolidated Balance Sheets reflected approximately $4.9 billion of net goodwill related to the October 20, 2000 Merger. The first step of the transitional impairment analysis indicated that ComEd's goodwill was not impaired.

The changes in the carrying amount of goodwill for the year ended December 31, 2002 are as follows:

Balance as of January 1, 2002	$	4,902
Resolution of certain tax matters		21
Merger severance adjustment		(7)
Balance as of December 31, 2002	$	4,916

Consistent with SFAS No. 142, the remaining goodwill will be reviewed for impairment on an annual basis, or more frequently if significant events occur that could indicate an impairment exists. Such future review would be consistent with the review conducted related to the implementation of SFAS No. 142 (implementation review), which required estimates of numerous items with varying degrees of uncertainty, such as discount rates, terminal value earnings multiples, future revenue levels and estimated future expenditure levels; load growth and the resolution of future rate proceedings. Significant changes from the assumptions used in the implementation review could possibly result in a future impairment loss. The Illinois legislation provides that reductions to ComEd's common equity resulting from goodwill impairments will not impact ComEd's earnings cap calculation through 2006 under the earnings provisions of the legislation.

ComEd completed its annual update of its goodwill impairment analysis as of November 1, 2002. The results of the first step test indicated that ComEd's goodwill was not impaired.

The following table sets forth ComEd's net income for the year ended December 31, 2002, 2001, and 2000, respectively, adjusted to exclude 2001 and 2000 amortization expense related to goodwill that is no longer amortized.

	Year Ended December 31,		For the period		
	2002	2001	Oct. 20 - Dec. 31 2000	I I	Jan. 1 - Oct. 19 2000
Reported net income on Common Stock	$ 790	$ 607	$ 133	I	$ 596
Goodwill amortization	—	126	23	I	—
				I	
Adjusted net income	$ 790	$ 733	$ 156	I	$ 596
				I	

SFAS No. 144. In September 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS No. 144). ComEd adopted SFAS No. 144 on January 1, 2002. SFAS No. 144 established accounting and reporting standards for both the impairment and disposal of long-lived assets. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001 and its provisions are generally applied prospectively. The adoption of this statement had no effect on ComEd's reported financial position, results of operations or cash flows.

SFAS No. 145. In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections" (SFAS No. 145). SFAS No. 145 eliminates SFAS No. 4 "Reporting Gains and Losses from Extinguishment of Debt" (SFAS No. 4) and thus allows for only those gains or losses on the extinguishment of debt that meet the criteria of extraordinary items to be treated as such in the financial statements. SFAS No. 145 also amends Statement of Financial Accounting Standards No. 13, "Accounting for Leases" (SFAS No. 13) to require sale-leaseback accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. The adoption of SFAS No. 145 required a reclassification of the 2000 pre-merger extraordinary item of $4 million net of income taxes, to interest expense and income taxes, otherwise it had no effect on ComEd's reported financial position, results of operations or cash flows.

SFAS No. 133. SFAS No. 133 applies to all derivative instruments and requires that such instruments be recorded on the balance sheet either as an asset or a liability measured at their fair value through earnings, with special accounting permitted for certain qualifying hedges. On January 1, 2001, ComEd adopted SFAS No. 133. The adoption of SFAS No. 133 had no effect on ComEd's reported financial position, results of operations or cash flows.

SFAS No. 148. In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure—an amendment of FASB Statement No. 123" (SFAS No. 148). SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation and requires disclosures in both annual and interim financial statements regarding the method of accounting for stock-based compensation and the effect of the method on financial results. SFAS No. 148 is effective for financial statements for fiscal years ending after December 15, 2002. As of December 31, 2002, ComEd has adopted the additional disclosure requirements of SFAS No. 148 and continues to account for stock-compensation plans under the disclosure only provision of SFAS No. 123.

5. Regulatory Issues

Delivery Service Rates. On June 1, 2001, ComEd filed with the ICC to establish delivery service charges for residential customers in preparation for residential customer choice, which began in May 2002. ComEd is authorized to charge customers who purchase electricity from an alternative supplier for the use of its distribution system to deliver that electricity. These delivery service rates are set through proceedings before the ICC based upon, among other things, the operating costs associated with ComEd's distribution system and the capital investment that ComEd has made in its distribution system.

On April 1, 2002, the ICC issued an interim order in ComEd's Delivery Services Rate Case. The interim order is subject to an audit of test year (2000) expenditures, including capital plant expenditures, with a final order to be issued in 2003. The order sets delivery rates for residential customers choosing a new retail electric supplier. The new rates became effective May 1, 2002 when residential customers became eligible to choose their supplier of electricity. Traditional bundled rates paid by customers that retain ComEd as their electricity supplier are not affected by this order. Bundled rates will remain frozen through 2006, as a result of the June 6, 2002 amendments to the Illinois Restructuring Act that extended the freeze on bundled rates for an additional two years. Delivery service rates for non-residential customers are not affected by the order.

In October 2002, the ICC received the report on the audit of the test year expenditures by a consulting firm engaged by the ICC to perform the audit. The consulting firm recommended certain additional disallowances to test year expenditures and rate base levels. ComEd does not expect this matter to have a significant impact on results of operations in 2003, however, the estimated potential investment write-off, before income taxes, could be up to approximately $100 million, if the ICC ultimately determines that all or some portion of ComEd's distribution plant is not recoverable through rates. In 2002, ComEd recorded a charge to earnings, before income taxes, of $12 million representing the estimated minimum probable exposure pursuant to SFAS No. 90, "Regulated Enterprises—Accounting for Abandonments and Disallowances of Plant Costs an Amendment of FASB Statement No. 71." ComEd is in negotiations with several parties to resolve the delivery service case.

Customer Choice. As of December 31, 2002, all ComEd's customers were eligible to choose an alternative electric supplier and non-residential customers can also elect the power purchase option (PPO) that allows the purchase of electric energy from ComEd at market-based prices. ComEd's residential customers became eligible to choose a new electric supplier in May 2002. However, as of December 31, 2002, no alternative supplier had sought approval from the ICC and no electric utilities have chosen to enter the ComEd residential market for the supply of electricity. As of December 31,

2002, approximately 22,700 non-residential customers, representing approximately 26% of ComEd's annual retail kilowatthour sales, had elected to purchase their electric energy from an alternative electric supplier or had chosen the PPO. Customers who receive energy from an alternative supplier continue to pay a delivery charge. ComEd is unable to predict the long-term impact of customer choice on results of operations.

Competitive Service Declarations. On November 14, 2002, the ICC entered an interim order in response to ComEd's request to revise the provider of last resort (POLR) obligation it has in Illinois to be the back-up energy supplier to certain businesses. ComEd sought permission from the ICC to limit availability by June 2006 of a bundled fixed rate that it offers to large customers with energy demands of at least three megawatts, including heavy industrial plants, large office buildings, government facilities and a variety of other businesses. Approximately 370 of ComEd's largest energy customers would be affected, representing an aggregate of approximately 2,500 megawatts. ComEd also sought approval of related tariff amendments to implement the request and for approval to make changes to its real-time pricing tariff, which would be made available to customers who choose not to go to the competitive market to procure their electric power and energy. The ICC interim order allowed the bundled fixed rate changes to take effect by operation of law, as allowed by statute, and directed that ComEd file tariffs that took effect on December 1, 2002, and will become operational on the first day of ComEd's June 2003 billing period. The order also directed ComEd to file proposed amendments to its real-time pricing tariff, which will be considered in a second phase of the proceeding. ComEd believes this phase of the proceeding will be concluded in a time frame that will coincide with the operational date of the bundled fixed rate changes. As of February 28, 2003, two parties had appealed the interim order. (See Note 19—Subsequent Events)

Rate Reductions and Return on Common Equity Threshold. The Illinois restructuring legislation provided a 15% residential base rate reduction effective August 1, 1998 with an additional 5% residential base rate reduction effective October 1, 2001. ComEd's operating revenues were reduced by approximately $99 million and $24 million in 2002 and 2001, respectively due to the 5% residential rate reduction. Notwithstanding the rate reductions and subject to certain earnings tests, a rate freeze is generally in effect until at least January 1, 2007. A utility may request a rate increase during the rate freeze period only when necessary to ensure the utility's financial viability. Under the Illinois legislation, if the earned return on common equity of a utility during this period exceeds an established threshold, one-half of the excess earnings must be refunded to customers. The threshold rate of return on common equity is based on the Monthly Treasury Bond Long-Term Average Rates (25 years and above). Earnings for purposes of ComEd's threshold include ComEd's net income calculated in accordance with GAAP and reflect the amortization of regulatory assets. As a result of the Illinois legislation, at December 31, 2002, ComEd had a regulatory asset with an unamortized balance of $175 million that it expects to fully recover and amortize by the end of 2006. Consistent with the provisions of the Illinois legislation, regulatory assets may be recovered at amounts that provide ComEd an earned return on common equity within the Illinois legislation earnings threshold. The earned return on common equity and the threshold return on common equity for ComEd are each calculated on a two-year average basis. ComEd did not trigger the earnings sharing provision in 2000, 2001 or 2002 and does not currently expect to trigger the earnings sharing provisions in the years 2003 through 2006.

Nuclear Decommissioning Costs. In connection with the transfer of ComEd's nuclear generating stations to Generation, ComEd asked the ICC to approve the continued recovery of decommissioning costs after the transfer. On December 20, 2000, the ICC issued an order finding that the ICC has the legal authority to permit ComEd to continue to recover decommissioning costs from customers for the six-year term of the PPAs between ComEd and Generation. Under the ICC order, ComEd is permitted to recover $73 million per year from customers for decommissioning for the years 2001 through 2004. In 2005 and 2006, ComEd can recover up to $73 million annually, depending upon the portion of the output of the former ComEd nuclear stations that ComEd purchases from Generation. Under the ICC order, subsequent to 2006, there will be no further recoveries of decommissioning costs from customers. The ICC order also provides that any surplus funds after the nuclear stations are decommissioned must be refunded to customers. The ICC order has been upheld on appeal in the Illinois Appellate Court and the Illinois Supreme Court has declined to review the Appellate Court's decision.

The $73 million annual recovery of decommissioning costs authorized by the ICC order represents a reduction from the $84 million annual recovery in 2000. Accordingly, in the first quarter of 2001, ComEd reduced its nuclear decommissioning regulatory asset to $372 million, reflecting the expected probable future recoveries from customers. The reduction in the regulatory asset in the amount of $347 million was recorded as an adjustment to the Merger purchase price allocation and resulted in a corresponding increase in goodwill. Effective January 1, 2001, ComEd recorded an obligation to Generation of approximately $440 million representing ComEd's legal requirement to remit funds to Generation for the remaining regulatory asset amount of $372 million upon collection from customers, and for collections from customers prior to the establishment of external decommissioning trust funds in 1989 to be remitted to Generation for deposit into the decommissioning trusts through 2006. At December 31, 2002, the nuclear decommissioning regulatory asset had an unamortized balance of $248 million.

6. Supplemental Financial Information

Supplemental Income Statement Information

	For the Year Ended December 31,		For the period	
	2002	2001	Oct. 20 - Dec. 31 2000	Jan. 1 - Oct. 19 2000
Taxes Other Than Income				
Utility(a)	$ 205	$ 203	$ 52	$ 224
Real Estate	20	33	22	101
Payroll	28	28	12	57
Other	34	32	(3)	43
Total	$ 287	$ 296	$ 83	$ 425

(a) Represents municipal and state utility taxes which are included in Revenues and Taxes Other Than Income.

The decrease in taxes other than income from 2000 was primarily due to the corporate restructuring in which ComEd's nuclear generating stations were transferred to Generation (see Note 2—Corporate Restructuring) and a change in presentation of certain revenue taxes which did not affect income.

	For the Year Ended December 31,		For the period	
	2002	2001	Oct. 20 - Dec. 31 2000	Jan. 1 - Oct. 19 2000
Other, Net				
Investment Income	$ 11	$ 18	$ 9	$ 39
Gain on forward share purchases	—	—	—	113
Gain (loss) on disposition of assets, net	—	—	—	(31)
AFUDC, equity and borrowed	18	17	—	19
Reserve for potential plant disallowance	(12)	—	—	—
Other income (expense)	(3)	—	(7)	(13)
Total	$ 14	$ 35	$ 2	$ 127

Supplemental Cash Flow Information

	For the Year Ended December 31,		For the period	
	2002	2001	Oct. 20 - Dec. 31 2000	Jan. 1 - Oct. 19 2000
Cash paid during the year:				
Interest (net of amount capitalized)	$ 417	$ 451	$ 88	$ 418
Income taxes (net of refunds)	264	300	11	1,190
Non-cash investing and financing:				
Common stock repurchase	$ —	$ —	$ 850	$ —
Settlement of forward share				
repurchase arrangement	—	—	—	993
Deferred tax on fossil plant sale	—	—	—	1,094

Net assets transferred as a result of the				I	
corporate restructuring, net of note payable	—	1,368	—	I	—
Contribution of receivable from parent	—	1,062	—	I	—
Resolution of certain tax matters and merger				I	
severance adjustments	14	—	—	I	—
Purchase accounting estimate Adjustments	—	(85)	—	I	—
Regulatory asset fair value Adjustments	—	347	—	I	—
Retirement of treasury shares	1,344	2,023	—	I	—
Depreciation and amortization:				I	
Property, plant and equipment	$ 358	$ 369	$ 82	I	$ 543
Nuclear fuel	—	—	44	I	144
Regulatory assets	164	170	9	I	257
Decommissioning	—	—	16	I	68
Goodwill	—	126	23	I	—
Total depreciation and amortization	$ 522	$ 665	$ 174	I	$ 1,012

Supplemental Balance Sheet Information

	December 31, 2002	December 31, 2001
Regulatory Assets		
Nuclear decommissioning costs for retired plants	$ 248	$ 310
Recoverable transition costs	175	277
Reacquired debt costs and interest rate swap settlements	84	54
Recoverable deferred income taxes (see Note 11—Income Taxes)	(68)	26
Other	8	—
Total	$ 447	$ 667

Nuclear decommissioning costs for retired plants—Recovery is provided for through ComEd's current regulated rates and is expected to be fully recovered by the end of 2006.

Recoverable transition costs—Recovery is provided for in regulated rates pursuant to the Illinois Restructuring Act and is expected to be fully recovered by the end of 2006.

Reacquired debt costs and interest rate swap settlements—Recoverable gains and losses on reacquired debt costs and interest rate swap settlements are deferred and amortized over the rate-recovery period, which is over the life of the new debt issued to finance the debt redemption.

The regulatory assets related to nuclear decommissioning costs and deferred income taxes did not require a cash outlay of investor supplied funds; consequently, these costs are not earning a rate of return. Recovery of the regulatory assets for loss on reacquired debt and interest rate swap settlements and recoverable transition costs is provided for through regulated revenue sources that are based on pre-open access cost of service. Therefore they are earning a rate of return.

The regulatory assets for reacquired debt costs, interest rate swap settlements and deferred income taxes relate to ComEd's transmission and distribution business which is subject to cost-based rate regulation. The regulatory assets for nuclear decommissioning costs for retired plants and recoverable transition costs represent generation-related costs which are recoverable through regulated cash flows. ComEd's regulated cash flows include revenues for bundled service (delivery plus generation services) and, for those customers that have elected to obtain energy services from an alternative supplier, a cost-based delivery charge and a competitive transition charge (CTC). ComEd's revenues for bundled service are based on pre-open access cost of service based rates, reduced by a 20% rate reduction for residential customers. For customers electing unbundled service, the CTC is calculated based upon a "lost revenues" approach whereby ComEd is generally made whole for the difference between revenues it would have received under cost-based rates and revenues expected to be received from market-based prices, except for an amount calculated by applying a mitigation factor. ComEd has performed projections to determine if the revenue streams provided through these regulated cash flows are sufficient to provide for recovery of its regulatory assets during the rate-freeze period and concluded that cash flows were sufficient to provide recovery of its operating costs and net assets, including recovery of regulatory assets and a reasonable regulated rate of return on its net assets. Further, the Illinois Restructuring Act provides for an earnings floor and ceiling, such that if ComEd's earned rate

of return falls below a specified floor, ComEd may request a rate increase and, conversely, if its earnings exceed an established threshold, so-called excess earnings must be shared with ratepayers.

	December 31, 2002	December 31, 2001

Accrued Expenses				
Accrued Expenses	$	60	$	63
Taxes Accrued		234		146
Interest Accrued		183		165
Total	$	477	$	374

7. Accounts Receivable

Accounts Receivable—Customer at December 31, 2002 and 2001 included unbilled operating revenues of $250 million and $261 million, respectively. The allowance for uncollectible accounts at December 31, 2002 and 2001 was $23 million and $49 million, respectively.

Effective April 1, 2002, ComEd changed its accounting estimate related to the allowance for uncollectible accounts. This change was based on an independently prepared evaluation of the risk profile of ComEd's customer accounts receivable. As a result of the new evaluation, the allowance for uncollectible accounts reserve was reduced by $11 million in 2002.

8. Property, Plant and Equipment

A summary of property, plant and equipment by classification as of December 31, 2002 and 2001 is as follows:

		2002		2001
Electric—Transmission & Distribution	$	6,776	$	6,098
Construction Work in Progress		373		547
Other Property, Plant and Equipment		1,082		942
Total Property, Plant and Equipment		8,231		7,587
Less Accumulated Depreciation		487		236
Property, Plant and Equipment, net	$	7,744	$	7,351

9. Notes Payable

		2002	2001		2000
Average borrowings	$	14	—	$	214
Average interest rates, computed on daily basis		1.75%	—		6.56%
Maximum borrowings outstanding	$	146	—	$	494
Average interest rates, at December 31		1.69%	—		—

ComEd, along with Exelon, PECO and Generation, entered into a $1.5 billion 364-day unsecured revolving credit facility on November 22, 2002 with a group of banks. Under the credit facility, each borrower may borrow up to a designated sublimit amount on a revolving credit basis through November 20, 2003. This credit facility includes a term-out option that allows any outstanding borrowings at the end of the revolving credit period to be repaid on November 21, 2004. At December 31, 2002, ComEd's sublimit was $200 million. This credit facility is used principally to support ComEd's commercial paper program. At December 31, 2002, ComEd had $123 million of

commercial paper outstanding of which $52 million has been classified as long-term debt under the provisions of SFAS No. 6, "Classification of Short-Term Obligations Expected to be Refinanced" (SFAS 6) (see Note 19—Subsequent Events). Interest rates on the advances under the credit facility are based on the London Interbank Offering Rate as of the date of the advance.

10. Long-Term Debt

	December 31, 2002		December 31,			
	Rates	Maturity Date		2002		2001
Securitized Long-Term Debt						
ComEd Transitional Trust Notes						
Series 1998-A:	5.39%-5.74%	2003-2008	$	2,040	$	2,380
Other Long-Term Debt						
First and Refunding Mortgage Bonds(a)(b):						
Fixed rates	4.40%-9.875%	2003-2023		2,612		2,916
Floating rates	1.33%	2013		100		—
Notes payable						
Fixed Rates	6.40%-9.20%	2004-2018		816		1,116
Floating rates	2.03%	2003		250		250
Pollution control bonds:						
Fixed rates	5.875%	2007		42		44

Floating rates	1.05%-1.50%	2009-2014	92	92
Sinking fund debentures	3.125%-4.75%	2004-2011	20	23
Commercial paper(c)	1.69%	2003	52	—
Total Long-Term Debt(d)			6,024	6,821
Unamortized debt discount and premium, net			(99)	(122)
Fair value hedge carrying value adjustment			41	—
Due within one year			(698)	(849)
Long-Term Debt			$ 5,268	$ 5,850

(a) Utility plant of ComEd is subject to the liens of its mortgage indenture.

(b) Includes pollution control bonds collateralized by first mortgage bonds issued under ComEd's mortgage indenture.

(c) Classified as long-term at December 31, 2002 since it was refinanced with long-term debt in January 2003.

(d) Long-term debt maturities in the period 2003 through 2007 and thereafter are as follows:

2003	$ 750
2004	577
2005	806
2006	769
2007	526
Thereafter	2,596
Total	$ 6,024

2003 maturities include $52 million of commercial paper classified as long-term debt (see Note 19—Subsequent Events).

In 2002, ComEd issued $700 million of long-term debt primarily consisting of the issuance of $600 million of 6.15% First Mortgage Bonds, Series 98, due March 15, 2012, and the issuance of $100 million of Illinois Development Finance Authority floating-rate Pollution Control Revenue Refunding Bonds, Series 2002 due April 15, 2013. In 2002, ComEd redeemed or paid at maturity $1,551 million of long-term debt primarily consisting of the redemption of $100 million of 7.25% Illinois Development Finance Authority Pollution Control Revenue Refunding Bonds, Series 1991 due June 1, 2011, the redemption of $200 million of 8.625% First Mortgage Bonds, Series 81, due February 1, 2022, the redemption of $200 million of 8.5% First Mortgage Bonds, Series 84 due July 15, 2022, the payment at maturity of $200 million of 7.375% First Mortgage Bonds, Series 85, due September 15, 2002, the redemption of $200 million of 8.375% First Mortgage Bonds, Series 86, due September 15, 2022, the payment at maturity of $200 million of variable rate senior notes due September 30, 2002, the payment at maturity of $100 million of 9.17% medium-term notes due October 15, 2002, and the retirement of $340 million in transitional trust notes.

In 2002, ComEd exchanged $600 million of 6.15% First Mortgage Bonds, Series 98, due March 15, 2012, for bonds which are registered under the Securities Act. The exchange bonds are identical to the outstanding bonds except for the elimination of certain transfer restrictions and registration rights pertaining to the outstanding bonds. ComEd did not receive any cash proceeds from issuance of the exchange bonds.

In 2002 and 2001, ComEd entered into forward-starting interest rate swaps with an aggregate notional amount of $830 million and $250 million, respectively, to manage interest rate exposure associated with anticipated debt issuance. In connection with the 2002 issuance of the $600 million of 6.15% First Mortgage Bonds, forward-starting interest rate swaps with an aggregate notional amount of $450 million were settled with net proceeds to counterparties of $10 million that has been deferred in regulatory assets and is being amortized over the life of the First Mortgage Bonds as an increase to interest expense.

In 2002 and 2001, ComEd entered into interest rate swap agreements with a notional amount $250 million and $235 million, respectively, to effectively convert fixed rate debt to floating rate debt.

In 2001, ComEd redeemed $196 million of 9.875% First Mortgage Bonds, Series 75, due June 15, 2020 and retired $340 million in transitional trust notes.

Prepayment premiums of $24 million and net unamortized premiums, discounts and debt issuance expenses of $3 million, and prepayment premiums of $39 million, offset by unamortized issuance premiums of $17 million, associated with the early retirement of debt in 2002 and 2001, respectively, have been deferred in regulatory assets and will be amortized to interest expense over the life of the related new debt issuance consistent with regulatory recovery. In 2000, ComEd incurred charges aggregating $6 million consisting of prepayment premiums and the write-offs of unamortized deferred financing costs associated with the early retirement of debt.

11. Income Taxes

Income tax expense (benefit) is comprised of the following components:

	For the Year Ended December 31, 2002	For the Year Ended December 31, 2001	For the period Oct. 20 - Dec. 31 2000	For the period Jan. 1 - Oct. 19 2000
Included in operations:				
Federal				
Current	$ 308	$ 400	$ 24	$ (522)
Deferred	110	16	57	729
Investment tax credit, net	(4)	(4)	—	(25)
State				
Current	80	92	7	(112)
Deferred	12	2	15	157
	$ 506	$ 506	$ 103	$ 227

The effective tax rate varies from the U.S. Federal statutory rate principally due to the following:

	For the Year Ended December 31, 2002	For the Year Ended December 31, 2001	For the period Oct. 20 - Dec. 31 2000	For the period Jan. 1 - Oct. 19 2000
U.S. Federal statutory rate	35.0%	35.0%	35.0%	35.0%
Increase (decrease) due to:				
Plant basis differences	(1.3)	0.3	(1.7)	(3.7)
State income taxes, net of				
Federal income tax benefit	4.6	5.5	5.9	3.6
Amortization of goodwill	—	4.0	3.4	—
Amortization of investment tax credit	(0.3)	(0.4)	—	(2.3)
Amortization of regulatory asset	1.2	1.4	—	—
Unrealized loss (gain) on forward share				
repurchase arrangement	—	—	—	(4.8)
Other, net	(0.2)	(0.3)	1.0	(0.3)
	39.0%	45.5%	43.6%	27.5%

The tax effect of temporary differences giving rise to significant portions of ComEd's deferred tax assets and liabilities are presented below:

	December 31, 2002	December 31, 2001
Deferred tax liabilities:		
Plant basis difference	$ 963	$ 895
Deferred investment tax credits	51	55
Deferred debt refinancing costs	67	13
Deferred gain on sale of plants	860	872
Total deferred tax liabilities	1,941	1,835
Deferred tax assets:		
Deferred pension and postretirement obligations	(104)	(119)
Other, net	(156)	(42)
Total deferred tax assets	(260)	(161)
Deferred income taxes (net) on the balance sheet	$ 1,681	$ 1,674

In accordance with regulatory treatment of certain temporary differences, ComEd has recorded a regulatory asset/(liability) for recoverable deferred income taxes, pursuant to SFAS No. 109, "Accounting for Income Taxes," of $(68) million and $26 million at December 31, 2002 and 2001, respectively. These recoverable deferred income taxes include the deferred tax effects associated principally with excess deferred taxes and the amortization of investment tax credits accounted for in accordance with the ratemaking policies of the ICC, as well as the revenue impacts thereon, and assume continued recovery of these costs in future rates.

ComEd has taken certain tax positions, which have been disclosed to the Internal Revenue Service (IRS), to defer the tax gain on the 1999 sale of its fossil generating assets. As of December 31, 2002, a deferred tax liability of approximately $860 million related to the fossil plant sale is reflected on ComEd's consolidated balance sheets. Changes in IRS interpretations of existing primary tax authority or challenges to ComEd's positions could have the impact of accelerating future income tax payments and increasing interest expense related to the deferred tax gain that becomes current. ComEd's management believes an adequate reserve for interest has been established in the event that such positions are not sustained. The Federal tax returns covering the period of the 1999 sale are anticipated to be under IRS audit beginning in 2003. Final resolution of this matter is not anticipated for several years.

Certain ComEd tax returns are under review at the audit or appeals level of the IRS and certain state authorities. These reviews by the governmental taxing authorities are not expected to have an adverse impact on the financial condition or result of operations at ComEd.

12. Retirement Benefits

ComEd has adopted defined benefit pension plans and postretirement welfare benefit plans sponsored by Exelon. In 2001, ComEd's former plans were consolidated into the Exelon plans. Essentially all ComEd employees are eligible to participate in these plans. Benefits under these pension plans generally reflect each employee's compensation, years of service, and age at retirement.

The Pension Obligation and Non-Pension Postretirement Obligation on the ComEd Consolidated Balance Sheets reflect ComEd's obligations to the plan sponsor, Exelon. Employee-related assets and liabilities, including both pension and SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions," postretirement welfare liabilities, were allocated by Exelon to its

subsidiaries based on the number of active employees as of January 1, 2001 as part of Exelon's corporate restructuring. Exelon allocates the components of pension expense to the participating employers based upon several factors, including the percentage of active employees in each participating unit.

See Note 15—Retirement Benefits of the Notes to Exelon's Consolidated Financial Statements for pension and other postretirement benefits information for the Exelon plans.

Approximately $15 million and $17 million were included in operating and maintenance expense in 2002 and 2001, respectively, for ComEd's allocated portion of Exelon's pension and postretirement benefit expense. ComEd contributed $82 million to the Exelon-sponsored plans in 2002 and did not make any pension contributions in 2001. In 2000, ComEd recorded a net pension benefit of $29 million and a net postretirement benefit cost of $38 million.

Exelon's costs of providing pension and postretirement benefits are dependent upon a number of factors, such as the rates of return on pension plan assets, discount rate, and the rate of increase in health care costs. The market value of plan assets has been affected by sharp declines in the equity market since the third quarter of 2000. As a result, at December 31, 2002, Exelon was required to recognize an additional minimum liability as prescribed by SFAS No. 87, "Employer's Accounting for Pensions." The liability was recorded as a reduction to common equity, and the equity will be restored to the balance sheet in future periods when the fair value of plan assets exceeds the accumulated benefit obligations. Based upon the market value of plan assets at December 31, 2002, the amount of the reduction to common equity (net of income taxes) is $1.0 billion. The recording of this reduction, at the Exelon holding company level, did not affect net income or cash flow in 2002 or compliance with debt covenants.

ComEd participates in a 401(k) savings plan sponsored by Exelon. The plan allows employees to contribute a portion of their pretax income in accordance with specified guidelines. ComEd matches a percentage of the employee contribution up to certain limits. The cost of ComEd's matching contribution to the savings plan totaled $19 million, $20 million, and $31 million in 2002, 2001 and 2000, respectively.

13. Preferred Securities

Preferred and Preference Stock. At December 31, 2002 and 2001, there were 6,810,451 authorized shares of preference stock and 850,000 authorized shares of prior preferred stock.

	December 31,					
	Shares Outstanding			Dollar Amount		
	2002	2001	2000	2002	2001	2000
Without mandatory redemption						
Preference stock, non-cumulative, without par value	1,120	1,120	1,120	$ 7	$ 7	$ 7
Total preferred and preference stock	1,120	1,120	1,120	$ 7	$ 7	$ 7

During 2000, 56,291 shares of preferred and preference stock were redeemed.

Shares of preference stock have full voting rights, including the right to cumulate votes in the election of directors.

Company-Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trusts Holding Solely the Company's Subordinated Debt Securities. At December 31, 2002 and 2001, subsidiary trusts of ComEd had outstanding the following securities:

December 31,

Series	Mandatory Redemption Date	Distribution Rate	Liquidation Value	Trust Receipts Outstanding 2002	Trust Receipts Outstanding 2001	Dollar Amount 2002	Dollar Amount 2001
ComEd Financing I	2035	8.48%	$ 25	8,000,000	8,000,000	$ 200	$ 200
ComEd Financing II	2027	8.50%	1,000	150,000	150,000	150	150
Unamortized Discount						(20)	(21)
Total				8,150,000	8,150,000	$ 330	$ 329

ComEd Financing I and ComEd Financing II are wholly-owned subsidiary trusts of ComEd. The sole assets of each ComEd trust are subordinated deferrable interest debt securities issued by ComEd bearing interest rates equivalent to the distribution rate of the related trust security.

The interest expense on the deferrable interest debt securities is included in Distributions on Company-Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trusts Holding Solely the Company's Subordinated Debt Securities in ComEd's Consolidated Statements of Income and is deductible for income tax purposes.

The preferred securities issued by each of ComEd Financing I and II have no voting privileges, except (i) for the right to approve a merger, consolidation or other transaction involving the applicable trust that would result in certain United States Federal income tax consequences to that trust, (ii) with respect to certain amendments to the applicable trust agreement, (iii) for certain voting privileges that arise upon an event of default under the applicable trust agreement or (iv) with respect to certain amendments to the related ComEd guarantee agreement. See Note 19—Subsequent Events.

14. Common Stock

At December 31, 2002 and 2001, common stock with a $12.50 par value consisted of 250,000,000 and 250,000,000 shares authorized and 127,016,409 and 127,016,363 shares outstanding, respectively.

During 2002, ComEd canceled 36.8 million of its common shares totaling $1,344 million. During 2001, ComEd canceled 50.4 million of its common shares totaling $2,023 million.

At December 31, 2002 and 2001, 76,305 and 76,467, respectively, of ComEd common stock purchase warrants were outstanding. The warrants entitle the holders to convert such warrants into common stock of ComEd at a conversion rate of one share of common stock for three warrants. At December 31, 2002, 25,435 shares of common stock were reserved for the conversion of warrants.

Forward Purchase Agreements. In January 2000, ComEd physically settled the forward share repurchase arrangements it had with Unicom for the repurchase of 26.3 million ComEd common shares. Prior to settlement, the repurchase arrangements were recorded as a receivable on ComEd's Consolidated Balance Sheets based on the aggregate market value of the shares under the arrangements. In 1999, net unrealized losses of $44 million (after-tax) were recorded related to the arrangements. The settlement of the arrangements in January 2000 resulted in a gain of $113 million (after-tax), which was recorded in the first quarter of 2000. The settlement of the arrangements resulted in a reduction in ComEd's outstanding common shares and common stock equity, effective January 2000.

Stock Repurchases. During the first quarter of 2000, ComEd repurchased four million of its common shares from Unicom for $153 million using proceeds from the 1998 issuance of transitional

trust notes. In the fourth quarter of 2000, ComEd repurchased 19.9 million of its common shares from Unicom in exchange for an $850 million note receivable ComEd held from Unicom Investment.

As part of the corporate restructuring, ComEd received 36.8 million of its common shares from Exelon totaling $1,344 million in exchange for the net assets transferred to Generation and notes payable received from Generation. These shares were retired during 2002.

Shares Outstanding. The following table details ComEd's common stock and treasury stock:

	Common Shares	Treasury Shares	Total
		(in thousands)	
Balance, December 31, 1999	214,238	264	213,974
Conversion of $1.425 Preferred Stock	4	—	4
Common Stock Repurchases	—	3,964	(3,964)
Stock Forward Repurchase Contract	—	26,268	(26,268)
Balance, October 19, 2000	214,242	30,496	183,746
Common Stock Repurchases	—	19,941	(19,941)
Balance, December 31, 2000	214,242	50,437	163,805
Retirement of Treasury Shares	(50,437)	(50,437)	0
Restructuring (see Note 2—Corporate Restructuring)	—	36,789	(36,789)
Balance, December 31, 2001	163,805	36,789	127,016

Retirement of Treasury Shares	(36,789)	(36,789)	0
Balance, December 31, 2002	127,016	—	127,016

Fund Transfer Restrictions. Under PUHCA, ComEd can pay dividends only from retained or current earnings. However, the SEC has authorized ComEd to pay up to $500 million in dividends out of additional paid-in capital. At December 31, 2002, ComEd had retained earnings of $577 million.

ComEd may not declare dividends on any shares of its capital stock in the event that: (1) it exercises its right to extend the interest payment periods on the subordinated debt securities which were issued to ComEd Financing I and ComEd Financing II (the Financing Trusts); (2) it defaults on its guarantee of the payment of distributions on the preferred trust securities of the Financing Trusts; or (3) an event of default occurs under the Indenture under which the subordinated debt securities are issued.

15. Fair Value of Financial Assets and Liabilities

The carrying amounts and fair values of ComEd's financial instruments as of December 31, 2002 and 2001 were as follows:

	2002		2001	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Non-derivatives:				
Liabilities				
Long-term debt (including amounts due within one year)	$ 5,925	$ 6,630	$ 6,699	$ 7,088
Company-Obligated Mandatorily Redeemable Preferred Securities	$ 330	$ 459	$ 329	$ 394
Derivatives:				
Fixed to floating interest rate swaps	$ 41	$ 41	$ —	$ —
Forward interest rate swaps	$ (52)	$ (52)	$ (1)	$ (1)

As of December 31, 2002 and 2001, ComEd's carrying amounts of cash and cash equivalents and accounts receivable are representative of fair value because of the short-term nature of these instruments. Fair values of the long-term debt and Company-Obligated Mandatorily Redeemable Preferred Securities are estimated based on quoted market prices for the same or similar issues. The fair value of ComEd's interest rate swaps is determined using quoted exchange prices, external dealer prices, or internal valuation models which utilize assumptions of future energy prices and available market pricing curves.

Financial instruments that potentially subject ComEd to concentrations of credit risk consist principally of cash equivalents and customer accounts receivable. ComEd places its cash equivalents with high-credit quality financial institutions. Generally, such investments are in excess of the Federal Deposit Insurance Corporation limits. Concentrations of credit risk with respect to customer accounts receivable are limited due to ComEd's large number of customers and their dispersion across many industries.

ComEd had entered into forward-starting interest rate swaps to manage interest rate exposure. These swaps had been designated as cash-flow hedges under SFAS 133, and as such, as long as the hedge remained effective, and the underlying transaction remained probable, changes in the fair value of these swaps were recorded in accumulated other comprehensive income (loss). In 2002, ComEd paid $10 million to counterparties to settle forward-starting interest rate swaps, designated as cash flow hedges, with an aggregate notional amount of $450 million. The amounts ComEd paid to settle the cash flow hedges were recorded in regulatory assets and will be amortized over the life of the issued debt. At December 31, 2002, ComEd had forward-starting interest rate swaps designated as cash flow hedges with an aggregate notional amount of $630 million.

ComEd has also entered into interest rate swaps to effectively convert $485 million in fixed-rate debt to a floating rate debt. These swaps have been designated as a fair-value hedges, as defined in SFAS No. 133 and as such, changes in the fair value of the swaps will be recorded in earnings. However, as long as the hedge remains effective and the underlying transaction remains probable, changes in the fair value of the swaps will be offset by changes in the fair value of the hedged liabilities. Any change in the fair value of the hedge as a result of ineffectiveness would be recorded immediately in earnings.

The notional amount of derivatives do not represent amounts that are exchanged by the parties and, thus, are not a measure of ComEd's exposure. The amounts exchanged are calculated on the basis of the notional or contract amounts, as well as on the other terms of the derivatives, which relate to interest rates and the volatility of these rates.

ComEd would be exposed to credit-related losses in the event of non-performance by the counterparties that issued the derivative instruments. The credit exposure of derivative contracts is represented by the fair value of contracts at the reporting date. ComEd's interest rate swaps are documented under master agreements. Among other things, these agreements provide for a maximum credit exposure for both parties. Payments are required by the appropriate party when the maximum limit is reached.

The initial adoption of SFAS No.133, as amended, on January 1, 2001 had no financial statement impact on ComEd. SFAS No. 133 must be applied to all derivative instruments and requires that such instruments be recorded in the balance sheet either as an asset or a liability measured at their fair value through earnings, with special accounting permitted for certain qualifying hedges. Additionally, during 2002, no amounts were reclassified from accumulated other comprehensive income into earnings as a result of forecasted financing transactions no longer being probable.

16. Commitments and Contingencies

Commercial Commitments. ComEd's commercial commitments as of December 31, 2002 representing commitments not recorded on the balance sheet but potentially triggered by future events, including financing arrangements to secure obligations of ComEd, are as follows:

		Expiration within			
	Total	1 Year	2-3 Years	4-5 Years	After 5 Years
		(in millions)			
Credit Facility(a)	$ 200	$ 200	$ —	$ —	$ —
Letters of Credit (non-debt)(b)	24	24	—	—	—
Letter of Credit (Long-term Debt)(c)	92	92	—	—	—
Insured Long-Term Debt(d)	100	—	—	—	100
Surety Bonds(e)	18	18	—	—	—
Total Commercial Commitments	$ 434	$ 334	$ —	$ —	$ 100

(a) Credit Facility—ComEd, along with Exelon, PECO, and Generation, maintain a $1.5 billion 364-day credit facility to support commercial paper issuances. ComEd has a $200 million sublimit under the credit facility. At December 31, 2002, ComEd had $123 million in outstanding commercial paper.

(b) Letters of Credit (non-debt)—ComEd maintains non-debt letters of credit to provide credit support for certain transactions as requested by third parties.

(c) Letters of Credit (Long-Term Debt)—Direct-pay letters of credit issued in connection with variable-rate debt in order to provide liquidity in the event that it is not possible to remarket all of the debt as required following specific events, including changes in the basis of determining the interest rate on the debt.

(d) Insured Long-Term Debt—Borrowings that have been credit-enhanced through the purchase of insurance coverage equal to the amount of principal outstanding plus interest.

(e) Surety Bonds—Guarantees issued related to contract and commercial surety bonds, excluding bid bonds.

Capital Commitments. ComEd estimates that it will spend approximately $720 million for capital expenditures in 2003.

Energy Commitments. In connection with the corporate restructuring (see Note 2—Corporate Restructuring), ComEd assigned its respective rights and obligations under various purchased power and fuel supply agreements to Generation. Additionally, ComEd entered into a PPA with Generation.

Under the PPA between ComEd and Generation, Generation has agreed to supply all of ComEd's load requirements through 2004. Prices for this energy vary depending upon the time of day and month of delivery. During 2005 and 2006, ComEd's PPA is a partial requirements agreement under which ComEd will purchase all of its required energy and capacity from Generation, up to the available capacity of the nuclear generating plants formerly owned by ComEd and transferred to Generation. Under the terms of the PPA, Generation is responsible for obtaining any required transmission service, subject to ComEd's obligation to obtain network service over the ComEd system. The PPA also specifies that prior to 2005, ComEd and Generation will jointly determine and agree on a market-based price for energy delivered under the PPA for 2005 and 2006. In the event that the parties cannot agree to market-based prices for 2005 and 2006 prior to July 1, 2004, ComEd has the option of terminating the PPA effective December 31, 2004. ComEd will obtain any additional supply required from market

sources in 2005 and 2006, and subsequent to 2006, will obtain all of its supply from market sources, which could include Generation.

Environmental Issues. ComEd's operations have in the past and may in the future require substantial capital expenditures in order to comply with environmental laws. Additionally, under Federal and state environmental laws, ComEd is generally liable for the costs of remediating environmental contamination of property now or formerly owned by ComEd and of property contaminated by hazardous substances generated by ComEd. ComEd owns a number of real estate parcels, including parcels on which its operations or the operations of others may have resulted in contamination by substances which are considered hazardous under environmental laws. ComEd has identified 43 sites where former manufactured gas plant (MGP) activities have or may have resulted in actual site contamination. ComEd is currently involved in a number of proceedings relating to sites where hazardous substances have been deposited and may be subject to additional proceedings in the future.

As of December 31, 2002 and 2001, ComEd had accrued $101 million and $105 million, respectively, for environmental investigation and remediation costs, including $97 million and $100 million, respectively (reflecting discount rates of 5.0% and 5.5%, respectively) for investigation and remediation at its 43 MGP sites, that currently can be reasonably estimated. Such estimates, reflecting the effects of a 2.5% and 3.0% inflation rate before the effects of discounting were $138 million and $154 million at December 31, 2002 and 2001, respectively. ComEd anticipates that payments related to the discounted environmental investigation and remediation costs, recorded on an undiscounted basis of $76 million, will be incurred for the five year period through 2007. ComEd cannot reasonably estimate whether it will incur other significant liabilities for additional investigation and remediation costs at these or additional sites identified by ComEd, environmental agencies or others, or whether such costs will be recoverable from third parties.

Leases. Minimum future operating lease payments, including lease payments for real estate and vehicles, as of December 31, 2002 were:

2003	$ 22
2004	21
2005	17
2006	16
2007	16
Remaining years	43

Total minimum future lease payments	$ 135

Rental expense under operating leases totaled $26 million, $23 million, and $30 million in 2002, 2001 and 2000, respectively.

Litigation.

FERC Municipal Request for Refund. Three of ComEd's wholesale municipal customers filed a complaint and request for refund with FERC, alleging that ComEd failed to properly adjust its rates, as provided for under the terms of the electric service contracts with the municipal customers and to track certain refunds made to ComEd's retail customers in the years 1992 through 1994. In the third quarter of 1998, FERC granted the complaint and directed that refunds be made, with interest. ComEd filed a request for rehearing. On April 30, 2001, FERC issued an order granting rehearing in which it determined that its 1998 order had been erroneous and that no refunds were due from ComEd to the municipal customers. On June 29, 2001, FERC denied the customers' requests for rehearing of the order granting rehearing. As a result of the FERC ruling, in 2001 ComEd reversed a reserve for revenue refunds of $15 million. In August 2001, each of the three wholesale municipal customers appealed the April 30, 2001 FERC order to the Federal circuit court, which consolidated the appeals for the purposes of briefing and decision. The Federal Circuit Court has stayed the proceedings pending settlement negotiations among the parties.

Retail Rate Law. In 1996, several developers of non-utility generating facilities filed litigation against various Illinois officials claiming that the enforcement against those facilities of an amendment to Illinois law removing the entitlement of those facilities to state-subsidized payments for electricity sold to ComEd after March 15, 1996 violated their rights under the Federal and state constitutions. The developers also filed suit against ComEd for a declaratory judgment that their rights under their contracts with ComEd were not affected by the amendment. On November 25, 2002, the court granted developers' motions for summary judgment. The judge also entered a permanent injunction enjoining ComEd from refusing to pay the retail rate on the grounds of the amendment, and Illinois from denying ComEd a tax credit on account of such purchases. ComEd and Illinois have each appealed the ruling. ComEd believes that it did not breach the contracts in question and that the damages claimed far exceed any loss that any project incurred by reason of its ineligibility for the subsidized rate. ComEd intends to prosecute its appeal and defend each case vigorously.

Service Interruptions. In August 1999, three class action lawsuits were filed against ComEd, and subsequently consolidated, in the Circuit Court of Cook County, Illinois seeking damages for personal injuries, property damage and economic losses related to a series of service interruptions that occurred in the summer of 1999. The combined effect of these interruptions resulted in over 168,000 customers losing service for more than four hours. Conditional class certification was approved by the court for the sole purpose of exploring settlement. ComEd filed a motion to dismiss the complaints. On April 24, 2001, the court dismissed four of the five counts of the consolidated complaint without prejudice and the sole remaining count was dismissed in part. On June 1, 2001, the plaintiffs filed a second amended consolidated complaint and ComEd has filed an answer. On December 5, 2002, a settlement was reached, pending court approval, whereby ComEd will pay up to $8 million, which includes $4 million paid to date. The settlement, when approved, will release ComEd from all claims arising from the 1999 power outages. A portion of the settlement may be covered by insurance.

General. ComEd is involved in various other litigation matters. The ultimate outcome of such matters, while uncertain, is not expected to have a material adverse effect on its respective financial condition or results of operations.

17. Related-Party Transactions

ComEd's financial statements reflect related-party transactions as reflected in the tables below.

	For the Year Ended December 31,		
	2002	2001	2000
Operating Revenues from Affiliates			
Generation(1)	$ 51	$ 39	$ —
Enterprises(1)	12	42	90
Purchased Power from Affiliate			
PPA with Generation(2)	2,559	2,656	—
Operations & Maintenance from Affiliates			
BSC(3)	124	114	—
Enterprises(4,5)	12	21	—
Interest Income from Affiliates			
UII(6)	30	61	176
PECO(7)	—	8	—
Generation(8)	—	9	
Other	1	1	3
Interest Expense from Affiliate			
Generation(2,9)	4	10	
Capitalized costs			
BSC(3)	9	23	
Enterprises(5)	21	26	
Cash Dividends Paid to Parent	470	483	355

December 31,

	2002	2001
Receivables from Affiliates		
UII(6)	$ 15	$ —
BSC(3,8)	—	6
Notes Receivable from Affiliates		
UII(6)	1,284	1,297
Other	16	17
Payables to Affiliates		
Generation Decommissioning (10)	59	59
Generation(1,2,8)	339	136
BSC(3,8)	18	—
Exelon Corporate(11)	—	13
Other	—	10
Deferred Credits and Other Liabilities		
Generation Decommissioning obligation(10)	218	291
Other	6	6
Shareholders' Equity—Receivable from Parent(12)	615	937

(1) ComEd provides electric, transmission, and other ancillary services to Generation and Enterprises.

(2) Effective January 1, 2001, ComEd entered into a PPA with Generation. See Note 16—Commitments and Contingencies for further information regarding the PPA. The Generation payable primarily consists of services related to the PPA.

(3) ComEd receives a variety of corporate support services from BSC, including legal, human resources, financial and information technology services. A portion of such services, provided at cost including applicable overhead, is capitalized.

(4) ComEd has contracted with Exelon Services to provide energy conservation services to ComEd customers.

(5) ComEd receives substation and transmission engineering and construction services under contracts with InfraSource. A portion of such services is capitalized.

(6) ComEd has a note and interest receivable from Unicom Investments Inc. (UII) relating to the December 1999 fossil plant sale.

(7) At December 31, 2000, ComEd had a $400 million receivable from PECO, which was repaid in the second quarter of 2001.

(8) In order to benefit from economies of scale, ComEd processes certain invoice payments on behalf of Generation and BSC. During 2001, ComEd earned interest from Generation relating to these invoice payments.

(9) In consideration for the net assets transferred as part of the corporate restructuring effective January 1, 2001, ComEd had a note payable to affiliates of $463 million. This note payable was repaid during 2001.

(10) ComEd had a short-term and long-term payable to Generation, primarily representing ComEd's legal requirements to remit collections of nuclear decommissioning costs from customers to Generation.

(11) ComEd pays Exelon for a variety of corporate expenses including allocations under a tax sharing agreement and stock options.

(12) ComEd has a non-interest bearing receivable from Exelon related to Exelon's agreement to fund future income tax payments resulting from the collection by ComEd of instrument funding changes. The receivable is expected to be settled over the years 2003 through 2008.

18. Quarterly Data (Unaudited)

The data shown below include all adjustments which ComEd considers necessary for a fair presentation of such amounts:

	Operating Revenues		Operating Income		Net Income	
Quarter ended	2002	2001	2002	2001	2002	2001
March 31	$ 1,315	$ 1,446	$ 332	$ 380	$ 129	$ 146
June 30	1,481	1,530	502	459	231	182
September 30	1,938	1,919	490	440	215	178
December 31	1,390	1,311	442	315	215	101

19. Subsequent Events

On January 22, 2003, ComEd issued $350 million of 3.70% First Mortgage Bonds, Series 99, due on February 1, 2008 and $350 million of 5.875% First Mortgage Bonds, Series 100, due on February 1, 2033. These bond issuances were used to refinance long-term debt which had been previously retired during the third and fourth quarters of 2002. As part of these bond issuances, ComEd settled various interest rate swaps for $43 million, which will be recorded as a regulatory asset and will be amortized over the life of the associated debt issuance.

On January 31, 2003, ComEd called $236 million of its First Mortgage Bonds, Series 88, at a redemption price of 103.863% of the principal amount, plus accrued interest to the March 18, 2003 redemption date. The bonds, which carried an interest rate of 8.375% and had a maturity date of February 15, 2023, are expected to be refinanced with long-term debt.

On February 14, 2003, ComEd called $200 million of its trust preferred securities at a redemption price of 100% of the principal amount, plus accrued interest to the March 20, 2003 redemption date. The preferred securities, which carried an interest rate of 8.48% and had a maturity date of September 30, 2035, were refinanced with trust preferred securities as discussed below.

On February 17, 2003, ComEd called $160 million of its First Mortgage Bonds, Series 91, at a redemption price of 103.664% of the principal amount, plus accrued interest to the April 15, 2003 redemption date. The bonds, which carried an interest rate of 8% and had a maturity date of April 15, 2023, are expected to be refinanced with long-term debt.

On February 20, 2003, ComEd entered into separate agreements with the City of Chicago (Chicago) and with Midwest Generation (Midwest Agreement). Under the terms of the agreement with Chicago, ComEd will pay Chicago $60 million over ten years and be relieved of a requirement, originally transferred to Midwest Generation upon the sale of ComEd's fossil stations in 1999, to build a 500-MW generation facility. Under the terms of the Midwest Agreement, ComEd will receive from Midwest Generation $36 million over ten years, $22 million of which was received on February 20, 2003, to relieve Midwest Generation's obligation under the fossil sale agreement. Midwest Generation will also assume from Chicago a Capacity Reservation Agreement which Chicago had entered into with Calumet Energy Team, LLC (CET), which is effective through June 2012. ComEd will reimburse Chicago for any nonperformance by Midwest Generation under the Capacity Reservation Agreement and will pay approximately $2 million for amounts owed to CET by Chicago at the time the agreement is executed. The net effect of the settlement to ComEd will be amortized over the remaining life of the franchise agreement with Chicago.

On March 17, 2003, ComEd issued $200 million of trust preferred securities, with an annual distribution rate of 6.35% that are mandatorily redeemable on March 15, 2033.

On March 3, 2003, ComEd entered into an agreement with various Illinois electric retail market suppliers, key customer groups and governmental parties regarding several matters affecting ComEd's rates for electric service (Agreement). The Agreement contemplates a series of coordinated filings with the ICC, which must issue orders consistent with the Agreement in order for the provisions of the Agreement to become effective.

The Agreement addresses, among other things:

- ComEd's pending residential delivery services rate proceeding

  New residential delivery service rates would be set based upon substantially the same as the rates currently in effect under the interim order and would remain in effect through December 31, 2006, with a possible reopener in the event that a reexamination in 2005 shows that ComEd is either under-recovering or over-recovering by more than 15% based on those rates. In addition, a $109 million distribution system capital expenditure disallowance that was proposed in the pending proceeding by a consulting firm engaged by the ICC to audit ComEd's test year expenditures, would not be reflected in the revenue requirement. Under the Agreement, distribution system plant reflected in the rate filing would be considered prudent and used and useful for purposes of this and future rate proceedings.

- Illinois electricity market development

  There would be a modification of the methodology used to determine the market value energy credit. That credit is used to determine the price for specified market-based rate offerings by

  ComEd, and the rate for the CTC that ComEd is allowed to collect from customers who select an alternative retail electricity supplier. The credit would be adjusted upward through agreed upon "adders," which would take effect in June 2003 and would have the effect of reducing the CTC rate charged customers. The estimated annual revenue impact of the reduction in CTC revenues under the Agreement is approximately $65 million to $70 million. In addition, customers would be offered an option to lock-in CTC charges for longer periods. Currently, CTC charges are subject to change annually.

- Competitive service declarations that assist in mitigating ComEd's POLR obligations

  The Agreement provides for the withdrawal of certain of the outstanding appeals of the competitive declaration for service to customers having load requirements of three or more megawatts. Also, it establishes a process for achieving in June 2004 a similar competitive declaration for service to customers having load requirements of one to three megawatts.

- ComEd's ability to enter into a full-requirements PPA with Generation

  The parties to the Agreement would not contest extending ComEd's full requirements PPA, now in place through 2004, through 2006, replacing the partial requirements service for 2005 and 2006 in the existing agreement. The parties also would not contest ComEd's continued recovery of up to $73 million in nuclear decommissioning charges during 2005 and 2006, depending on the amount of energy that ComEd would purchase from Generation's nuclear plants formerly owned by ComEd.

- Funding of certain programs for customer and governmental groups

The Agreement provides for a total of $51 million in funding to various consumer groups and governmental agencies for a variety of programs from 2003 through 2006. Those programs may include energy and environmental programs, efficiency products and services, residential consumer education, market development studies and installation of emergency generating equipment.

ComEd believes the Agreement assists in protecting the integrity of the CTC that it is allowed to collect from customers who choose an alternative supplier; sets a reasonable delivery service rate; provides customers and ComEd with greater price certainty and stability; enhances its relationship with regulatory, governmental and key customer groups; avoids the costs, uncertainty and time associated with litigation; and presents a proactive approach to increasing competition in the supply of electricity in Illinois.

In order for the Agreement to become effective, the ICC, which is not a party to the Agreement, must enter orders consistent with the Agreement by late March 2003 in various regulatory proceedings that are the subject of the Agreement. Although the parties to the Agreement have agreed as to the general content of those orders, there are other parties to the proceedings who are seeking changes or modifications to the proposed orders or otherwise seeking to delay or prevent the effectiveness of the Agreement. As a result, there can be no assurance that the Agreement will become effective.

PECO

Report of Independent Accountants

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

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(3)(i) present fairly, in all material respects, the financial position of PECO Energy Company and Subsidiary Companies (PECO) at December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(3)(ii) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of PECO's management; our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2, as part of a corporate restructuring undertaken on January 1, 2001 by Exelon Corporation, the parent company of PECO, certain of PECO's operations, assets and liabilities, including those related to power generation and enterprises, were transferred to affiliated companies of PECO.

As discussed in Note 4 to the consolidated financial statements, PECO changed its method of accounting for nuclear outage costs in 2000. As discussed in Note 1 to the consolidated financial statements, PECO changed its method of accounting for derivative instruments and hedging activities effective January 1, 2001.

PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania
January 29, 2003

PECO Energy Company and Subsidiary Companies
Consolidated Statements of Income

	For the Years Ended December 31,		
	2002	2001	2000
		(in millions)	
Operating Revenues			
Operating Revenues	$ 4,321	$ 3,953	$ 5,950
Operating Revenues from Affiliates	12	12	—
Total Operating Revenues	4,333	3,965	5,950
Operating Expenses			
Purchased Power	231	190	1,413
Purchased Power from Affiliates	1,438	1,162	—
Fuel	348	450	714
Operating and Maintenance	450	494	1,791
Operating and Maintenance from Affiliates	73	93	—

Merger-Related Costs	—	—	248
Depreciation and Amortization	456	416	325
Taxes Other Than Income	244	161	237
Total Operating Expenses	3,240	2,966	4,728
Operating Income	1,093	999	1,222
Other Income and Deductions			
Interest Expense	(370)	(405)	(463)
Interest Expense from Affiliates	—	(8)	—
Company-Obligated Mandatorily Redeemable Preferred Securities of a Partnership, which holds Solely Subordinated Debentures of the Company	(10)	(10)	(8)
Equity in Earnings (Losses) of Unconsolidated Affiliates	1	—	(41)
Interest Income from Affiliates	—	10	—
Other, Net	31	36	41
Total Other Income and Deductions	(348)	(377)	(471)
Income Before Income Taxes and Cumulative Effect of a Change in Accounting Principle	745	622	751
Income Taxes	259	197	268
Income Before Cumulative Effect of a Change in Accounting Principle	486	425	483
Cumulative Effect of a Change in Accounting Principle (net of income taxes of $16)	—	—	24
Net Income	486	425	507
Preferred Stock Dividends	8	10	10
Net Income on Common Stock	$ 478	$ 415	$ 497

See Notes to Consolidated Financial Statements

PECO Energy Company and Subsidiary Companies
Consolidated Statements of Cash Flows

	For the Years Ended December 31,		
	2002	2001	2000
		(in millions)	
Cash Flows from Operating Activities			
Net Income	$ 486	$ 425	$ 507
Adjustments to reconcile Net Income to Net Cash Flows provided by Operating Activities:			
Depreciation and Amortization	456	416	437
Cumulative Effect of a Change in Accounting Principle (net of income taxes)	—	—	(24)
Provision for Uncollectible Accounts	46	69	68
Deferred Income Taxes	(92)	(66)	103
Merger-Related Costs	—	—	248
Deferred Energy Costs	25	29	(79)
Equity in (Earnings) Losses of Unconsolidated Affiliates	(1)	—	41
Other Operating Activities	6	85	(72)
Changes in Working Capital:			
Accounts Receivable	(145)	(54)	(264)
Repurchase of Accounts Receivable	—	—	(50)
Inventories	4	(15)	(45)
Accounts Payable, Accrued Expenses & Other Current Liabilities	22	(133)	(85)
Change in Receivables and Payables to Affiliates, net	79	177	—
Other Current Assets	(6)	5	(29)
Net Cash Flows provided by Operating Activities	880	938	756
Cash Flows from Investing Activities			
Capital Expenditures	(261)	(248)	(549)
InfraSource, Inc. Acquisitions, net of cash acquired	—	—	(245)
Proceeds from Nuclear Decommissioning Trust Funds	—	—	74
Investment in Nuclear Decommissioning Trust Funds	—	—	(100)

Other Investing Activities	9	7	(74)
Net Cash Flows used in Investing Activities	(252)	(241)	(894)
Cash Flows from Financing Activities			
Issuance of Long-Term Debt	225	1,055	1,021
Common Stock Repurchases	—	—	(496)
Retirement of Long-Term Debt	(571)	(1,416)	(557)
Change in Receivable and Payable to Affiliates, net	—	25	400
Change in Short-Term Debt	99	(60)	—
Redemptions of Mandatorily Redeemable Preferred Stock	(19)	(18)	(19)
Change in Restricted Cash	(8)	(69)	(80)
Dividends on Preferred and Common Stock	(348)	(352)	(167)
Proceeds from Employee Stock Plans	—	—	47
Contribution from Parent	30	121	—
Settlement of Interest Rate Swap Agreements	(5)	31	—
Other Financing Activities	—	—	(16)
Net Cash Flows provided by (used in) Financing Activities	(597)	(683)	133
Increase in Cash and Cash Equivalents	31	14	(5)
Cash Transferred in Restructuring	—	(31)	—
Cash and Cash Equivalents at beginning of period	32	49	54
Cash and Cash Equivalents at end of period	$ 63	$ 32	$ 49

See Notes to Consolidated Financial Statements

PECO Energy Company and Subsidiary Companies
Consolidated Balance Sheets

	December 31,	
	2002	2001
	(in millions)	
Assets		
Current Assets		
Cash and Cash Equivalents	$ 63	$ 32
Restricted Cash	331	323
Accounts Receivable, net		
Customer	379	286
Other	39	33
Receivables from Affiliates	—	1
Inventories, at average cost		
Fossil Fuel	67	72
Materials and Supplies	8	7
Other	40	59
Total Current Assets	927	813
Property, Plant and Equipment, net	4,179	4,057
Deferred Debits and Other Assets		
Regulatory Assets	5,491	5,756
Investments	19	24
Pension Asset	41	13
Other	63	75
Total Deferred Debits and Other Assets	5,614	5,868
Total Assets	$ 10,720	$ 10,738
Liabilities and Shareholders' Equity		

Current Liabilities		
Notes Payable	$ 200	$ 101
Payables to Affiliates	170	187
Long-Term Debt Due Within One Year	689	548
Accounts Payable	87	54
Accrued Expenses	370	397
Deferred Income Taxes	27	27
Other	33	21
Total Current Liabilities	1,576	1,335
Long-Term Debt	4,951	5,438
Deferred Credits and Other Liabilities		
Deferred Income Taxes	2,903	2,938
Unamortized Investment Tax Credits	24	27
Non-Pension Postretirement Benefits Obligation	251	239
Payables to Affiliates	—	44
Other	126	110
Total Deferred Credits and Other Liabilities	3,304	3,358
Commitments and Contingencies		
Company-Obligated Mandatorily Redeemable Preferred Securities of a Partnership, which holds Solely Subordinated Debentures of the Company	128	128
Mandatorily Redeemable Preferred Stock	—	19
Shareholders' Equity		
Common Stock	1,976	1,919
Receivable from Parent	(1,758)	(1,878)
Preferred Stock	137	137
Retained Earnings	401	263
Accumulated Other Comprehensive Income	5	19
Total Shareholders' Equity	761	460
Total Liabilities and Shareholders' Equity	$ 10,720	$ 10,738

See Notes to Consolidated Financial Statements

PECO Energy Company and Subsidiary Companies
Consolidated Statements of Changes in Shareholders' Equity

	Common Stock	Preferred Stock	Receivable from Parent	Deferred Compensation	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total Shareholders' Equity
				(in millions)				
Balance, December 31, 1999	$ 3,577	$ 137	$ —	$ (3)	$ (100)	$ 4	$ (1,705)	$ 1,910
Net Income	—	—	—	—	507	—	—	507
Long-Term Incentive Plan	54	—	—	(9)	—	—	7	52
Deferred Compensation	—	—	—	5	—	—	—	5
Common Stock Dividends	—	—	—	—	(157)	—	—	(157)
Preferred Stock Dividends	—	—	—	—	(10)	—	—	(10)
Unicom Merger Consideration	—	—	—	—	(45)	—	—	(45)
Common Stock Repurchases	—	—	—	—	(5)	—	(496)	(501)
Stock Option Exercises	—	—	—	—	—	—	19	19
Cancellation of Treasury	(2,175)	—	—	—	—	—	2,175	—

Shares								
Other Comprehensive Income, net of income taxes of $(3)	—	—	—	—	—	(5)	—	(5)
Reorganization Pursuant to Share Exchange	(7)	—	—	7	—	—	—	—
Balance, December 31, 2000	1,449	137	—	—	190	(1)	—	1,775
Net Income	—	—	—	—	425	—	—	425
Common Stock Dividends	—	—	—	—	(342)	—	—	(342)
Preferred Stock Dividends	—	—	—	—	(10)	—	—	(10)
Receivable from Parent	1,983	—	(1,983)	—	—	—	—	—
Repayment of Receivable from Parent	—	—	105	—	—	—	—	105
Stock Option Exercises	(26)	—	—	—	—	—	—	(26)
Capital Contribution from Parent	121	—	—	—	—	—	—	121
Net Assets Transferred in Restructuring	(1,608)	—	—	—	—	—	—	(1,608)
Other Comprehensive Income, net of income taxes of $16	—	—	—	—	—	20	—	20
Balance, December 31, 2001	1,919	137	(1,878)	—	263	19	—	460
Net Income	—	—	—	—	486	—	—	486
Common Stock Dividends	—	—	—	—	(340)	—	—	(340)
Preferred Stock Dividends	—	—	—	—	(8)	—	—	(8)
Repayment of Receivable from Parent	—	—	120	—	—	—	—	120
Capital Contribution from Parent	30	—	—	—	—	—	—	30
Allocation of tax benefit from Parent	27	—	—	—	—	—	—	27
Other Comprehensive Income, net of income taxes of $(9)	—	—	—	—	—	(14)	—	(14)
Balance, December 31, 2002	$ 1,976	$ 137	$ (1,758)	$ —	$ 401	$ 5	$ —	$ 761

See Notes to Consolidated Financial Statements

PECO Energy Company and Subsidiary Companies
Consolidated Statements of Comprehensive Income

	For the Years Ended December 31,		
	2002	2001	2000
		(in millions)	
Net Income	$ 486	$ 425	$ 507
Other Comprehensive Income (Loss)			
SFAS 133 Transition Adjustment, net of income taxes of $29	$ —	$ 40	$ —
Cash Flow Hedge Fair Value Adjustment, net of income taxes of $(8) and $(13), respectively	(13)	(20)	—
Unrealized Gain (Loss) on Marketable Securities, net of income taxes of $(1) and $(3), respectively	(1)	—	(5)
Total Other Comprehensive Income (Loss)	(14)	20	(5)
Total Comprehensive Income	$ 472	$ 445	$ 502

See Notes to Consolidated Financial Statements

PECO Energy Company and Subsidiary Companies
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions, except per share data unless otherwise noted)

1. Significant Accounting Policies

Description of Business. Incorporated in Pennsylvania in 1929, PECO Energy Company (PECO) is engaged principally in the production, purchase, transmission, distribution and sale of electricity to residential, commercial, industrial and wholesale customers and the distribution and sale of natural gas to residential, commercial and industrial customers. Pursuant to the Pennsylvania Electricity Generation Customer Choice and Competition Act (Competition Act), the Commonwealth of Pennsylvania has required the unbundling of retail electric services in Pennsylvania into separate generation, transmission and distribution services with open retail competition for generation services. Since the commencement of deregulation in 1999, PECO serves as the local distribution company providing electric distribution services in its franchised service territory in southeastern Pennsylvania and bundled electric service to customers who do not choose an alternate electric generation supplier.

PECO is a wholly-owned subsidiary of Exelon Corporation (Exelon) (see Note 3—Merger). During January 2001, Exelon undertook a corporate restructuring to separate PECO's generation and other competitive businesses from its regulated energy delivery business. As part of the restructuring, the non-regulated operations and related assets and liabilities of PECO, representing the generation and enterprises business segments were transferred to separate subsidiaries of Exelon. As a result, beginning January 2001, the operations of PECO consist of its retail electricity distribution and transmission business in southeastern Pennsylvania and its natural gas distribution business located in the Pennsylvania counties surrounding the City of Philadelphia.

As a result of the corporate restructuring, certain risks and commitments and the financial condition and results of operations of PECO have changed significantly. Additionally as a result of the restructuring, PECO is no longer subject to the risks associated with nuclear insurance, decommissioning, spent fuel disposal and energy commitments, other than its purchased power agreement (PPA) with Exelon Generation Company, LLC (Generation). See Note 19—Segment Information for additional financial information.

Prior to the corporate restructuring effective January 2001, PECO also engaged in the wholesale marketing of electricity on a national basis. Through its Exelon Energy division, PECO was a competitive generation supplier offering competitive energy supply to customers throughout Pennsylvania. PECO's infrastructure services subsidiary, InfraSource, Inc. (InfraSource), formerly Exelon Infrastructure Services, Inc., provided utility infrastructure services to customers in several regions of the United States. PECO owned a 50% interest in AmerGen Energy Company, LLC (AmerGen), a joint venture with British Energy, Inc., a wholly-owned subsidiary of British Energy plc (British Energy), to acquire and operate nuclear generating facilities. PECO also participated in joint ventures which provide communications services in the Philadelphia metropolitan region. As a result of the corporate restructuring effective January 1, 2001, these operations were transferred by PECO to other subsidiaries of Exelon. See Note 2—Corporate Restructuring.

Basis of Presentation. The consolidated financial statements of PECO include the accounts of its majority-owned subsidiaries after the elimination of intercompany transactions. In 2000, PECO generally accounted for its 20% to 50% owned investments and joint ventures, in which it exerted significant influence, under the equity method of accounting. In 2000, PECO consolidated its proportionate interest in its jointly owned electric utility plants. PECO accounts for its less than 20% owned investments under the cost method of accounting. Accounting policies for regulated operations are in accordance with those prescribed by the regulatory authorities having jurisdiction, principally the Pennsylvania Public Utility Commission (PUC), the Federal Energy Regulatory Commission (FERC)

and the Securities and Exchange Commission (SEC) under the Public Utility Holding Company Act of 1935 (PUHCA).

Accounting for the Effects of Regulation. PECO accounts for all of its regulated electric and gas operations in accordance with the Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation," (SFAS No. 71) requiring PECO to record in its financial statements the effects of the rate regulation. Use of SFAS No. 71 is applicable to the utility operations of PECO that meet the following criteria: (1) third-party regulation of rates; (2) cost-based rates; and (3) a reasonable assumption that all costs will be recoverable from customers through rates. PECO believes that it is probable that currently recorded regulatory assets will be recovered. If a separable portion of PECO's business no longer meets the provisions of SFAS No. 71, PECO is required to eliminate the financial statement effects of regulation for that portion.

Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Areas in which significant estimates have been made include, but are not limited to the accounting for unbilled revenue, derivatives, environmental costs, retirement benefit costs and prior to the corporate restructuring, nuclear decommissioning liabilities.

Revenues. Operating revenues are generally recorded as service is rendered or energy is delivered to customers. At the end of each month, PECO accrues an estimate for the unbilled amount of energy delivered or services provided to its electric and gas customers. See Note 8—Accounts Receivable for further discussion. In 2000, PECO recognized contract revenues and profits on certain long-term fixed-price contracts from its services businesses under the percentage-of-completion method of accounting based on costs incurred as a percentage of estimated total costs of individual contracts.

Purchased Gas Adjustment Clause. PECO's natural gas rates are subject to a fuel adjustment clause designed to recover or refund the difference between the actual cost of purchased gas and the amount included in base rates. Differences between the amounts billed to customers and the actual costs recoverable are deferred and recovered or refunded in future periods by means of prospective quarterly adjustments to rates.

Nuclear Fuel. In 2000, the cost of nuclear fuel was capitalized and charged to fuel expense using the unit of production method. Estimated costs of nuclear fuel storage and disposal at operating plants were charged to fuel expense as the related fuel was consumed.

Stock-Based Compensation. PECO uses the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" (SFAS No. 123). The table below shows the effect on net income had PECO elected to account for its stock-based compensation plans using the fair value method under SFAS No. 123 for the years ended December 31, 2002, 2001 and 2000:

	2002	2001	2000
Net income—as reported	$ 486	$ 425	$ 507
Deduct: Total stock-based compensation expense determined under fair value based method for all awards, net of income taxes	13	15	17
Pro forma net income	$ 473	$ 410	$ 490

Income Taxes. Deferred Federal and state income taxes are provided on all significant temporary differences between book basis and tax basis of assets and liabilities, transactions that reflect taxable income in a year different from book income and tax carryforwards. Investment tax credits previously utilized for income tax purposes have been deferred on PECO's Consolidated Balance Sheets and are recognized in book income over the life of the related property. PECO and its subsidiaries file a consolidated return with Exelon for Federal and certain state income tax returns. Income taxes of the consolidated group are allocated to PECO based on the separate return method (see Note 12—Income Taxes.).

Gains and Losses on Reacquired Debt. Recoverable gains and losses on reacquired debt related to regulated operations are deferred and amortized to interest expense over the period consistent with rate recovery for ratemaking purposes. In 2000, prior to the corporate restructuring, gains and losses on reacquired debt were recognized in PECO's Consolidated Statements of Income as incurred.

Comprehensive Income. Comprehensive income includes all changes in equity during a period except those resulting from investments by and distributions to shareholders. Comprehensive Income is reflected in the Consolidated Statement of Changes in Shareholders' Equity and Consolidated Statements of Comprehensive Income.

Cash and Cash Equivalents. PECO considers all temporary cash investments purchased with an original maturity of three months or less to be cash equivalents.

Restricted Cash. Restricted cash reflects escrowed cash to be applied to the principal and interest payment on the transition bonds.

Marketable Securities. Marketable securities are classified as available-for-sale securities and are reported at fair value, with the unrealized gains and losses, net of tax, reported in other comprehensive income. Prior to the corporate restructuring in which PECO's nuclear generating stations were transferred to Generation (see Note 2—Corporate Restructuring), unrealized gains and losses on marketable securities held in the nuclear decommissioning trust funds were reported in accumulated depreciation. At December 31, 2002 and 2001, PECO had no held-to-maturity or trading securities.

Property, Plant and Equipment. Property, plant and equipment is recorded at cost. PECO evaluates the carrying value of property, plant and equipment and other long-term assets based upon current and anticipated undiscounted cash flows, and recognizes an impairment when it is probable that such estimated cash flows will be less than the carrying value of the asset. Measurement of the amount of impairment, if any, is based upon the difference between carrying value and fair value. The cost of maintenance, repairs and minor replacements of property are charged to maintenance expense as incurred.

Upon retirement, the cost of regulated property plus removal costs less salvage value, are charged to accumulated depreciation in accordance with regulatory practices. For unregulated property, the cost and accumulated depreciation of property, plant and equipment retired or otherwise disposed of are removed from the related accounts and included in the determination of the gain or loss on disposition.

Depreciation, Amortization and Decommissioning. Depreciation, including a provision for estimated removal costs as authorized by the PUC, is provided over the estimated service lives of property, plant and equipment on a straight line basis. Annual depreciation provisions for financial

reporting purposes, expressed as a percentage of average service life for each asset category are presented below:

Asset Category	2002	2001	2000
Electric—Transmission and Distribution	2.09%	2.13%	1.82%
Electric—Generation	—	—	5.15%
Gas	2.13%	2.34%	2.39%
Common—Gas and Electric	6.40%	6.26%	3.60%
Other Property and Equipment	0.71%	0.60%	7.82%

Amortization of regulatory assets is provided over the recovery period as specified in the related regulatory agreement. In 2000, goodwill associated with acquisitions was amortized over periods from 10 to 20 years. Accumulated amortization of goodwill was $35 million at December 31, 2000. Due to the corporate restructuring, which was effective January 2001, the Goodwill on PECO's Consolidated Balance Sheets was transferred to Exelon Enterprises Company, LLC (Enterprises).

Capitalized Interest. PECO uses SFAS No. 34, "Capitalizing Interest Costs," to calculate the costs during construction of debt funds used to finance its non-regulated construction projects. PECO did not record any capitalized interest in 2002 and 2001, but did record capitalized interest of $2 million in 2000.

Allowance for Funds Used During Construction (AFUDC) is the cost, during the period of construction, of debt and equity funds used to finance construction projects for regulated operations. AFUDC of $1 million, $2 million and $2 million in 2002, 2001 and 2000, respectively, was recorded as a charge to construction work in progress and as a non-cash credit to AFUDC which is included in other income and deductions. The rates used for capitalizing AFUDC are computed under a method prescribed by regulatory authorities.

Capitalized Software Costs. Costs incurred during the application development stage of software projects for software which is developed or obtained for internal use are capitalized. At December 31, 2002 and 2001, capitalized software costs totaled $109 million and $107 million, respectively, net of $48 million and $31 million accumulated amortization, respectively. Such capitalized amounts are amortized ratably over the expected lives of the projects when they become operational, not to exceed ten years. During 2002, 2001 and 2000, PECO amortized capitalized software costs of $17 million, $16 million and $7 million, respectively.

Derivative Financial Instruments. PECO accounts for derivative financial instruments under SFAS No. 133, "Accounting for Derivatives and Hedging Activities" (SFAS No. 133). Under the provisions of SFAS No. 133, all derivatives are recognized on the balance sheet at their fair value unless they qualify for a normal purchases and normal sales exception. Changes in the fair value of the derivative financial instruments are recognized in earnings unless specific hedge accounting criteria are met. A derivative financial instrument can be designated as a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (fair value hedge), or a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge). Changes in the fair value of a derivative that is highly effective as, and is designated and qualifies as, a fair value hedge, along with the gain or loss on the hedged asset or liability that is attributable to the hedged risk, are recorded in earnings. Changes in the fair value of a derivative that is highly effective as, and is designated as and qualifies as a cash flow hedge are recorded in other comprehensive income, until earnings are affected by the variability of cash flows being hedged.

In connection with Exelon's Risk Management Policy (RMP), PECO enters into derivatives to manage its exposure to fluctuation in interest rates related to its variable rate debt instruments, changes

in interest rates related to planned future debt issuances prior to their actual issuance and changes in the fair value of outstanding debt which is planned for early retirement.

For 2000, prior to the corporate restructuring, PECO utilized derivatives to manage the utilization of its available generating capability and provisions of wholesale energy to its affiliates. PECO also utilized energy option contracts and energy financial swap arrangements to limit the market price risk associated with forward energy commodity contracts. Prior to the adoption of SFAS No. 133, PECO applied hedge accounting only if the derivative reduced the risk of the underlying hedged item and was designated at the inception of the hedge, with respect to the hedged item. PECO recognized any gains or losses on these derivatives when the underlying physical transaction affected earnings.

New Accounting Pronouncements. In 2001, the FASB issued SFAS No. 143, "Asset Retirement Obligations" (SFAS No. 143). SFAS No. 143 provides accounting requirements for retirement obligations associated with tangible long-lived assets. PECO will adopt SFAS No. 143 on January 1, 2003. Retirement obligations associated with long-lived assets included within the scope of SFAS No. 143 are those for which there is a legal obligation to settle under existing or enacted law, statute, written or oral contract or by legal construction under the doctrine of promissory estoppel. PECO has evaluated the impact of SFAS No. 143 and has determined that the impact is not material to its financial statements.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" (SFAS No. 146). SFAS No. 146 requires that the liability for costs associated with exit or disposal activities be recognized when incurred, rather than at the date of a commitment to an exit or disposal plan. SFAS No. 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002.

In November 2002, the FASB released FASB Interpretation No. (FIN) 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (FIN No. 45), providing for expanded disclosures and recognition of a liability for the fair value of the obligation undertaken by the guarantor. Under FIN No. 45, guarantors are required to disclose the nature of the guarantee, the maximum amount of potential future payments, the carrying amount of the liability and the nature and amount of recourse provisions or available collateral that would be recoverable by the guarantor. As of December 31, 2002, PECO has adopted disclosure requirements under FIN No. 45 (see Note 18—Commitments and Contingencies), which were effective for financial statements for periods ended after December 15, 2002. The recognition and measurement provisions of FIN No. 45 are effective, on a prospective basis, for guarantees issued or modified after December 31, 2002.

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities" (FIN No. 46). FIN No. 46 addresses consolidating certain variable interest entities and applies immediately to variable interest entities created after January 31, 2003. The impact, if any, of adopting FIN 46 on PECO's consolidated financial position, results of operation and cash flows, has not been fully determined.

See Note 4—Adoption of New Accounting Pronouncements and Accounting Changes for discussion of the impact of new accounting pronouncements adopted by PECO.

Reclassifications. Certain prior year amounts have been reclassified for comparative purposes. The reclassifications did not affect net income or shareholders' equity.

2. Corporate Restructuring

During January 2001, Exelon undertook a restructuring to separate its generation and other competitive businesses from its regulated energy delivery business. As part of the restructuring, the non-regulated operations and related assets and liabilities of PECO, representing PECO's generation and enterprises business segments, were transferred to Generation and Enterprises, respectively. Additionally, certain operations and assets and liabilities of PECO were transferred to Exelon Business Services Company (BSC). As a result, effective January 1, 2001, the operations of PECO consist of its retail electricity distribution and transmission business in southeastern Pennsylvania, and its natural gas distribution business in the Pennsylvania counties surrounding the City of Philadelphia.

The corporate restructuring had the following effect on PECO's Consolidated Balance Sheet:

Decrease in Assets:		
Current Assets	$	(1,085)
Property, Plant and Equipment, net		(1,212)
Investments		(1,262)
Other Noncurrent Assets		(431)
(Increase) Decrease in Liabilities:		
Current Liabilities		1,540
Long-Term Debt		205
Deferred Income Taxes		(441)
Other Noncurrent Liabilities		1,003
Net Assets Transferred	$	(1,683)

Consideration, based on the net book value of the net assets transferred, was as follows:

Return of Capital	$	1,608
Note Receivable		75
Total Consideration	$	1,683

In connection with the restructuring, PECO entered into a PPA with Generation. Under the terms of the PPA, PECO obtains the majority of its electric supply from Generation through 2010. Also, under the terms of the transfer, PECO assigned its rights and obligations under various PPAs and fuel supply agreements to Generation. Generation supplies power to PECO from the transferred generation assets, assigned PPAs and other market sources.

As a result of the corporate restructuring, certain risks and commitments that have been disclosed in Note 18—Commitments and Contingencies and the future financial condition and results of operations changed significantly. PECO is no longer subject to the risks associated with nuclear insurance, decommissioning, spent fuel disposal and energy commitments, other than its PPA with Generation. See Note 19—Segment Information for additional financial information.

3. Merger

On October 20, 2000, Exelon became the parent corporation of PECO and Commonwealth Edison Company (ComEd) as a result of the completion of the transactions contemplated by an Agreement and Plan of Exchange and Merger, as amended (Merger), among PECO, Unicom Corporation (Unicom) and Exelon. As a result of Merger, Exelon became the owner of all of the common stock of PECO.

Merger-Related Costs. In association with the Merger, PECO recorded certain reserves for restructuring costs, that were charged to expense pursuant to FASB Emerging Issue Task Force (EITF) Issue 94-3 "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)."

PECO's merger-related costs charged to expense in 2000 were $248 million, consisting of $116 million for PECO employee costs and $132 million of direct incremental costs incurred by PECO in conjunction with the Merger. Direct incremental costs represent expenses directly associated with completing the Merger, including professional fees, regulatory approval and settlement costs, and settlement of compensation arrangements. Employee costs represent estimated severance costs and pension and postretirement benefits provided under Exelon's merger separation plans for eligible employees who were expected to be involuntarily terminated before December 2002 due to integration activities of the merged companies. Additional employee severance costs of $18 million were charged to operating and maintenance expense in 2001. Employee costs are being paid from Exelon's pension and post-retirement benefit plans, except for certain benefits such as outplacement services, continuation of health care coverage and educational benefits. As of December 31, 2002 a liability of $1 million is reflected on PECO's balance sheet for payment of these benefits.

A total of 960 PECO positions were expected to be eliminated as a result of the merger, 274 of which related to Generation, 230 of which related to PECO and 456 of which related to Enterprises and corporate support areas. As of December 31, 2002, 858 of the positions had been eliminated, of which 224 related to Generation, 195 related to PECO and 439 related to Enterprises and corporate support areas. Of the remaining 102 positions, 58 were eliminated as a result of normal attrition and 44 positions will not be eliminated due to changes in certain business plans.

4. Adoption of New Accounting Pronouncements and Accounting Changes

SFAS No. 144. In September 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS No. 144). PECO adopted SFAS No. 144 on January 1, 2002. SFAS No. 144 establishes accounting and reporting standards for both the impairment and disposal of long-lived assets. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001 and its provisions are generally applied prospectively. The adoption of this statement had no effect on PECO's reported financial positions, results of operations or cash flows.

SFAS No. 145. In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections" (SFAS No. 145). SFAS No. 145 eliminates SFAS No. 4 "Reporting Gains and Losses from Extinguishment of Debt" (SFAS No. 4) and thus allows for only those gains or losses on the extinguishment of debt that meet the criteria of extraordinary items to be treated as such in the financial statements. SFAS No. 145 also amends Statement of Financial Accounting Standards No. 13, "Accounting for Leases" (SFAS No. 13) to require sale-leaseback accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. The adoption of SFAS No. 145 required a reclassification of the 2000 extraordinary item of $4 million, net of income taxes, to interest expense and income taxes; otherwise, it had no effect on PECO's reported financial positions, results of operations or cash flows.

SFAS No. 133. SFAS No. 133 applies to all derivative instruments and requires that such instruments be recorded on the balance sheet either as an asset or a liability measured at their fair value through earnings, with special accounting permitted for certain qualifying hedges. On January 1, 2001, PECO adopted SFAS No. 133. PECO deferred a non-cash gain of $40 million, net of income taxes, in accumulated other comprehensive income.

Nuclear Outage Costs. During the fourth quarter of 2000, as a result of the synchronization of accounting policies with Unicom in connection with the Merger, PECO changed its method of accounting for nuclear outage costs to record such costs as incurred. Previously, PECO accrued these costs over the operating unit cycle. As a result of the change in accounting method for nuclear outage costs, PECO recorded income of $24 million, net of income taxes of $16 million. The change is reported as a cumulative effect of a change in accounting principle on the Consolidated Statements of

Income as of December 31, 2000, representing the balance of the nuclear outage cost reserve at January 1, 2000.

SFAS No. 148. In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure—an amendment of FASB Statement No. 123" (SFAS No. 148). SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation and requires disclosures in both annual and interim financial statements regarding the method of accounting for stock-based compensation and the effect of the method on financial results. SFAS No. 148 is effective for financial statements for fiscal years ending after December 15, 2002. As of December 31, 2002, PECO has adopted the additional disclosure requirements of SFAS No. 148 and continues to account for stock-compensation plans under the disclosure only provision of SFAS No. 123.

Change in Accounting Estimates. In December 2002, PECO changed its accounting estimate related to the allowance for uncollectible accounts based on an independently prepared evaluation of the risk profile of PECO's customer accounts receivable. As a result of the new evaluation, the allowance for uncollectible accounts reserve was reduced by $17 million in the fourth quarter of 2002.

5. Acquisitions

Sithe Energies, Inc. Acquisition. On December 18, 2000, PECO acquired 49.9% of the outstanding common stock of Sithe Energies, Inc. (Sithe), an independent power generator, through an intercompany transaction with Exelon for $696 million in cash and $8 million of acquisition costs. The transaction included a Put and Call option for the remaining common stock outstanding exercisable between December 2002 and December 2005, at a price to be determined based on prevailing market conditions.

In conjunction with the corporate restructuring in January 2001, PECO transferred its investment in Sithe and the Put and Call option to Generation.

InfraSource, Inc. Acquisitions. In 2000, InfraSource, Inc. (InfraSource, formerly Exelon Infrastructure Services, Inc.), an unregulated majority owned subsidiary of PECO, acquired the stock or assets of seven utility service contracting companies for an aggregate purchase price of approximately $245 million, net of cash acquired of $9 million, including InfraSource common stock valued at $14 million. The acquisitions were accounted for using the purchase method of accounting. The initial estimate of the excess of purchase price over the fair value of net assets acquired (goodwill) was approximately $216 million.

The allocation of purchase price to the fair value of assets acquired and liabilities assumed in these acquisitions is as follows:

Current Assets (net of cash acquired)	$ 63
Property, Plant and Equipment	17
Goodwill	216
Current Liabilities	(51)
Total	$ 245

At December 31, 2000 current assets included $70 million of costs and earnings in excess of billings on uncompleted contracts and current liabilities includes $23 million of billings and earnings in excess of costs on uncompleted contracts, related to InfraSource.

In conjunction with the corporate restructuring in January 2001, PECO transferred InfraSource to Enterprises.

AmerGen Energy Company, LLC. In August 2000, AmerGen completed the purchase of Oyster Creek Generating Station (Oyster Creek) from GPU, Inc. (GPU) for $10 million. Under the terms of the purchase agreement, GPU agreed to fund outage costs not to exceed $89 million, including the cost of fuel, for a refueling outage that occurred in 2000. AmerGen is repaying these costs to GPU in nine equal annual installments through 2009. In addition, AmerGen assumed full responsibility for the ultimate decommissioning of Oyster Creek. At the closing of the sale, GPU provided funding for the decommissioning trust of $440 million. In conjunction with this acquisition, AmerGen has received a fully funded decommissioning trust fund which has been computed assuming the anticipated costs to appropriately decommission Oyster Creek discounted to net present value using the NRC's mandated rate of 2%. AmerGen believes that the amount of the trust fund and investment earnings thereon will be sufficient to meet its decommissioning obligation. GPU is purchasing the electricity generated by Oyster Creek pursuant to a three-year PPA.

In conjunction with the corporate restructuring in January 2001, PECO transferred its investment in AmerGen to Generation.

6. Regulatory Issues

In 2002, the phased process to implement competition in the electric industry continued as mandated by the requirements of the PUC's Final Restructuring Order.

Revenue Neutral Reconciliation Adjustment. As permitted by the Pennsylvania Electric Competition Act, the Pennsylvania Department of Revenue calculated a 2002 Revenue Neutral Reconciliation (RNR) adjustment to the gross receipts tax rate in order to neutralize the impact of electric restructuring on its tax revenues. In January 2002, the PUC approved the RNR adjustment to the gross receipts tax rate collected from customers. Effective January 1, 2002, PECO implemented the change in the gross receipts tax rate. The RNR adjustment increases the gross receipts tax rate, which will increase PECO's annual revenues and tax obligations by approximately $50 million in 2002. The RNR adjustment was under appeal. The case was remanded to the PUC and in August 2002, the PUC ruled that PECO is properly authorized to recover these costs. In December 2002, the PUC approved the inclusion of the RNR factor in PECO's base rates eliminating the need for an annual filing to obtain approval for recovery.

Customer Choice. The PUC's Final Electric Restructuring Order provided for the phase-in of customer choice of electric generation suppliers (EGS) and as of January 1, 2000, all customers were eligible for customer choice. The Final Restructuring Order also established market share thresholds (MST) to promote competition. The MST requirements provided that, if as of January 1, 2001 and January 1, 2003, respectively, less than 35% and 50% of residential and commercial customers were shopping, the number of customers sufficient to meet the MST would be randomly selected and assigned to an EGS through a PUC-determined process. For residential and small commercial customers, the threshold measurement is by number of customers. For large commercial customers the measurement is by load. On January 1, 2001, the 35% MST threshold was met for all customer classes as a result of agreements assigning customers to New Power Company (New Power) and Green Mountain Energy Company (Green Mountain) as providers of last resort default service. During 2002, PECO experienced an increase in the number of customers selecting or returning to PECO as their EGS and at December 31, 2002, pursuant to the MST rules, approximately 21% of PECO's residential load, 10% of its small commercial and industrial load and 7% of its large commercial and industrial load were considered purchasing generation from an alternative generation supplier. Customers who purchase energy from an EGS continue to pay a delivery charge. In January 2003, PECO submitted to the PUC an MST plan to meet the 50% threshold requirement for its small and large commercial customer classes, which was approved on February 6, 2003. According to the approved plan, randomly assigned customers who participated will be switched to winning MST bidders as of their respective meter read dates. On February 24, 2003, the small and large commercial MST auction was completed.

There were three winning bidders who were awarded a total of 64,172 small commercial customers, at a clearing price of 1.25% off PECO's tariffed rate GS. No bids were received for the small commercial renewable auction or the large commercial (GS6) non-interval metered load auction. Also in February 2003, PECO filed an MST plan for the residential customer classes which is pending PUC approval.

In February 2002, New Power notified PECO of its intent to withdraw from providing Competitive Default Service (CDS) to approximately 180,000 residential customers. As a result of that withdrawal, those CDS customers were returned to PECO in the second quarter of 2002. Pursuant to a tariff filing approved by the PUC, PECO is serving those returned customers at the discount generation rates provided for under the original New Power CDS Agreement for the remaining term of that contract. Subsequently, in the second quarter of 2002, New Power also advised PECO it planned to withdraw from serving all of its customers in Pennsylvania, including approximately 15,000 non-CDS PECO customers. These customers were returned to PECO during the third quarter of 2002.

Rate Reductions and Caps. Under the Final Restructuring Order, retail electric rates were capped at year-end 1996 levels (system-wide average of 9.96 cents/kilowatthour (kWh)) through June 2005. The Final Restructuring Order required PECO to reduce its retail electric rates by 8% from the 1996 system-wide average rate on January 1, 1999. This rate reduction decreased to 6% on January 1, 2000 until January 1, 2001. The transmission and distribution rate component was capped at a system-wide average rate of 2.98 cents/kWh through June 30, 2005. Additionally, generation rate caps, defined as the sum of the applicable transition charge and energy and capacity charge, remain in effect through 2010.

On March 16, 2000, the PUC issued an order authorizing PECO to securitize up to an additional $1 billion of its authorized stranded costs recovery. In accordance with the terms of that order, PECO provided its retail customers with rate reductions of $60 million for calendar year 2001 only.

Under a comprehensive settlement agreement in connection with achieving regulatory approval of the Merger, PECO agreed to $200 million in aggregate rate reductions for all customers in Pennsylvania over the period January 1, 2002 through 2005 and extended the rate caps on PECO's retail electric distribution charges through December 31, 2006.

7. Supplemental Financial Information

Supplemental Income Statement Information

	For the Years Ended December 31,		
	2002	2001	2000
Taxes Other Than Income			
Utility(a)	$ 207	$ 135	$ 144
Real estate	27	12	45

Payroll	13	12	27
Other	(3)	2	21
Total	$ 244	$ 161	$ 237

(a) Represents state utility taxes which are included in Revenue and Taxes Other Than Income.

Other, Net			
Investment income	$ 26	$ 24	$ 50
AFUDC, equity and borrowed	1	2	2
Gain (loss) on disposition of assets, net	1	6	(20)
Settlement of purchased power agreement	—	—	6
Other income	3	4	3
Total	$ 31	$ 36	$ 41

Supplemental Cash Flow Information

	For the Years Ended December 31,		
	2002	2001	2000
Cash paid during the year:			
Interest (net of amount capitalized)	$ 379	$ 416	$ 431
Income taxes (net of refunds)	388	271	261
Non-cash investing and financing:			
Contribution of Receivable from Parent	$ —	$ 1,878	$ —
Net Assets Transferred as a Result of the Corporate Restructuring	—	1,608	—
Investment in Sithe	—	—	696
Issuance of InfraSource stock	—	—	14
Depreciation and amortization:			
Property, plant and equipment	$ 141	$ 135	$ 229
Regulatory assets	308	275	57
Nuclear Fuel	—	—	112
Decommissioning	7	6	29
Goodwill	—	—	10
Total Depreciation and Amortization	$ 456	$ 416	$ 437

Supplemental Balance Sheet Information

	December 31,	
	2002	2001
Regulatory Assets		
Competitive transition charge	$ 4,639	$ 4,947
Recoverable deferred income taxes (see Note 12—Income Taxes)	729	675
Non-pension postretirement benefits	64	71
Reacquired debt costs	53	58
Compensated absences	6	5
Long-Term Regulatory Assets	5,491	5,756
Deferred energy costs (current asset)	31	56
Total	$ 5,522	$ 5,812

- Competitive Transition Charges (CTC) represent PECO's stranded costs that the PUC determined would be allowed to be recoverable through regulated rates. These costs are related to the deregulation of the generation portion of the electric utility business in Pennsylvania. The unamortized balance of the CTC of $4.6 billion and $4.9 billion as of December 31, 2002 and 2001, respectively, was recorded on PECO's Consolidated Balance Sheets. The CTC includes Intangible Transition Property sold to PECO Energy Transition Trust, a wholly-owned subsidiary of PECO, in connection with the securitization of PECO's stranded cost recovery. These charges are being amortized through December 31, 2010 with a return on the unamortized balance of 10.75%.

-

Non-pension postretirement benefits represent recoverable curtailment costs associated with a voluntary workforce reduction program in 1994.

- Reacquired debt costs represent recoverable losses on reacquired debt that are deferred and amortized over the rate-regulatory period, which is over the life of the new debt issued to finance the debt redemption.

- Deferred energy costs (current asset) are fuel costs recoverable under the purchase gas adjustment clause.

The regulatory asset related to the deferred income taxes did not require a cash outlay of investor supplied funds; consequently, this cost is not earning a rate of return. Recovery of the regulatory asset for loss on reacquired debt is provided for through regulated revenue sources that are based on the pre-open access cost of service. Therefore, this cost is earning a rate of return.

	December 31,	
	2002	2001
Accrued Expenses		
Taxes Accrued	$ 111	$ 107
Interest Accrued	112	122
Other Accrued Expenses	147	168
	$ 370	$ 397

8. Accounts Receivable

Accounts receivable—Customer at December 31, 2002 and 2001 included unbilled operating revenues of $129 million and $100 million, respectively. The allowance for uncollectible accounts at December 31, 2002 and 2001 was $72 million and $110 million, respectively.

PECO is party to an agreement with a financial institution under which it can sell or finance with limited recourse an undivided interest, adjusted daily, in up to $225 million of designated accounts receivable until November 2005. At December 31, 2002, PECO had sold a $225 million interest in accounts receivable, consisting of a $164 million interest in accounts receivable which PECO accounted for as a sale under SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities—a Replacement of FASB Statement No. 125," and a $61 million interest in special-agreement accounts receivable which was accounted for as a long-term note payable (see Note 11—Long-Term Debt). PECO retains the servicing responsibility for these receivables. The agreement requires PECO to maintain the $225 million interest, which, if not met, requires cash, which would otherwise be received by PECO under this program, to be held in escrow until the requirement is met. At December 31, 2002 and 2001, PECO met this requirement and was not required to make any cash deposits.

9. Property, Plant, and Equipment

A summary of property, plant and equipment by classification as of December 31, 2002 and 2001 is as follows:

Asset Category	2002	2001
Electric-Transmission and Distribution	$ 4,204	$ 4,058
Gas	1,319	1,281
Common	404	399
Construction Work in Progress	138	88
Other Property, Plant and Equipment	19	20
Total Property, Plant and Equipment	6,084	5,846
Less Accumulated Depreciation	1,905	1,789
Property, Plant and Equipment, net	$ 4,179	$ 4,057

10. Notes Payable

	2002	2001	2000
Average borrowings	$ 155	$ 3	$ 186
Average interest rates, computed on daily basis	1.77%	2.99%	6.62%
Maximum borrowings outstanding	$ 612	$ 471	$ 500
Average interest rates, at December 31	1.51%	2.25%	7.18%

PECO, along with Exelon, ComEd and Generation, entered into a $1.5 billion unsecured revolving credit facility on November 22, 2002 with a group of banks. Under the credit facility, each borrower may borrow up to a designated sublimit amount on a revolving credit basis through November 20, 2003. This credit facility includes a term-out option that allows any outstanding borrowings at the end of the revolving credit period to be repaid on November 21, 2004. At December 31, 2002 PECO's sublimit was $400 million. This credit facility is used primarily to support PECO's commercial paper program. At December 31, 2002 and 2001, the amount of commercial paper outstanding was $200 million and $101 million, respectively. Interest rates on the advances under the credit facility are based on the London Interbank Offering Rate as of the date of the advance.

11. Long-Term Debt

	Rates	Maturity Date	December 31, 2002	December 31, 2001
Securitized Long-Term Debt				
PETT Transition Bonds Series 1999-A:				
Fixed rates	5.63%-6.13%	2003-2008(a)	$ 2,426	$ 2,577
Floating rates	1.48%-1.55%	2004-2007(a)	274	310
PETT Transition Bonds Series 2000-A:	7.63%-7.65%	2009(a)	750	890
PETT Transition Bonds Series 2001:	6.52%	2010(a)	805	805
Other Long-Term Debt				
First and Refunding Mortgage Bonds(b)(c):				
Fixed rates	4.75%-6.63%	2003-2012	1,000	1,027
Floating rates	1.08%-1.41%	2012	154	154
Pollution control notes:				
Fixed rates	5.20%-5.30%	2021-2034	157	157
Floating rates	1.20%	2027	17	17
Notes payable—accounts receivable agreement	1.42%	2005	61	55
Total Long-Term Debt(d)			5,644	5,992
Unamortized debt discount and premium, net			(4)	(6)
Due within one year			(689)	(548)
Long-Term Debt			$ 4,951	$ 5,438

(a) The maturity date represents the expected final payment date which is the date when all principal and interest of the related class of transition bonds is expected to be paid in full in accordance with the expected amortization schedule for the applicable class. The date when all principal and interest must be paid in full for the PETT Bonds Series 1999-A, 2000-A and 2001-A are 2003 through 2009, 2010 and 2010, respectively. The current portion of transition bonds is based upon the expected maturity date.

(b) Utility plant of PECO is subject to the lien of its mortgage indenture.

(c) Includes first mortgage bonds issued under the PECO mortgage indenture securing pollution control notes.

(d) Long-term debt maturities in the period 2003 through 2007 and thereafter are as follows:

2003	$ 689
2004	380
2005	503
2006	500
2007	641
Thereafter	2,931
Total	$ 5,644

In 2002, PECO exchanged $250 million of 5.95% private placement First and Refunding Mortgage Bonds, due November 1, 2011 for bonds which are registered under the Securities Act. The exchange bonds are identical to the outstanding bonds except for the elimination of certain transfer restrictions and registration rights pertaining to the outstanding bonds. PECO did not receive any cash proceeds from issuance of the exchange bonds. Proceeds from the first mortgage bonds issued in 2001 were used

to repay a $250 million aggregate principal amount of PECO's First and Refunding Mortgage Bonds having an interest rate of 5.625% and a maturity date of November 1, 2001.

Also in 2002, PECO issued $225 million of 4.75% First and Refunding Mortgage Bonds, due October 1, 2012. This bond issuance repaid commercial paper that was used to pay $222 million of First and Refunding Mortgage Bonds at maturity with a weighted average interest rate of 7.30%. In connection with the issuance of the First and Refunding Mortgage Bonds, PECO settled forward-starting interest rate swaps in the aggregate notional amount of $200 million resulting in a $5 million pre-tax loss recorded in other comprehensive income, which is being amortized over the expected remaining life of the related debt.

In 2001, PECO Energy Transition Trust (PETT), a Delaware business trust and a wholly-owned subsidiary of PECO, refinanced $805 million of floating rate Series 1999-A Transition Bonds through the issuance by PETT of fixed-rate transition bonds (Series 2001-A Transition Bonds). The Series 2001-A Transition Bonds are non-callable, fixed rate securities with an interest rate of 6.52%. The Series 2001-A Transition Bonds have an expected final payment date of

September 1, 2010 and a termination date of December 31, 2010. In connection with this refinancing, PECO settled $318 million of a forward-starting interest rate swap resulting in a $6 million gain which is reflected in other income and deductions due to the transaction no longer being probable. Also, in connection with the refinancing, PECO settled a portion of the interest rate swaps and the remaining portion of the forward-starting interest rate swaps resulting in gains of $25 million, which were deferred and are being amortized over the expected remaining lives of the related debt.

In 1999, PECO entered into treasury forwards associated with the anticipated issuance of the Series 2000-A Transition Bonds. On May 2, 2000, these instruments were settled with net proceeds to the counterparties of $13 million which has been deferred and is being amortized over the life of the Series 2000-A Transition Bonds as an increase to interest expense.

In 1998, PECO entered into treasury forwards and forward-starting interest rate swaps to manage interest rate exposure associated with the anticipated issuance of the Series 1999-A Transition Bonds. On March 18, 1999, these instruments were settled with net proceeds of $80 million to PECO which were deferred and are being amortized over the life of the Series 1999-A Transition Bonds as a reduction of interest expense.

At December 31, 2002 and 2001, the aggregate unamortized net gain on the settlement of the PECO swap transactions was $36 million and $55 million, respectively, recorded in Other Comprehensive Income.

In 2000, PECO incurred charges aggregating $6 million ($4 million, net of tax) for prepayment premiums and the write-offs of unamortized deferred financing costs associated with the early retirement of debt that have been recorded in interest expense.

12. Income Taxes

Income tax expense (benefit) is comprised of the following components:

	For the Year Ended December 31,		
	2002	2001	2000
Included in operations:			
Federal			
Current	$ 305	$ 255	$ 179
Deferred	(51)	(49)	91
Investment tax credit, net	(3)	(3)	(15)
State			
Current	46	8	2
Deferred	(38)	(14)	11
	$ 259	$ 197	$ 268
Included in cumulative effects of changes in accounting principles:			
Federal			
Deferred	$ —	$ —	$ 13
State			
Deferred	—	—	3
	$ —	$ —	$ 16

The effective income tax rate varies from the U.S. Federal statutory rate principally due to the following:

	For the Year Ended December 31,		
	2002	2001	2000
U.S. Federal statutory rate	35.0%	35.0%	35.0%
Increase (decrease) due to:			
Plant basis differences	(1.5)	(0.8)	(0.8)
State income taxes, net of Federal income tax benefit	0.7	(0.6)	2.7
Amortization of investment tax credit	(0.3)	(0.4)	(1.9)
Other, net	0.9	(1.5)	0.7
Effective income tax rate	34.8%	31.7%	35.7%

The tax effects of temporary differences giving rise to significant portions of PECO's deferred tax assets and liabilities are presented below:

For the Year Ended December 31,

	2002	2001
Deferred tax liabilities:		
Plant basis difference	$ 2,950	$ 2,990
Deferred investment tax credits	24	27
Unrealized gain on derivative financial instruments	23	15
Deferred debt refinancing costs	29	31
Total deferred tax liabilities	3,026	3,063
Deferred tax assets:		
Deferred pension and postretirement obligations	(11)	(12)
Other, net	(61)	(59)
Total deferred tax assets	(72)	(71)
Deferred income taxes (net) on the balance sheet	$ 2,954	$ 2,992

In accordance with regulatory treatment of certain temporary differences, PECO has recorded a regulatory asset for recoverable deferred income taxes, pursuant to SFAS No. 109, of $729 million and $675 million at December 31, 2002 and 2001, respectively. These recoverable deferred income taxes include the deferred tax effects associated principally with liberalized depreciation accounted for in accordance with the ratemaking policies of the PUC, as well as the revenue impacts thereon, and assume continued recovery of these costs in future rates.

Certain PECO tax returns are under review at the audit and appeals level of the Internal Revenue Service (IRS) and certain state authorities. These reviews by the governmental taxing authorities are not expected to have an adverse impact on the financial condition or result of operations at PECO.

13. Retirement Benefits

PECO has adopted defined benefit pension plans and postretirement welfare benefit plans sponsored by Exelon. In 2001, PECO's former plans were consolidated into the Exelon plans. Essentially all PECO employees are eligible to participate in the Exelon plans. Benefits under these pension plans generally reflect each employee's compensation, years of service, and age at retirement.

The Pension Asset and Non-Pension Postretirement Benefits Obligation on the PECO Consolidated Balance Sheets reflects PECO's obligation from and to the plan sponsor, Exelon. Employee-related assets and liabilities, including both pension and SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions," postretirement welfare assets and liabilities, were allocated by Exelon to its subsidiaries based on the number of active employees as of January 1, 2001 as part of Exelon's corporate restructuring. Exelon allocates the components of pension expense to the participating employers based upon several factors, including the percentage of active employees in each participating unit.

See Note 15—Retirement Benefits of the Notes to Exelon's Consolidated Financial Statements for pension and other postretirement benefits information for the Exelon plans.

Approximately $22 million and $(2) million were included in operating and maintenance expense in 2002 and 2001, respectively, for PECO's allocated portion of Exelon's pension and postretirement benefit expense. PECO did not make any pension contributions in 2002 or 2001. In 2000, PECO recorded a net pension benefit of $107 million and a net postretirement benefit cost of $102 million.

Exelon's costs of providing pension and postretirement benefits are dependent upon a number of factors, such as the rates of return on pension plan assets, discount rate, and the rate of increase in health care costs. The market value of plan assets has been affected by sharp declines in the equity market since the third quarter of 2000. As a result, at December 31, 2002, Exelon was required to recognize an additional minimum liability as prescribed by SFAS No. 87, "Employer's Accounting for Pensions." The liability was recorded as a reduction to common equity, and the equity will be restored to the balance sheet in future periods when the fair value of plan assets exceeds the accumulated benefit obligations. Based upon the market value of plan assets at December 31, 2002, the amount of the reduction to shareholders' equity (net of income taxes) is $1 billion. The recording of this reduction, at the Exelon holding company level, did not affect net income or cash flow in 2002 or compliance with debt covenants.

PECO participates in a 401(k) savings plan sponsored by Exelon. The plan allows employees to contribute a portion of their pretax income in accordance with specified guidelines. PECO matches a percentage of the employee contribution up to certain limits. The cost of PECO's matching contribution to the savings plan totaled $7 million, $7 million and $11 million in 2002, 2001, and 2000, respectively.

14. Preferred Stock

At December 31, 2002 and 2001, cumulative Preferred Stock of PECO, no par value, consisted of 15,000,000 shares authorized and the amounts set forth below:

		December 31,			
	Current Redemption Price(a)	2002	2001	2002	2001
		Shares Outstanding		Amount	
Series (without mandatory redemption)					

$4.68	$ 104.00	150,000	150,000	$ 15	$ 15
$4.40	112.50	274,720	274,720	27	27
$4.30	102.00	150,000	150,000	15	15
$3.80	106.00	300,000	300,000	30	30
$7.48	(b)	500,000	500,000	50	50
		1,374,720	1,374,720	137	137
Series (with mandatory redemption)					
$6.12	(c)	—	185,400	—	19
Total preferred stock		1,374,720	1,560,120	$ 137	$ 156

(a) Redeemable, at the option of PECO, at the indicated dollar amounts per share, plus accrued dividends.

(b) None of the shares of this series is subject to redemption prior to April 1, 2003.

(c) PECO made the annual sinking fund payments of $19 million on August 1, 2002 and August 1, 2001. At December 31, 2000, shares and principal outstanding were 370,800 and $37 million, respectively.

15. Company—Obligated Mandatorily Redeemable Preferred Securities of a Partnership

At December 31, 2002 and 2001, PECO Energy Capital, L.P. (Partnership), a Delaware limited partnership of which a wholly-owned subsidiary of PECO is the sole general partner, had outstanding

Company-Obligated Mandatorily Redeemable Preferred Securities of a Partnership (COMRPS) as set forth in the following table:

				December 31,			
				2002	2001	2002	2001
	Mandatory Redemption Date	Distribution Rate	Liquidation Value	Trust Securities Outstanding		Amount	
PECO Energy Capital Trust II	2037	8.00%	$ 25	2,000,000	2,000,000	$ 50	$ 50
PECO Energy Capital Trust III	2028	7.38%	1,000	78,105	78,105	78	78
Total				2,078,105	2,078,105	$ 128	$ 128

The securities issued by the PECO trusts represent Company-Obligated Mandatorily Redeemable Preferred Securities of a Partnership (COMRPS) having a distribution rate and liquidation value equivalent to the trust securities. The COMRPS are the sole assets of these trusts and represent limited partnership interests of PECO Energy Capital, L.P. (Partnership), a Delaware limited partnership. Each holder of a trust's securities is entitled to withdraw the corresponding number of COMRPS from the trust in exchange for the trust securities so held. Each series of COMRPS is supported by PECO's deferrable interest subordinated debentures, held by the Partnership, which bear interest at rates equal to the distribution rates on the related series of COMRPS.

The interest expense on the securities is included in Other Income and Deductions in the Consolidated Statements of Income and is deductible for income tax purposes.

16. Common Stock

At December 31, 2002 and 2001, common stock without par value consisted of 500,000,000 shares authorized and 170,478,507 shares outstanding.

Stock Repurchase. In January 2000, in connection with the Merger, PECO entered into a forward purchase agreement to purchase $500 million of its common stock from time to time. Settlement of this forward purchase agreement was, at PECO's election, on a physical, net share or net cash basis. In May 2000, PECO utilized a portion of the proceeds from the securitization of its stranded cost recovery to physically settle this agreement, resulting in the repurchase of 12 million shares of common stock for $496 million. In connection with the settlement of this agreement, PECO received $1 million in accumulated dividends on the repurchased shares and paid $6 million of interest.

Fund Transfer Restrictions. Under PUHCA, PECO can pay dividends only from retained or current earnings. At December 31, 2002, PECO had retained earnings of $401 million.

PECO's Articles of Incorporation prohibit payment of any dividend on, or other distribution to the holders of, common stock if, after giving effect thereto, the capital of PECO represented by its common stock together with its retained earnings is, in the aggregate, less than the involuntary liquidating value of its then outstanding preferred stock. At December 31, 2002, such capital was $2.4 billion and amounted to about 17 times the liquidating value of the outstanding preferred stock of $137 million.

PECO may not declare dividends on any shares of its capital stock in the event that: (1) PECO exercises its right to extend the interest payment periods on the Subordinated Debentures which were issued to the Partnership; (2) PECO defaults on its guarantee of the payment of distributions on the Series C or Series D Preferred Securities of the Partnership; or (3) an event of default occurs under the Indenture under which the Subordinated Debentures are issued.

17. Fair Value of Financial Assets and Liabilities

The carrying amounts and fair values of PECO's financial assets and liabilities as of December 31, 2002 and 2001 were as follows:

	2002		2001	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Non-derivatives:				
Liabilities				
Long-term debt (including amounts due within one year)	$ 5,640	$ 6,264	$ 5,986	$ 6,199
COMRPS	$ 128	$ 165	$ 128	$ 127
Mandatorily Redeemable Preferred Stock	$ —	$ —	$ 19	$ 10
Derivatives:				
Interest rate swaps	$ (22)	$ (22)	$ (19)	$ (19)

As of December 31, 2002 and 2001, PECO's carrying amounts of cash and cash equivalents and accounts receivable are representative of fair value because of the short-term nature of these instruments. Fair values of the long-term debt, COMRPS and Mandatorily Redeemable Preferred Stock are estimated based on quoted market prices for the same or similar issues. The fair value of PECO's interest rate swaps is determined using external dealer prices or internal valuation models which utilize assumptions of available market pricing curves.

Financial instruments that potentially subject PECO to concentrations of credit risk consist principally of cash equivalents and customer accounts receivable. PECO places its cash equivalents with high-credit quality financial institutions. Generally, such investments are in excess of the Federal Deposit Insurance Corporation limits. Concentrations of credit risk with respect to customer accounts receivable are limited due to PECO's large number of customers and their dispersion across many industries.

PECO has entered into floating to fixed interest rate swaps to manage interest rate exposure associated with the floating rate series of transition bonds issued to securitize PECO's stranded cost recovery. These interest rate swaps were designated as cash flow hedges. These interest rate swaps had an aggregate fair market value exposure of $22 million at December 31, 2002.

PECO also has interest rate swaps in place to satisfy counterparty credit requirements in regards to the floating rate series of transition bonds which are mirror swaps of each other. These swaps are not designated as cash flow hedges; therefore, they are required to be marked-to-market if there is a difference in their values. Since these swaps are offsetting each other, a mark-to-market adjustment is not expected to occur.

During 2002, PECO entered into forward-starting interest rate swaps, with an aggregate notional amount of $200 million, in anticipation of the issuance of debt. These interest rate swaps were designated as cash flow hedges. In connection with bond issuances in 2002, PECO settled these forward-starting interest rate swaps resulting in a $5 million pretax loss recorded in other comprehensive income, a component of shareholders' equity, which is being amortized over the life of the related debt.

On January 1, 2001, PECO deferred a non-cash gain of $40 million, net of income taxes, in accumulated other comprehensive income to reflect the initial adoption of SFAS No. 133, as amended. SFAS No. 133 is applied to all derivative instruments and requires that such instruments be recorded in the balance sheet either as an asset or a liability measured at their fair value through earnings, with special accounting permitted for certain qualifying hedges.

For 2001, $6 million ($4 million, net of income taxes), respectively, was reclassified from accumulated other comprehensive income into earnings as a result of forecasted financing transactions no longer being probable.

As of December 31, 2002, $14 million of deferred net gains on derivative instruments accumulated in other comprehensive income are expected to be reclassified to earnings during the next twelve months. Amounts in accumulated other comprehensive income related to interest rate cash flows are reclassified into earnings when the forecasted interest payment occurs.

PECO would be exposed to credit-related losses in the event of non-performance by the counterparties that issued the derivative instruments. The credit exposure of derivatives contracts is represented by the fair value of contracts at the reporting date. PECO's interest rate swaps are documented under master agreements. Among other things, these agreements provide for a maximum credit exposure for both parties. Payments are required by the appropriate party when the maximum limit is reached.

18. Commitments and Contingencies

Commercial Commitments. PECO's commercial commitments as of December 31, 2002 representing commitments triggered by future events, including obligations to make payment on behalf of other parties as well as financing arrangements to secure obligations of PECO, are as follows:

		Expiration within			
	Total	1 Year	2-3 Years	4-5 Years	After 5 Years

			(in millions)		
Credit Facility(a)	$ 400	$ 400	$ —	$ —	$ —
Letters of Credit (non-debt)(b)	29	29	—	—	—
Letter of Credit (Long-term Debt)(c)	17	17	—	—	—
Insured Long-Term Debt(d)	154	—	—	—	154
Surety Bonds(e)	67	67	—	—	—
Total Commercial Commitments	$ 667	$ 513	$ —	$ —	$ 154

(a) Credit Facility—PECO, along with Exelon, ComEd and Generation, maintain a $1.5 billion 364-day credit facility to support commercial paper issuances. PECO has a $400 million sublimit under the credit facility. At December 31, 2002, there are no borrowings against the credit facility.

(b) Letters of Credit (non-debt)—PECO and certain of its subsidiaries maintain non-debt letters of credit to provide credit support for certain transactions as requested by third parties.

(c) Letters of Credit (Long-Term Debt)—Direct-pay letters of credit issued in connection with variable-rate debt in order to provide liquidity in the event that it is not possible to remarket all of the debt as required following specific events, including changes in the basis of determining the interest rate on the debt.

(d) Insured Long-Term Debt—Borrowings that have been credit-enhanced through the purchase of insurance coverage equal to the amount of principal outstanding plus interest.

(e) Surety Bonds—Guarantees issued related to contract and commercial surety bonds, excluding bid bonds.

Capital Commitments. PECO estimates that it will spend approximately $270 million for capital expenditures in 2003.

Energy Commitments. In connection with the corporate restructuring (see Note 2—Corporate Restructuring), PECO entered into a PPA with Generation. Under the terms of the PPA, PECO obtains the majority of its electric supply from Generation through 2010. Also, under the terms of the corporate restructuring, PECO assigned its rights and obligations under various PPAs and fuel supply agreements to Generation. Generation supplies power to PECO from the transferred generation assets, assigned PPAs and other market sources.

Environmental Issues. PECO's operations have in the past and may in the future require substantial capital expenditures in order to comply with environmental laws. Additionally, under Federal and state environmental laws, PECO is generally liable for the costs of remediating environmental contamination of property now or formerly owned by PECO and of property contaminated by hazardous substances generated by PECO. PECO owns or leases a number of real estate parcels, including parcels on which its operations or the operations of others may have resulted in contamination by substances that are considered hazardous under environmental laws. PECO has identified 28 sites where former manufactured gas plant (MGP) activities have or may have resulted in actual site contamination. PECO is currently involved in a number of proceedings relating to sites where hazardous substances have been deposited and may be subject to additional proceedings in the future.

As of December 31, 2002 and 2001, PECO had accrued $40 million and $37 million, respectively, for environmental investigation and remediation costs, including $28 million and $27 million, respectively, for investigation and remediation at its 28 MGP sites, that currently can be reasonably estimated. PECO cannot reasonably estimate whether it will incur other significant liabilities for additional investigation and remediation costs at these or additional sites identified by PECO, environmental agencies or others, or whether such costs will be recoverable from third parties.

Leases. Minimum future operating lease payments, which consist primarily of lease payments for vehicles, as of December 31, 2002 were:

2003	$ 5
2004	4
2005	3
2006	3
2007	2
Remaining years	3
Total minimum future lease payments	$ 20

Rental expense under operating leases totaled $7 million, $2 million and $36 million in 2002, 2001, and 2000, respectively.

Litigation. PECO is involved in various litigation matters. The ultimate outcome of such matters, while uncertain, is not expected to have a material adverse effect on its respective financial condition or results of operations.

19. Segment Information

As a result of the corporate restructuring in January 2001, PECO operates in one segment—energy delivery. Energy delivery consists of the retail electricity distribution and transmission business of PECO in southeastern Pennsylvania and the natural gas distribution business of PECO located in the Pennsylvania counties surrounding the City of Philadelphia. Prior to 2001, PECO operated in two other business segments, generation and enterprises. See Note 2—Corporate Restructuring.

Generation consisted of electric generating facilities, energy marketing operations and PECO's interests in Sithe and AmerGen. Enterprises consisted of competitive retail energy sales, energy and infrastructure services, communications and other investments weighted towards the communications, energy services and retail services industries. An analysis and reconciliation of PECO's business segment information to the respective information in the consolidated financial statements are as follows:

	Energy Delivery	Generation	Enterprises	Intersegment Corporate	Eliminations	Consolidated
Total Revenues:						
2000	$ 3,373	$ 2,726	$ 1,118	$ —	$ (1,267)	$ 5,950
Intersegment Revenues:						
2000	$ 4	$ 795	$ 468	$ —	$ (1,267)	$ —
Depreciation and Amortization:						
2000	$ 195	$ 98	$ 32	$ —	$ —	$ 325
Operating Expenses:						
2000	$ 2,242	$ 2,398	$ 1,186	$ 169	$ (1,267)	$ 4,728
Interest Expense:						
2000	$ 405	$ 32	$ 3	$ 23	$ —	$ 463
Income Taxes:						
2000	$ (300)	$ (111)	$ 166	$ (23)	$ —	$ (268)
Net Income/(Loss):						
2000(a)	$ 430	$ 233	$ 47	$ (213)	$ —	$ 497
Capital Expenditures:						
2000	$ 219	$ 243	$ 64	$ 23	$ —	$ 549
Total Assets:						
2000	$ 13,100	$ 1,648	$ 991	$ (963)	$ —	$ 14,776

(a) Includes non-recurring items of $248 million for Merger-related expenses in 2000.

Equity in earnings of AmerGen and Sithe of $4 million for 2000 are included in the generation business unit's net income. Equity in losses of communications joint ventures of $45 million in 2000 are included in the enterprises business unit's net income.

20. Related-Party Transactions

PECO's financial statements reflect a number of related-party transactions as reflected in the table below.

	For Year Ended December 31,		
	2002	2001	2000
Operating Revenues from Affiliate			
Generation(1)	$ 12	$ 12	$ —
Purchased Power from Affiliate			
Generation(2)	1,438	1,162	—
Purchased Power from Unconsolidated Affiliate(3)	—	—	47
O&M from Affiliates			
BSC(4)	49	69	—
Enterprises(5)	24	24	—
Capitalized Costs			
Enterprises(5)	24	29	—
BSC(4)	8	—	—
Interest Expense from Affiliates			
ComEd(6)	—	8	—
Interest Income from Affiliates			
Generation(7)	—	6	—
Other	—	4	—
Cash Dividends Paid to Parent	340	342	—

	December 31,	
	2002	2001
Receivables from Affiliates		
Other	$ —	$ 1
Payables to Affiliates		
Generation(2)	124	117
BSC(4)	26	61
Enterprises(5)	19	9

Other	1	—
Deferred Credits and Other Liabilities		
BSC	—	44
Shareholders' Equity—Receivable from Parent(8)	1,758	1,878

(1) PECO provides energy to Generation for Generation's own use.

(2) Effective January 1, 2001, PECO entered into a PPA with Generation. See Note 2—Corporate Restructuring for further information regarding the PPA.

(3) PECO purchased power from AmerGen in 2000.

(4) PECO provides services to BSC related to invoice processing. PECO receives a variety of corporate support services from BSC, including legal, human resources, financial and information technology services. Such services are provided at cost, including applicable overhead. Some of these costs are capitalized.

(5) PECO receives services from Enterprises for construction, which are capitalized, and the deployment of automated meter reading technology, which is expensed.

(6) At December 31, 2000, PECO had a $400 million payable to ComEd, which was repaid in the second quarter of 2001. The average annual interest rate on this payable for the period outstanding was 6.5%.

(7) PECO received interest income from Generation in 2001 related to a loan.

(8) PECO has a non-interest bearing receivable from Exelon related to the 2001 corporate restructuring. The receivable is expected to be settled over the years 2001 through 2010.

21. Quarterly Data (Unaudited)

The data shown below include all adjustments which PECO considers necessary for a fair presentation of such amounts:

	Operating Revenues		Operating Income		Income (Loss) Before Cumulative Effect of a Change in Accounting Principle		Net Income	
Quarter ended:	**2002**	**2001**	**2002**	**2001**	**2002**	**2001**	**2002**	**2001**
March 31	$ 1,020	$ 1,051	$ 227	$ 287	$ 89	$ 122	$ 89	$ 122
June 30	$ 995	$ 906	$ 234	$ 246	$ 93	$ 85	$ 93	$ 85
September 30	$ 1,224	$ 1,051	$ 323	$ 258	$ 157	$ 104	$ 157	$ 104
December 31	$ 1,094	$ 957	$ 309	$ 208	$ 147	$ 114	$ 147	$ 114

Generation

Report of Independent Accountants

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

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(4)(i) present fairly, in all material respects, the financial position of Exelon Generation Company, LLC and Subsidiary Companies (Exelon Generation) at December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(4)(ii) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and the financial statement schedule are the responsibility of Exelon Generation's management; our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 to the consolidated financial statements, Exelon Generation's parent company, Exelon Corporation, acquired Unicom Corporation on October 20, 2000 in a business combination accounted for under the purchase method of accounting. The results of the acquired generation-related business are included in the consolidated financial statements of Exelon Generation since the acquisition date.

As discussed in Note 1 to the consolidated financial statements, Exelon Generation changed its method of accounting for derivative instruments and hedging activities effective January 1, 2001.

PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania
January 29, 2003

Exelon Generation Company, LLC and Subsidiary Companies
Consolidated Statements of Income

	For the Year Ended December 31,		
	2002	2001	2000
		(in millions)	
OPERATING REVENUES			
Operating Revenues	$ 2,631	$ 2,723	$ 1,723
Operating Revenues from Affiliates	4,227	4,103	1,551
Total Operating Revenues	6,858	6,826	3,274
OPERATING EXPENSES			
Purchased Power	2,980	2,924	1,315
Purchased Power from Affiliates	314	182	52
Fuel	959	889	479
Operating and Maintenance	1,504	1,400	754
Operating and Maintenance from Affiliates	152	128	46
Depreciation and Amortization	276	282	123
Taxes Other Than Income	164	149	64
Total Operating Expense	6,349	5,954	2,833
OPERATING INCOME	509	872	441
OTHER INCOME AND DEDUCTIONS			
Interest Expense	(68)	(77)	(39)
Interest Expense from Affiliates	(7)	(38)	(2)
Equity in Earnings of Unconsolidated Affiliates, net	87	90	4
Interest Income from Affiliates	6	12	—
Other, Net	77	(20)	16
Total Other Income and Deductions	95	(33)	(21)
INCOME BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	604	839	420
INCOME TAXES	217	327	160
INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	387	512	260
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES (net of income taxes of $9 and $7, respectively)	13	12	—
NET INCOME	$ 400	$ 524	$ 260

See Notes to Consolidated Financial Statements

Exelon Generation Company, LLC and Subsidiary Companies
Consolidated Statements of Cash Flow

	For the Year Ended December 31,		
	2002	2001	2000
		(in millions)	

CASH FLOWS FROM OPERATING ACTIVITIES			
Net Income	$ 400	$ 524	$ 260
Adjustments to Reconcile Net Income to Net Cash Flows			
Provided by Operating Activities:			
Depreciation and Amortization, including nuclear fuel	640	682	289
Cumulative Effect of a Change in Accounting			
Principle (net of income taxes)	(13)	(12)	—
Provision for Uncollectible Accounts	26	16	2
Deferred Income Taxes	132	23	(60)
Equity in (Earnings) Losses of Unconsolidated Affiliates	(87)	(90)	(4)
Net Realized Losses on Nuclear Decommissioning Trust Funds	32	127	—
Other Operating Activities	55	(146)	51
Changes in Working Capital:			
Accounts Receivable	(263)	142	(158)
Changes in Receivables and Payables to Affiliates, net	(72)	7	(243)
Inventories	(33)	(28)	(58)
Accounts Payable, Accrued Expenses and Other Current Liabilities	404	26	360
Other Current Assets	(83)	3	37
Net Cash Flows provided by Operating Activities	1,138	1,274	476
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital Expenditures	(990)	(858)	(288)
Investment in Sithe Energies, Inc.	—	—	(704)
Acquisition of Generating Plants	(445)	—	—
Proceeds from Nuclear Decommissioning Trust Funds	1,612	1,624	265
Investment in Nuclear Decommissioning Trust Funds	(1,824)	(1,863)	(380)
Note Receivable from Affiliate	(35)	14	1
Other Investing Activities	8	40	(58)
Net Cash Flows used in Investing Activities	(1,674)	(1,043)	(1,164)
CASH FLOWS FROM FINANCING ACTIVITIES			
Change in Note Payable, Affiliate	329	(696)	696
Contribution from Minority Interest in Consolidated Subsidiary	43	—	—
Issuance of Long-Term Debt	30	821	—
Retirement of Long-Term Debt	(5)	(4)	(4)
Distribution Paid to Member	(27)	(132)	—
Net Cash Flows provided by (used in) Financing Activities	370	(11)	692
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(166)	220	4
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	224	4	—
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 58	$ 224	$ 4

See Notes to Consolidated Financial Statements

Exelon Generation Company, LLC and Subsidiary Companies
Consolidated Balance Sheets

	December 31,	
	2002	2001
	(in millions)	
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 58	$ 224
Accounts Receivable, net		
Customer	587	316
Other	57	122
Receivables from Affiliates	594	401
Inventories, at average cost		
Fossil Fuel	140	105

Materials and Supplies	217	202
Deferred Income Taxes	7	—
Other	145	65
Total Current Assets	1,805	1,435
PROPERTY, PLANT AND EQUIPMENT, NET	4,800	2,003
DEFERRED DEBITS AND OTHER ASSETS		
Nuclear Decommissioning Trust Funds	3,053	3,165
Investments	657	816
Receivable from Affiliate	220	291
Deferred Income Taxes	271	205
Other	201	223
Total Deferred Debits and Other Assets	4,402	4,700
TOTAL ASSETS	$ 11,007	$ 8,138
LIABILITIES AND MEMBER'S EQUITY		
CURRENT LIABILITIES		
Long-Term Debt Due within One Year	$ 5	$ 4
Accounts Payable	1,089	585
Payables to Affiliates	10	34
Notes Payable to Affiliates	863	—
Accrued Expenses	480	303
Other	216	171
Total Current Liabilities	2,663	1,097
LONG-TERM DEBT	2,132	1,021
DEFERRED CREDITS AND OTHER LIABILITIES		
Unamortized Investment Tax Credits	226	234
Nuclear Decommissioning Liability for Retired Plants	1,394	1,353
Pension Obligation	37	118
Non-Pension Postretirement Benefits Obligation	410	384
Spent Nuclear Fuel Obligation	858	843
Other	334	280
Total Deferred Credits and Other Liabilities	3,259	3,212
COMMITMENTS AND CONTINGENCIES		
MINORITY INTEREST OF CONSOLIDATED SUBSIDIARY	54	—
MEMBER'S EQUITY		
Membership Interest	2,296	2,315
Undistributed Earnings	924	524
Accumulated Other Comprehensive Income (Loss)	(321)	(31)
Total Member's Equity	2,899	2,808
TOTAL LIABILITIES AND MEMBER'S EQUITY	$ 11,007	$ 8,138

See Notes to Consolidated Financial Statements

Exelon Generation Company, LLC and Subsidiary Companies
Consolidated Statements of Changes in Divisional/Member's Equity

	Divisional Equity	Membership Interest	Undistributed Earnings	Accumulated Other Comprehensive Income	Total Member's Equity
			(in millions)		
Balance, December 31, 1999	$ 950	$ —	$ —	$ —	$ 950
Net Income	260	—	—	—	260
Unicom Merger Consideration	1,400	—	—	—	1,400

Balance, December 31, 2000	2,610	—	—	—	2,610
Formation of LLC	(2,610)	2,610	—	—	—
Net Income	—	—	524	—	524
Non-Cash distribution to member	—	(174)	—	—	(174)
Distribution to member	—	(121)	—	—	(121)
Reclassified net unrealized losses					
On marketable securities, net of income taxes of $(22)	—	—	—	(23)	(23)
Other Comprehensive Income, net of income taxes of $(16)	—	—	—	(8)	(8)
Balance, December 31, 2001	—	2,315	524	(31)	2,808
Net Income	—	—	400	—	400
Distribution to member	—	(30)	—	—	(30)
Allocation of tax benefit from Member	—	11	—	—	11
Other Comprehensive Income, net of income taxes of $(223)	—	—	—	(290)	(290)
Balance, December 31, 2002	$ —	$ 2,296	$ 924	$ (321)	$ 2,899

See Notes to Consolidated Financial Statements

Exelon Generation Company, LLC and Subsidiary Companies
Consolidated Statements of Comprehensive Income

	For the Years Ended December 31,		
	2002	2001	2000
		(in millions)	
Net Income	$ 400	$ 524	$ 260
Other Comprehensive Income			
SFAS 133 Transition Adjustment, net of income taxes of $3	$ —	$ 5	$ —
Cash Flow Hedge Fair Value Adjustment, net of income taxes of $(108) and $29, respectively	(170)	48	—
Unrealized Gain (Loss) on Marketable Securities, net of income taxes of $(110) and $(31), respectively	(113)	(32)	—
Realized loss on forward starting interest rate swap net of income taxes of $(1)	—	(2)	—
Interest in Other Comprehensive Income of Unconsolidated Affiliates			
Net of income taxes of $(5) and $(16), respectively	(7)	(27)	—
Total Other Comprehensive Income	(290)	(8)	—
Total Comprehensive Income	$ 110	$ 516	$ 260

See Notes to Consolidated Financial Statements

Exelon Generation Company, LLC and Subsidiary Companies
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions, unless otherwise noted)

1. Summary of Significant Accounting Policies

Description of Business. Exelon Generation Company, LLC (Generation) is a limited liability company engaged principally in the production and wholesale marketing of electricity in various regions of the United States. In 2001, Generation began trading activities. Generation is wholly-owned by Exelon Corporation (Exelon). In connection with the corporate restructuring by Exelon to separate the regulated energy delivery business of its subsidiaries Commonwealth Edison Company (ComEd) and PECO Energy Company (PECO) from its unregulated businesses, including its generation business, Generation began operations as a separate indirect subsidiary of Exelon effective January 1, 2001 (see Note 3—Corporate Restructuring). Generation has numerous wholly-owned subsidiaries. These subsidiaries were primarily established to hold certain hydro-electric and peaking-unit facilities as well as the 49.9% interest in Sithe Energies, Inc. (Sithe) and 20.99% investment in Keystone Fuels, LLC. In addition, Generation also has a finance company subsidiary, Generation Finance Company, LLC, which provides certain financing for Generation's other subsidiaries. Generation also owns a 50% investment in AmerGen Energy Company, LLC (AmerGen).

Basis of Presentation. The consolidated financial statements of Generation include the accounts of its majority-owned subsidiaries after the elimination of intercompany transactions. Investments and joint ventures in which a 20% to 50% interest is owned and a significant influence is exerted are accounted for under the equity method of accounting. The proportionate interests in jointly-owned electric utility plants are consolidated. Generation owns 100% of all significant consolidated subsidiaries, either directly or indirectly, except Southeast Chicago Energy Project, LLC of which Generation owns 70%. Generation has reflected the third-party interests in the above majority owned investments as minority interests in its Consolidated Statements of Cash Flows, Consolidated Balance Sheets and in Other, Net on the Consolidated Statements of Income.

The consolidated financial statements of Generation as of December 31, 2000 and for the year then ended present the financial position, results of operations and net cash flows of the generation-related business of Exelon prior to its corporate restructuring on January 1, 2001. Generation operated as a separate business subsequent to electric-industry restructuring in Pennsylvania effective January 1, 1999. The consolidated financial statements are not necessarily indicative of the financial position, results of operations or net cash flows that would have resulted had the generation-related business been a separate company during the periods presented prior to the corporate restructuring. For periods prior to the restructuring, references to Generation mean the generation-related business of Exelon.

Certain information in these consolidated financial statements relating to the results of operations and financial condition of Generation for periods prior to Exelon's restructuring was derived from the historical financial statements of Exelon. Various allocation methodologies were employed to separate the results of operations and financial condition of the generation-related portion of Exelon's business from the historical financial statements for the periods presented prior to the restructuring. Revenues include the generation component of revenue from Exelon's operations and any generation-related revenues, such as ancillary services and wholesale energy activity. Expenses including fuel and other energy-related costs, including purchased power, operations and maintenance and depreciation and amortization, as well as assets, such as property, plant and equipment, materials and supplies and fuel, were specifically identified for Generation's operations. Various allocations were used to disaggregate other common expenses, assets and liabilities between Generation and Exelon's other businesses, primarily the regulated transmission and distribution operations.

Management believes that these allocation methodologies are reasonable; however, had Generation existed as a separate company prior to January 1, 2001, its results could have significantly differed from those presented herein. In addition, future results of operations, financial position and net cash flows could materially differ from the historical results presented.

Segment Information. Generation operates in one business comprising its generation and marketing of energy and energy-related products in the United States.

Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Areas in which significant estimates have been made include, but are not limited to the accounting for derivatives, nuclear decommissioning liabilities and estimated service lives for plant.

Revenue Recognition. Operating revenues are generally recorded when service is rendered or energy is delivered to customers. At the end of each month, Generation accrues an estimate for unbilled energy provided to its customers. Premiums received and paid on option contracts and swap arrangements are amortized to revenue and expense over the life of the contracts. Certain of these contracts are considered derivative instruments and are recorded at fair value with subsequent changes in fair value recognized as revenues and expenses unless hedge accounting is applied. Commodity derivatives used for trading purposes are accounted for using the mark-to-market method. Under this methodology, these derivatives are adjusted to fair value, and the unrealized gains and losses are recognized in current period income.

Nuclear Fuel. The cost of nuclear fuel is capitalized and charged to fuel expense using the units of production method. Estimated costs of nuclear fuel storage and disposal for operating plants are charged to expense as the related fuel is consumed.

Emission Allowances. Emission allowances are included in inventories and deferred debits and other assets and are carried at acquisition cost and charged to fuel expense as they are used in operations. Allowances held can be used from years 2003 to 2028. Generation's emission allowances balance as of December 31, 2002 and 2001 was $107 million and $126 million, respectively.

Stock-Based Compensation. Generation uses the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" (SFAS No. 123). The table below shows the effect on net income had Generation elected to account for its stock-based compensation plans using the fair value method under SFAS No. 123 for the years ended December 31, 2002, 2001 and 2000:

	2002	2001	2000
Net income—as reported	$ 400	$ 524	$ 260
Deduct: Total stock-based compensation expense determined under fair value based method for all awards, net of income taxes	15	9	10
Pro forma net income	$ 385	$ 515	$ 250

Depreciation and Decommissioning. Depreciation is provided over the estimated service lives of property, plant and equipment on a straight-line basis. Annual depreciation provisions for financial reporting purposes, expressed as a percentage of average service life for each asset category, are presented in the table below. See Note 5—Adoption of New Accounting Pronouncements and

Accounting Changes for information on service life extensions of Generation's nuclear generating stations.

Asset Category	2002	2001	2000
Electric-Generation	3.65%	3.11%	5.02%

Generation's affiliates PECO and ComEd are currently recovering costs for the decommissioning of nuclear generating stations, excluding AmerGen, through regulated rates. Amounts collected for decommissioning by Generation's affiliates are remitted to Generation and are deposited in trust accounts and invested for funding future decommissioning costs of nuclear generating stations. The majority of the eventual work to decommission Generation's nuclear operating generating stations will occur after 2029.

Generation accounts for the current period's cost of decommissioning related to generating plants previously owned by PECO following common regulatory accounting practices by recording a charge to depreciation expense and a corresponding liability in accumulated depreciation concurrently with decommissioning collections. Financial activity of the decommissioning trust (e.g., investment income and realized and unrealized gains and losses on trust investments) is reflected in Nuclear Decommissioning Trust Funds in Generation's Consolidated Balance Sheets with a corresponding offset recorded to the liability in accumulated depreciation. Under common regulatory practices, the deposit of funds into the decommissioning trust accounts plus the financial activity reflected in Nuclear Decommissioning Trust Funds in Generation's Consolidated Balance Sheets will, over time, establish a corresponding liability in accumulated depreciation reflecting the cost to decommission the nuclear generating stations previously owned by PECO. Generation will adopt SFAS No. 143, "Asset Retirement Obligations" (SFAS No. 143) as of January 1, 2003. See "New Accounting Pronouncements" within this note for a discussion as to how this standard will change the accounting for nuclear decommissioning costs.

Regulatory accounting practices for the nuclear generating stations previously owned by ComEd were discontinued as a result of an ICC order capping ComEd's ultimate recovery of decommissioning costs. See Note 9—Nuclear Decommissioning and Spent Fuel Storage regarding regulatory accounting practices for nuclear generating stations transferred by ComEd to Generation. The difference between the current decommissioning cost estimate and the decommissioning liability recorded in accumulated depreciation for the former ComEd operating stations is being amortized to depreciation expense on a straight-line basis over the remaining lives of the stations. The current decommissioning cost estimate (adjusted annually to reflect inflation) for the former ComEd retired units recorded in deferred credits and other liabilities is accreted to depreciation expense. Financial activity of the decommissioning trust related to Generation's nuclear generating stations no longer accounted for under common regulatory practices (e.g., investment income and realized and unrealized gains and losses on trust investments) is reflected in Nuclear Decommissioning Trust Funds in Generation's Consolidated Balance Sheets with a corresponding gain or expense recorded in Generation's Consolidated Income Statement or in other comprehensive income. The offset to the financial activity in the decommissioning trust funds is summarized as follows:

- Interest income is recorded in other income and deductions,
- Realized gains and losses are recorded in other income and deductions,
- Unrealized gains and losses are recorded in other comprehensive income, and
- Trust fund operating expenses are recorded in operation and maintenance expense

Generation believes that the amounts being recovered from customers through electric rates along with the earnings on the trust funds will be sufficient to fully fund its decommissioning obligations.

Property, Plant and Equipment. Property, plant and equipment is recorded at cost. Generation evaluates the carrying value of property, plant and equipment and other long-term assets based upon current and anticipated undiscounted cash flows, and recognizes an impairment when it is probable that such estimated cash flows will be less than the carrying value of the asset. Measurement of the amount of impairment, if any, is based upon the difference between the carrying value and fair value. The cost of maintenance, repairs and minor replacements of property is charged to maintenance expense as incurred.

The cost and accumulated depreciation of property, plant and equipment retired or otherwise disposed of are removed from the related accounts and included in the determination of the gain or loss on disposition (see Note 7—Property, Plant and Equipment).

Research and Development. Research and development costs are charged to expense as incurred.

Capitalized Interest. Generation uses SFAS No. 34, "Capitalizing Interest Costs," to calculate the costs during construction of debt funds used to finance its construction projects. Generation recorded capitalized interest of $24 million, $17 million and $2 million in 2002, 2001 and 2000, respectively.

Capitalized Software Costs. Costs incurred during the application development stage of software projects which are developed or obtained for internal use are capitalized. Generation had not recorded any capitalized software costs prior to 2002. At December 31, 2002 net capitalized software costs totaled $28 million, reflecting $10 million in accumulated amortization. Such capitalized amounts are amortized ratably over the expected lives of the projects when they become operational, not to exceed 10 years. During 2002 Generation's amortization of amortized capitalized software was $10 million.

Income Taxes. Deferred Federal and state income taxes are provided on all significant temporary differences between the book basis and tax basis of assets and liabilities, transactions that reflect taxable income in a year different from book income and tax carryforwards. Investment tax credits previously utilized for income tax purposes have been deferred on Generation's consolidated balance sheet and are recognized in income over the life of the related property. Generation and its subsidiaries file a consolidated return with Exelon for Federal and certain state income tax returns. Income taxes of the consolidated group are allocated to Generation based on the separate return method. See Note 11—Income Taxes.

Cash and Cash Equivalents. Generation considers all temporary cash investments purchased with an original maturity of three months or less to be cash equivalents.

Marketable Securities. Marketable securities are classified as available-for-sale securities and are reported at fair value, with the unrealized gains and losses, net of tax, reported in other comprehensive income. The cost of these securities is determined on the basis of specific identification. At December 31, 2002 and 2001, Generation had no held-to-maturity or trading securities.

Unrealized gains and losses on marketable securities held in the nuclear decommissioning trust funds associated with the former PECO plants are reported in accumulated depreciation. Unrealized gains and losses on marketable securities held in the nuclear decommissioning trust funds associated with the former ComEd plants are reported in accumulated other comprehensive income.

Inventories. Inventories, which consist primarily of fuel and materials and supplies, are valued at the lower of cost or market and are stated on the average cost method. Provisions are made for obsolete and slow moving inventory.

Comprehensive Income. Comprehensive income includes all changes in equity during a period except those resulting from investments by and distributions to the member. Comprehensive income primarily relates to unrealized gains or losses on securities held in nuclear decommissioning trust funds and unrealized gains and losses on cash flow hedge instruments.

Derivative Financial Instruments. Generation accounts for derivative financial instruments under SFAS No. 133, "Accounting for Derivatives and Hedging Activities" (SFAS No. 133). Under the provisions of SFAS No. 133, all derivatives are recognized on the balance sheet at their fair value unless they qualify for a normal purchases and normal sales exception. Normal purchases and normal sales are contracts where physical delivery is probable, quantities are expected to be used or sold in the normal course of business over a reasonable period of time, and price is not tied to an unrelated underlying derivative. Changes in the fair value of the derivative financial instruments that do not qualify for a normal purchase and normal sales exception are recognized in earnings unless specific hedge accounting criteria are met. A derivative financial instrument can be designated as a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (fair value hedge), or a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge). Changes in the fair value of a derivative that is highly effective as, and is designated and qualifies as, a fair value hedge, along with the gain or loss on the hedged asset or liability that is attributable to the hedged risk, are recorded in earnings. Changes in the fair value of a derivative that is highly effective as, and is designated as and qualifies as a cash flow hedge are recorded in other comprehensive income, until earnings are affected by the variability of cash flows being hedged.

In connection with Exelon's RMP, Generation enters into derivatives to manage its exposure to fluctuations in interest rates related to its variable rate debt instruments, changes in interest rates related to planned future debt issuances prior to their actual issuance and changes in the fair value of outstanding debt which is planned for early retirement. As it relates to energy transactions, Generation utilizes derivatives to manage the utilization of its available generating capability and provisions of wholesale energy to its affiliates. Generation also utilizes energy option contracts and energy financial swap arrangements to limit the market price risk associated with forward energy commodity contracts. Additionally, Generation enters into certain energy related derivatives for trading or speculative purposes.

As part of Generation's energy marketing business, Generation enters into contracts to buy and sell energy to meet the requirements of its customers. These contracts include short-term and long-term commitments to purchase and sell energy and energy related products in the retail and wholesale markets with the intent and ability to deliver or take delivery. While these contracts are considered derivative financial instruments under SFAS No. 133, the majority of these transactions have been designated as "normal purchases" or "normal sales" and are not subject to the provisions of SFAS No. 133. Under these contracts, Generation recognizes gains or losses when the underlying physical transaction affects earnings. Revenues and expenses associated with market price risk management contracts are amortized over the terms of such contracts. Commitments under these contracts are discussed in Note 13—Commitments and Contingencies. The remainder of these contracts are generally considered cash flow hedges under SFAS No. 133. To the extent that the hedges are effective, changes in the fair value of these contracts are recorded in other comprehensive income, until earnings are affected by the variability of cash flows being hedged.

Additionally, during 2001, as part of the creation of Generation's energy trading operation, Generation began to enter into contracts to buy and sell energy for trading purposes subject to limits. These contracts are recognized on the balance sheet at fair value and changes in the fair value of these derivative financial instruments are recognized in earnings.

Prior to the adoption of SFAS No. 133, Generation applied hedge accounting only if the derivative reduced the risk of the underlying hedged item and was designated at the inception of the hedge, with respect to the hedged item. Generation recognized any gains or losses on these derivatives when the underlying physical transaction affected earnings.

Contracts entered into by Generation to limit market risk associated with forward energy commodity contracts are reflected in the financial statements at the lower of cost or market using the accrual method of accounting. Under these contracts, Generation recognizes any gains or losses when the underlying physical transaction affects earnings. Revenues and expenses associated with market price risk management contracts are amortized over the terms of such contracts.

New Accounting Pronouncements. In 2001, the FASB issued SFAS No. 143. SFAS No. 143 provides accounting requirements for retirement obligations associated with tangible long-lived assets. Generation will adopt SFAS No. 143 as of January 1, 2003. Retirement obligations associated with long-lived assets included within the scope of SFAS No. 143 are those for which there is a legal obligation to settle under existing or enacted law, statute, written or oral contract or by legal construction under the doctrine of promissory estoppel. Adoption of SFAS No. 143 will change the accounting for the decommissioning of Generation's nuclear generating plants as well as certain other long-lived assets.

As it relates to nuclear decommissioning, the effect of this cumulative adjustment will be to decrease the decommissioning liability to reflect the fair value of the decommissioning obligation at the balance sheet date. Additionally, SFAS No. 143 will require the recognition of an asset related to the decommissioning obligation, which will be amortized over the remaining lives of the plants. The net difference between the asset recognized and the change in the liability to reflect fair value recorded upon adoption of SFAS No. 143 will be recorded in earnings and recognized as a cumulative effect of a change in accounting principle, net of expected regulatory recovery and income taxes. The decommissioning liability will represent an obligation for the future decommissioning of the plants and, as a result, accretion expense will be accrued on this liability until such time as the obligation is satisfied.

Currently, Generation records the obligation for decommissioning ratably over the lives of the plants. Based on the current information and the credit-adjusted risk-free rate, Generation estimates the increase in 2003 non-cash expense to impact earnings before the cumulative effect of a change in accounting principle for the adoption of SFAS No. 143 by approximately $30 million, after income taxes. Additionally, the adoption of SFAS No. 143 is expected to result in a non-cash, one-time cumulative effect of a change in accounting principle gain of approximately $1.9 billion, after income taxes. The $1.9 billion gain and the $30 million charge includes Generation's share of the impact of the SFAS No. 143 adoption related to AmerGen's nuclear plants. These impacts are based on Generation's current interpretation of SFAS No. 143 and are subject to continued refinement based on the finalization of assumptions and interpretation at the time of adopting the standard, including the determination of the credit-adjusted risk-free rate. Under SFAS No. 143, the fair value of the nuclear decommissioning obligation will continue to be adjusted on an ongoing basis as these model input factors change.

The final determination of the 2003 earnings impact and the cumulative effect of adopting SFAS No. 143, is in part a function of the credit-adjusted risk-free rate at the time of the adoption of SFAS No. 143. Additionally, although over the life of the plant the charges to earnings for the depreciation of the asset and the interest on the liability will be equal to the amounts that would have been recognized as decommissioning expense under the current accounting, the timing of those charges will change and in the near-term period subsequent to adoption, the depreciation of the asset and the interest on the liability is expected to result in an increase in expense.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" (SFAS No. 146). SFAS No. 146 requires that the liability for costs associated with exit or disposal activities be recognized when incurred, rather than at the date of a commitment to an exit or disposal plan. SFAS No. 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002.

In November 2002, the FASB released FASB Interpretation No. (FIN) 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (FIN No. 45), providing for expanded disclosures and recognition of a liability for the fair value of the obligation undertaken by the guarantor. Under FIN No. 45, guarantors are required to disclose the nature of the guarantee, the maximum amount of potential future payments, the carrying amount of the liability and the nature and amount of recourse provisions or available collateral that would be recoverable by the guarantor. Generation has adopted the disclosure requirements under FIN No. 45, (see Note 13—Commitments and Contingencies) which were effective for financial statements for periods ended after December 15, 2002. The recognition and measurement provisions of FIN No. 45 are effective, on a prospective basis, for guarantees issued or modified after December 31, 2002.

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities" (FIN No. 46). FIN No. 46 addresses consolidating certain variable interest entities and applies immediately to variable interest entities created after January 31, 2003. The impact, if any, of adopting FIN 46 on Generation's consolidated financial position, results of operations and cash flows, has not been fully determined.

In September 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS No. 144). Generation adopted SFAS No. 144 on January 1, 2002. SFAS No. 144 establishes accounting and reporting standards for both the impairment and disposal of long-lived assets. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001 and its provisions are generally applied prospectively. The adoption of SFAS No. 144 had no effect on Generation's reported financial position, results of operations or cash flows.

Reclassifications. Certain prior year amounts have been reclassified for comparative purposes. The reclassifications did not affect net income or member's equity.

2. Merger

On October 20, 2000, Exelon became the parent corporation for PECO and ComEd as a result of the completion of the transactions contemplated by the Agreement and Plan of Exchange and Merger, as amended (Merger Agreement) among PECO, Unicom Corporation and Exelon. The Merger was accounted for using the purchase method of accounting, with PECO as acquirer.

The fair value of the assets acquired and liabilities assumed in the merger associated with the generation-related business of ComEd are summarized below:

Current assets	$ 704
Property, plant and equipment	64
Nuclear fuel	669
Deferred debits and other assets	3,682
	5,119
Current liabilities	632
Deferred debits and other liabilities	3,086
	3,718
Net generation-related assets	$ 1,401

Generation has included the generation-related assets and liabilities of ComEd and the related results of operations in its consolidated financial statements beginning October 20, 2000. Generation's Statement of Changes in Member's Equity reflects the generation-related impacts of the Merger as a capital contribution from Exelon.

Merger-Related Costs. Generation has included the generation-related assets and liabilities of ComEd and the related results of operations in its consolidated financial statements beginning October 20, 2000. Generation's Statement of Changes in Divisional/Member's Equity reflects the generation-related impacts of the Merger as a capital contribution from Exelon.

In association with the Merger, Exelon recorded certain reserves for restructuring costs. The reserves associated with PECO were charged to expense pursuant to FASB Emerging Issue Task Force (EITF) Issue 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an

Activity (including Certain Costs Incurred in a Restructuring)"; while the reserves associated with Unicom were recorded as part of the application of purchase accounting and did not affect results of operations, consistent with EITF Issue 95-3, "Recognition of Liabilities in Connection with a Purchase Business Combination."

Merger costs charged to expense. PECO's merger-related costs charged to expense in 2000 were $248 million, of which $65 million related to Generation. PECO's merger-related costs consisted of $116 million for PECO employee costs and $132 million of direct incremental costs incurred by PECO in conjunction with the merger transaction. Direct incremental costs represent expenses directly associated with completing the Merger, including professional fees, regulatory approval and settlement costs, and settlement of compensation arrangements. Employee costs represent estimated severance costs and pension and postretirement benefits provided under Exelon's merger separation plans for eligible employees who were expected to be involuntarily terminated before December 2002 due to integration activities of the merged companies. Additional employee severance costs of $48 million, primarily related to PECO employees, were charged to operating and maintenance expense in 2001, and a $10 million reduction in the estimated liability related to Generation employees was recorded in operating and maintenance expense in the first quarter of 2002. Employee costs are being paid from Exelon's pension and postretirement benefit plans, except for certain benefits such as outplacement services, continuation of health care coverage and educational benefits. As of December 31, 2002 a liability of $1 million is reflected on Generation's balance sheet for payment of these benefits.

A total of 960 PECO positions were expected to be eliminated as a result of the merger, 274 of which related to Generation. As of December 31, 2002, 858 of the positions had been eliminated, of which 224 related to Generation. Generation's remaining 50 positions were eliminated as a result of normal attrition and changes in certain business plans.

Merger costs included in purchase price allocation. The purchase price allocation as of December 31, 2000 included a liability of $307 million for Unicom employee costs, of which $121 million related to Generation, and liabilities of approximately $39 million for estimated costs of exiting various business activities of former Unicom activities that were not compatible with the strategic business direction of Exelon.

During 2001, Exelon, ComEd and Generation finalized plans for consolidation of functions, including negotiation of an agreement with the International Brotherhood of Electrical Workers Local 15 regarding severance benefits to union employees. In January of 2001, ComEd transferred a portion of its employee related liabilities to Generation, Enterprises and Business Services Company (BSC) as part of the corporate restructuring. In the third quarter of 2002, Generation reduced its reserve by $2 million due to the elimination of identified positions through normal attrition, which did not require payments under Exelon's merger separation plans, and a determination that certain positions would not

be eliminated by the end of 2002 as originally planned due to a change in certain business plans. In 2001 and 2002, Generation recorded adjustments to the its Unicom employee cost liability as follows:

	Original Estimate	Adjustments 2001(a)	Adjustments 2002(a)	Adjusted Liabilities
Employee severance payments	$ 45	$ (12)	$ (2)	$ 31
Other benefits	5	2	—	7
Employee severance payments and other benefits	50	(10)	(2)	38
Actuarially determined pension and postretirement costs	71	(25)	—	46(b)
Unicom employee cost—generation	$ 121	$ (35)	$ (2)	$ 84

(a) The decrease is a result of the elimination of identified positions through normal attrition and changes in certain business plans.

(b) The reduction reflects lower estimated pension and post retirement welfare benefits reflecting revised actuarial estimates.

The following table provides a reconciliation of the reserve for employee severance and other benefits associated with the Merger:

Adjusted employee severance and other benefits reserve	$ 38
Payments to employees in 2001	(9)
Payments to employees in 2002	(22)
Employee severance and other benefits reserve as of December 31, 2002(a)	$ 7

(a) Relates to certain benefits that are being paid over a period of years.

The following table provides a reconciliation of Generation's portion of the former Unicom positions eliminated as a result of the Merger:

Estimate at October 20, 2000	1,073
2001 adjustments(a)	(197)
Total positions	876

Employees terminated in 2000	182
Employees terminated in 2001	91
Employees terminated in 2002	479
2002 Normal attrition	75
Business plan changes(b)	49
Total positions	876

(a) The decrease is a result of the elimination of identified positions through normal attrition and changes in certain business plans.

(b) The reduction is due to a determination in the third quarter of 2002, that certain positions would not be eliminated by the end of 2002 as originally planned due to a change in certain business plans.

3. Corporate Restructuring

During January 2001, Exelon undertook a corporate restructuring to separate its generation and other competitive businesses from its regulated energy delivery businesses conducted by ComEd and PECO. As part of the restructuring, the generation-related operations, employees, assets, liabilities, and certain commitments of Exelon were transferred to Generation.

The assets and liabilities transferred to Generation as of January 1, 2001 were as follows:

Assets		
Current assets	$	1,285
Property, plant and equipment		831
Nuclear fuel		896
Nuclear decommissioning trust funds		3,127
Investments		762
Deferred income taxes		337
Note receivable from affiliate		363
Other noncurrent assets		153
Total assets transferred		7,754
Liabilities		
Note payable to member		696
Current liabilities		1,146
Long-term debt		205
Decommissioning obligation for retired plants		1,301
Other noncurrent liabilities		1,970
Total liabilities transferred		5,318
Net assets transferred	$	2,436

On January 1, 2001, a non-cash distribution of $174 million was made in connection with the elimination of certain intercompany transactions.

In connection with the corporate restructuring, ComEd and PECO also assigned their respective rights and obligations under various purchased power and fuel supply agreements to Generation. Additionally, Generation entered into purchased power agreements (PPAs) to supply the capacity and energy requirements of ComEd and PECO.

4. Acquisitions and Dispositions

Sithe New England Holdings Acquisition

On November 1, 2002, Generation purchased the assets of Sithe New England Holdings, LLC (Sithe New England), a subsidiary of Sithe, and related power marketing operations. Sithe New England's primary assets are gas-fired facilities currently under construction. The preliminary purchase price for the Sithe New England assets consisted of a $534 million note to Sithe, $14 million of direct acquisition costs and an $166 million adjustment to Generation's investment in Sithe related to Sithe New England. Additionally, Generation will assume various Sithe guarantees related to an equity contribution agreement between Sithe New England and Sithe Boston Generating, LLC (SBG), a project subsidiary of Sithe New England. The equity contribution agreement requires, among other things, that Sithe New England, upon the occurrence of certain events, contribute up to $38 million of equity for the purpose of completing the construction of two generating facilities. SBG has a $1.25 billion credit facility (SBG Facility), most of which is available to finance the construction of these two generating facilities. The $1.0 billion of debt outstanding under the facility at December 31, 2002 is reflected on Generation's Consolidated Balance Sheet. Sithe New England owns 4,066 megawatts (MWs) of generation capacity, consisting of 1,645 MWs in operation and 2,421 MWs under construction. Sithe New England's generation facilities are located primarily in Massachusetts.

The allocation of preliminary purchase price to the fair value of assets acquired and liabilities assumed in the acquisition is as follows:

Current Assets (including $12 of cash acquired)	$	82
Property, Plant and Equipment		1,889
Deferred Debits and Other Assets		62
Current Liabilities		(159)
Deferred Credits and Other Liabilities		(124)
Long-Term Debt		(1,036)
Total Purchase Price	$	714

The SBG Facility provides that if these construction projects are not completed by June 12, 2003, the SBG Facility lenders will have the right, but will not be required, to, among other things, declare all amounts then outstanding under the SBG Facility and the interest rate swap agreements to be due. Generation believes that the construction projects will be substantially complete by June 12, 2003, but that all of the approvals required under the SBG Facility may not be issued by that date. Generation is currently evaluating whether the requirements of the SBG Facility relating to the construction projects can be satisfied by June 12, 2003. In the event that the requirements are not expected to be satisfied by June 12, 2003, Generation will contact the SBG Facility lenders concerning an amendment or waiver of these provisions of the SBG Facility. Generation currently expects that arrangements for such an amendment or waiver, if necessary, can be successfully negotiated with the SBG Facility lenders.

Acquisition of Generating Plants from TXU

On April 25, 2002, Generation acquired two natural-gas and oil-fired plants from TXU Corp. (TXU) for an aggregate purchase price of $443 million. The purchase included the 893-megawatt Mountain Creek Steam Electric Station in Dallas and the 1,441-megawatt Handley Steam Electric Station in Fort Worth. The transaction included a PPA for TXU to purchase power during the months of May through September from 2002 through 2006. During the periods covered by the PPA, TXU will make fixed capacity payments, variable expense payments, and will provide fuel to Generation in return for exclusive rights to the energy and capacity of the generation plants. Substantially all of the purchase price has been allocated to property, plant and equipment.

AmerGen Energy Company, LLC

In August 2000, AmerGen, a joint venture with British Energy, Inc., a wholly-owned subsidiary of British Energy plc, (British Energy), completed the purchase of Oyster Creek Generating Station (Oyster Creek) from GPU, Inc. (GPU) for $10 million. Under the terms of the purchase agreement, GPU agreed to fund outage costs of $89 million, including the cost of fuel, for a refueling outage that occurred in 2000. AmerGen is repaying these costs to GPU in equal annual installments through 2009. In addition, AmerGen assumed full responsibility for the ultimate decommissioning of Oyster Creek. At the closing of the sale, GPU provided funding for the decommissioning trust of $440 million. In conjunction with this acquisition, AmerGen has received a fully funded decommissioning trust fund which has been computed assuming the anticipated costs to appropriately decommission Oyster Creek discounted to net present value using the Nuclear Regulatory Commission's (NRC) mandated rate of 2%. AmerGen believes that the amount of the trust fund and investment earnings thereon will be sufficient to meet its decommissioning obligation. GPU is purchasing the electricity generated by Oyster Creek pursuant to a three-year PPA, which expires on March 31, 2003.

5. Adoption of New Accounting Pronouncements and Accounting Changes

EITF Issue 02-3

In the second quarter of 2002, Generation adopted the provision of EITF Issue 02-3, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities" (EITF 02-3) issued by EITF in June 2002 that requires revenues and energy costs related to energy trading contracts to be presented on a net basis in the income statement. Prior to the adoption, revenues from trading activities were presented in Revenue and the energy costs related to energy trading were presented as either Purchased Power or Fuel expense on Generation's Consolidated Statements of Income. For comparative purposes, energy costs related to energy trading have been reclassified in prior periods to revenue to conform to the net basis of presentation required by EITF 02-3. As Generation commenced trading activities in April 2001, $207 million of purchased power expense and $15 million of fuel expense, respectively, was reclassified and reflected as a reduction to revenue for the year ended December 31, 2001.

SFAS No. 144

In September 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS No. 144). Generation adopted SFAS No. 144 on January 1, 2002. SFAS No. 144 establishes accounting and reporting standards for both the impairment and disposal of long-lived assets. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001 and its provisions are generally applied prospectively. The adoption of SFAS No. 144 had no effect on Generation's reported financial position, results of operations or cash flows.

SFAS No. 145

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections" (SFAS No. 145). SFAS No. 145 eliminates SFAS No. 4 "Reporting Gains and Losses from Extinguishment of Debt" and thus allows for only those gains or losses on the extinguishment of debt that meet the criteria of extraordinary items to be treated as such in the financial statements. SFAS No. 145 also amends Statement of Financial Accounting Standards No. 13, "Accounting for Leases" to require sale-leaseback accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions.

SFAS No. 133

SFAS No. 133 applies to all derivative instruments and requires that such instruments be recorded on the balance sheet either as an asset or a liability measured at their fair value through earnings, with special accounting permitted for certain qualifying hedges. On January 1, 2001, Generation adopted SFAS No. 133. Generation recognized a non-cash gain of $12 million, net of income taxes, in earnings and deferred a non-cash gain of $4 million, net of income taxes, in accumulated other comprehensive income and PECO deferred a non-cash gain of $40 million, net of income taxes, in accumulated other comprehensive income.

SFAS No. 148

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure—an amendment of FASB Statement No. 123" (SFAS No. 148). SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation and requires disclosures in both annual and interim financial statements regarding the method of accounting for stock-based compensation and the effect of the method on financial results. SFAS No. 148 is effective for financial statements for fiscal years ending after December 15, 2002. As of December 31, 2002, Generation has adopted the additional disclosure requirements of SFAS No. 148 and continues to account for stock-compensation plans under the disclosure only provision of SFAS No. 123.

Changes in Accounting Estimates

Effective April 1, 2001, Generation changed its accounting estimates related to the depreciation and decommissioning of certain generating stations. The estimated service lives were extended by 20 years for three nuclear stations, by periods of up to 20 years for certain fossil stations and by 50 years for a pumped storage station. Effective July 1, 2001, the estimated service lives were extended by 20 years for the remainder of Generation's operating nuclear stations. These changes were based on engineering and economic feasibility studies performed by Generation considering, among other things, future capital and maintenance expenditures at these plants. The service life extension is subject to NRC approval of an extension of existing NRC operating licenses, which are generally 20 years. The estimated annualized reduction in expense from the change is $132 million ($79 million, net of income taxes).

6. Supplemental Financial Information

Supplemental Income Statement Information

	For the Year Ended December 31,		
	2002	2001	2000
Taxes Other Than Income			
Real estate	$ 102	$ 94	$ 32
Payroll	46	38	27
Other	16	17	5
Total	$ 164	$ 149	$ 64
Equity in Earnings of Unconsolidated Affiliates			
AmerGen	$ 64	$ 69	$ 4
Sithe	23	21	—
Total	$ 87	$ 90	$ 4
Other, Net			
Investment income	$ 85	$ (8)	$ 14
Other income (expense)	(8)	(12)	2
Total	$ 77	$ (20)	$ 16

Supplemental Cash Flow Information

	For the Year Ended December 31,		
	2002	2001	2000
Cash paid (received) during the year:			
Interest (net of amount capitalized)	$ 63	$ 74	$ 35
Income taxes (net of refunds)	$ (37)	$ 335	$ —
Non-cash investing and financing activities:			
Capital Lease Obligations	$ 52	$ —	$ —
Contribution of Land from Minority Interest of Consolidated Subsidiary	12	—	—
Note Issued to Sithe in the Sithe New England Acquisition	534	—	—
Depreciation and amortization:			
Property, plant and equipment	$ 146	$ 145	$ 94
Nuclear fuel	374	393	149
Decommissioning	120	144	46

Total Depreciation and Amortization	$ 640	$ 682	$ 289

Supplemental Balance Sheet Information

	December 31, 2002	December 31, 2001
Investments		
Investment in Sithe	$ 478	$ 700
Investment in AmerGen	160	95
Other	19	21
Total	$ 657	$ 816

	December 31, 2002	December 31, 2001
Accrued Expenses		
Taxes Accrued	$ 203	$ 90
Other	277	213
Total	$ 480	$ 303

Fund Transfer Restrictions. Under PUHCA, Generation can pay dividends only from undistributed or current earnings. At December 31, 2002, Generation had undistributed earnings of $924 million.

7. Property, Plant and Equipment

A summary of property, plant and equipment by classification is as follows:

Asset Category	2002	2001
Electric-Generation	$ 5,678	$ 4,344
Nuclear Fuel	3,112	2,681
Construction Work in Progress	2,179	610
Other Property, Plant and Equipment	52	—
Total Property, Plant and Equipment	11,021	7,635
Less Accumulated Depreciation (including accumulated amortization of nuclear fuel of $2,212 and $1,838 as of December 31, 2002 and 2001, respectively)	6,221	5,632
Property, Plant and Equipment, net	$ 4,800	$ 2,003

8. Jointly Owned Facilities—Property, Plant and Equipment

Generation's ownership interest in jointly owned generation plant as of December 31, 2002 and 2001 were as follows:

	Production Plant				
December 31, 2002	Peach Bottom	Salem	Keystone	Conemaugh	Quad Cities
Operator	Generation	PSE&G	Reliant	Reliant	Generation
Participating Interest	50%	42.59%	20.99%	20.72%	75%
Generation's Share:					
Plant	$ 417	$ 44	$ 131	$ 214	$ 171
Accumulated Depreciation	$ 243	$ 12	$ 117	$ 145	$ 4
Construction Work in Progress	$ 52	$ 36	$ 28	$ 1	$ 35

	Production Plant				
December 31, 2001	Peach Bottom	Salem	Keystone	Conemaugh	Quad Cities
Operator	Generation	PSE&G	Reliant	Reliant	Generation
Participating Interest	50%	42.59%	20.99%	20.72%	75%
Generation's Share:					

Plant	$	387	$	12	$	121	$	193	$	96
Accumulated Depreciation	$	220	$	4	$	98	$	124	$	10
Construction Work in Progress	$	13	$	53	$	13	$	12	$	52

Generation's undivided ownership interests are financed with Generation funds and, when placed in service, all operations are accounted for as if such participating interests were wholly-owned facilities. Direct expenses of the jointly owned plants are included in the corresponding operating expenses on the Consolidated Income Statements.

9. Nuclear Decommissioning and Spent Fuel Storage

Generation has an obligation to decommission its nuclear power plants. Generation's current estimate of its nuclear facilities' decommissioning cost for its owned nuclear power plants is $7.4 billion in current year (2003) dollars. Based on the extended license lives of the nuclear plants, expenditures are expected to occur primarily when the operating plants are decommissioned, during the period 2029 through 2056. ComEd and PECO collect decommissioning costs through regulated rates. Such collections are remitted to Generation for deposit into the nuclear decommissioning trust funds, which will be used to fund future decommissioning costs. Under ComEd and PECO's rates in effect through December 31, 2002, ComEd and PECO collected approximately $102 million in 2002 from customers in total. At December 31, 2002, the decommissioning liability, recorded in Accumulated Depreciation and Deferred Credits and Other Liabilities on Generation's Consolidated Balance Sheets, was $2.8 billion and $1.4 billion, respectively. At December 31, 2001, the decommissioning liability, recorded in Accumulated Depreciation and Deferred Credits and Other Liabilities on Generation's Consolidated Balance Sheets, was $2.7 billion and $1.4 billion, respectively. At December 31, 2002 and 2001, Generation held $3.1 billion and $3.2 billion, respectively, in trust accounts that are included as Investments in Generation's Consolidated Balance Sheets at their fair market value. Generation believes that the amounts being recovered from customers through regulated rates and earnings on nuclear decommissioning trust funds will be sufficient to fully fund its decommissioning obligations.

In connection with the transfer of ComEd's nuclear generating stations to Generation, ComEd asked the ICC to approve the continued recovery of decommissioning costs after the transfer. On December 20, 2000, the ICC issued an order finding that the ICC has the legal authority to permit ComEd to continue to recover decommissioning costs from customers for the six-year term of the PPAs between ComEd and Generation. Under the ICC order, ComEd is permitted to recover $73 million

per year from customers for decommissioning for the years 2001 through 2004. In 2005 and 2006, ComEd can recover up to $73 million annually, depending upon the portion of the output of the former ComEd nuclear stations that ComEd purchases from Generation. Under the ICC order, subsequent to 2006, there will be no further recoveries of decommissioning costs from customers. The ICC order also provides that any surplus funds after the nuclear stations are decommissioned must be refunded to customers. The ICC order has been upheld on appeal in the Illinois Appellate Court and the Illinois Supreme Court has declined to review the Appellate Court's decision.

To account for the effects of the ICC order, in the first quarter of 2001 ComEd reduced its nuclear decommissioning regulatory asset to $372 million, reflecting the reduction in expected probable future recoveries from customers through 2006. Also, ComEd recorded an obligation to Generation of approximately $440 million representing ComEd's legal requirement to remit funds to Generation for the remaining regulatory asset amount of $372 million upon collection from customers, and for collections from customers prior to the establishment of external decommissioning trust funds in 1989 to be remitted to Generation for deposit into the decommissioning trusts through 2006. Unrealized gains and losses on decommissioning trust funds (based on the market value of the assets on the Merger date, in accordance with purchase accounting) had previously been recorded in accumulated depreciation or regulatory assets. As a result of the transfer of the ComEd nuclear plants to Generation and the ICC order limiting the regulated recoveries of decommissioning costs, net unrealized losses of $23 million (net of income taxes) at that date were reclassified to accumulated other comprehensive income. All subsequent realized gains and losses on these decommissioning trust funds' assets are based on the cost basis of the trust fund assets established on the Merger date and are reflected in Other Income and Deductions in Generation's Consolidated Statements of Income.

Nuclear decommissioning costs associated with the nuclear generating stations formerly owned by PECO continue to be recovered currently through rates charged by PECO to regulated customers. These amounts are remitted to Generation as allowed by the PUC. Under an agreement effective September 2001, PECO remits $29 million per year to Generation related to nuclear decommissioning cost recovery.

On December 31, 2002, PECO filed with the PUC for an annual increase in its decommissioning cost recovery of $20 million effective June 1, 2004. The filing is consistent with provisions in the Restructuring Settlement and the Merger Settlement which require PECO to update the cost of decommissioning every five years. The additional amount requested is expected to be reduced as it does not reflect pending life extensions at Peach Bottom. The approval of the life extensions is expected by mid-2003.

Under the Nuclear Waste Policy Act of 1982 (NWPA), the U.S. Department of Energy (DOE) is responsible for the selection and development of repositories for, and the disposal of, spent nuclear fuel (SNF) and high-level radioactive waste. ComEd and PECO, as required by the NWPA, each signed contracts with the DOE (Standard Contract) to provide for disposal of SNF from their respective nuclear generating stations. In accordance with the NWPA and the Standard Contract, ComEd and PECO pay the DOE one mill ($.001) per kilowatt-hour of net nuclear generation for the cost of nuclear fuel long-term storage and disposal. This fee may be adjusted prospectively in order to ensure full cost recovery. The NWPA and the Standard Contract required the DOE to begin taking possession of SNF generated by nuclear generating units by no later than January 31, 1998. The DOE, however, failed to meet that deadline and its performance will be delayed significantly. The DOE's current estimate for opening a SNF facility is 2010. This extended delay in SNF acceptance by the DOE has led to Generation's adoption of dry storage at its Dresden, Quad Cities and Peach Bottom Units and its consideration of dry storage at other units.

In July 1998, ComEd filed a complaint against the United States Government (Government) in the United States Court of Federal Claims (Court) seeking to recover damages caused by the DOE's failure to honor its contractual obligation to begin disposing of SNF in January 1998. In August 2001, the Court granted ComEd's motion for partial summary judgment for liability on ComEd's breach of contract claim. In November 2001, the Government filed two partial summary judgment motions relating to certain damage issues in the case as well as two motions to dismiss claims other than ComEd's breach of contract claim. On August 30, 2002, after taking certain damages related to discovery, ComEd filed briefs in response to the DOE's motions. The Court has postponed the time for the DOE to file reply briefs while it entertains additional DOE discovery motions. This litigation was assumed by Generation in the corporate restructuring.

In July 2000, PECO entered into an agreement with the DOE relating to PECO's Peach Bottom nuclear generating unit to address the DOE's failure to begin removal of SNF in January 1998 as required by the Standard Contract. Under that agreement, the DOE agreed to provide PECO with credits against PECO's future contributions to the Nuclear Waste Fund over the next ten years to compensate PECO for SNF storage costs incurred as a result of the DOE's breach of the contract. The agreement also provides that, upon PECO's request, the DOE will take title to the SNF and the interim storage facility at Peach Bottom provided certain conditions are met. Generation assumed this contract in corporate restructuring.

In November 2000, eight utilities with nuclear power plants filed a Joint Petition for Review against the DOE with the United States Court of Appeals for the Eleventh Circuit seeking to invalidate that portion of the agreement providing for credits to PECO against nuclear waste fund payments on the ground that such provision is a violation of the NWPA. PECO intervened as a defendant in that case, and Generation assumed the claim in the 2001 corporate restructuring. On September 24, 2002, the United States Court of Appeals for the Eleventh Circuit ruled that the fee adjustment provision of the agreement violates the NWPA and therefore is null and void. The Court did not hold that the agreement as a whole is invalid. Article XVI(I) of the Amendment provides that if any portion of the Amendment is found to be void, the DOE and Generation agree to negotiate in good faith and attempt to reach an enforceable agreement consistent with the spirit and purpose of this Amendment. That provision further provides that should a major term be declared void, and the DOE and Generation cannot reach a subsequent agreement, the entire Amendment would be rendered null and void, the original Peach Bottom Standard Contract would remain in effect, and the parties would return to pre-Amendment status. Pursuant to Article XIV(I), Generation has begun negotiations with the DOE and those negotiations are ongoing. Under the agreement, Generation has received approximately $40 million in credits against contributions to the nuclear waste fund.

In April 2001, an individual filed suit against the DOE with the United States District Court for the Middle District of Pennsylvania seeking to invalidate the agreement on the grounds that the DOE has violated the National Environmental Policy Act and the Administrative Procedure Act. PECO intervened as a defendant and moved to dismiss the complaint. Generation assumed the defense in corporate restructuring. On September 30, 2002, the Court granted Generation's motion and dismissed the lawsuit on the ground that the Court did not have jurisdiction over the matter.

The Standard Contract with the DOE also requires that PECO and ComEd pay the DOE a one-time fee applicable to nuclear generation through April 6, 1983. PECO's fee has been paid. Pursuant to the Standard Contract, ComEd elected to pay the one-time fee of $277 million, with interest to the date of payment, just prior to the first delivery of SNF to the DOE. As of December 31, 2002, the unfunded liability for the one-time fee with interest was $858 million. The liabilities for spent nuclear fuel disposal costs, including the one-time fee, were transferred to Generation as part of the corporate restructuring.

10. Long-Term Debt

Long-term debt is comprised of the following:

	December 31, 2002		December 31,	
	Rates	Maturity Date	2002	2001
SBG Facility	6.37%(a)	2007	$ 1,036	$ —
Senior unsecured notes	6.95%	2011	700	700
Pollution control notes, floating rates	1.23%-1.50%	2016-2034	346	317
Notes payable and other	7.25%-7.83%	2004-2020	56	9
Total Long-Term Debt(b)			2,138	1,026
Unamortized debt discount and premium, net			(1)	(1)
Due within one year			(5)	(4)
Long-Term Debt			$ 2,132	$ 1,021

(a) The rate for the SBG Facility is stated as an average rate. Under the terms of the SBG Facility, SBG is required to effectively fix the interest rate on 50% of the borrowings under the facility through its maturity in 2007. The SBG Facility is subject to a variable rate based on the LIBOR rate plus a margin of 1.375%; however, through the required interest rate swaps, SBG has effectively fixed the LIBOR component of the interest rate at 5.73% on 83% of the debt balance as of December 31, 2002.

(b) Long-term debt maturities in the period 2003 through 2007 and thereafter are as follows:

2003	$ 5
2004	1
2005	—
2006	—
2007	1,036
Thereafter	1,096
Total	$ 2,138

In 2002, Generation exchanged $700 million of 6.95% Senior Notes issued in 2001 for notes which are registered under the Securities Act. The exchange notes are identical to the outstanding notes except for the elimination of certain transfer restrictions and registration rights pertaining to the outstanding bonds. Generation did not receive any cash proceeds from issuance of the exchange notes.

The outstanding balance of the SBG Facility at December 31, 2002 was $1.0 billion. The SBG Facility provides that if the SBG construction projects are not completed by June 12, 2003, the SBG Facility lenders will have the right, but will not be required, to, among other things, declare all amounts then outstanding under the SBG Facility and the interest rate swap agreements to be due. Generation believes that the construction projects will be substantially complete by June 12, 2003, but that all of the approvals required under the SBG Facility may not be issued by that date. Generation is currently evaluating whether the requirements of the SBG Facility relating to the construction projects can be satisfied by June 12, 2003. In the event that the requirements are not expected to be satisfied by June 12, 2003, Generation will contact the SBG Facility lenders concerning an amendment or waiver of these provisions of the SBG Facility. Generation currently expects that arrangements for such an amendment or waiver, if necessary, can be successfully negotiated with the SBG Facility lenders.

In May 2001, Generation entered into a forward-starting interest rate swap, with an aggregate notional amount of $500 million, to hedge the interest rate risk related to the anticipated issuance of debt. On June 11, 2001, Generation issued $700 million of senior unsecured notes with a maturity date of June 15, 2011 and an interest rate of 6.95% and closed the forward-starting interest rate swap. The aggregate loss on the settlement of the swap of $2 million, net of income taxes, was classified in Accumulated Other Comprehensive Income and is being amortized to interest expense over the life of the notes. Also during 2001, Generation issued $121 million of Pollution Control Revenue Refunding Bonds at an average variable commercial paper interest rate of 2.55% with maturities of 20 to 33 years. The proceeds from these offerings were used to refund tax-exempt debt previously issued by PECO. The use of the proceeds was accounted for as a distribution to the member.

11. Income Taxes

Income tax expense (benefit) is comprised of the following components:

	For the Year Ended December 31,		
	2002	2001	2000
Included in operations:			
Federal			
Current	$ 67	$ 253	$ 177
Deferred	123	15	(38)
Investment tax credit	(8)	(8)	(13)
State			
Current	18	51	43
Deferred	17	16	(9)
	$ 217	$ 327	$ 160
Included in cumulative effects of changes in accounting principles:			
Federal			
Deferred	$ 7	$ 6	$ —
State			
Deferred	2	1	—
	$ 9	$ 7	$ —

The effective income tax rate differed from the Federal statutory rate principally due to the following:

	For the Year Ended December 31,		
	2002	2001	2000
U.S. Federal statutory rate	35.0%	35.0%	35.0%
Increase (decrease) due to:			
State income taxes, net of Federal income tax benefit	3.7	5.2	5.0
Tax-exempt interest	(2.3)	—	—
Nuclear decommissioning trust income	0.9	(0.6)	—
Amortization of investment tax credit	(0.9)	(0.6)	(1.9)
Other	(0.5)	—	—
Effective income tax rate	35.9%	39.0%	38.1%

The tax effect of temporary differences giving rise to Generation's deferred tax assets and liabilities are presented below:

	December 31,	
	2002	2001
Deferred tax assets:		
Decommissioning and decontamination obligations	$ 703	$ 674
Deferred pension and postretirement obligations	151	218
Unrealized gains on derivative financial instruments	66	—
Other, net	62	4
Total deferred tax assets	982	896
Deferred tax liabilities:		
Plant basis difference	(654)	(620)
Deferred investment tax credit, net	(137)	(141)
Unrealized gains on derivative financial instruments	—	(21)
Decommissioning and decontamination obligations	(96)	(101)
Emission allowances	(36)	(42)
Severance obligations	(7)	—
Total deferred tax liabilities	(930)	(925)
Deferred income taxes (net) on the balance sheet	$ 52	$ (29)

The Internal Revenue Service and certain state tax authorities are currently auditing certain tax returns of Exelon's predecessor entities, Unicom and PECO. The current audits are not expected to have an adverse effect on financial condition or results of operations of Generation.

12. Retirement Benefits

Generation has adopted defined benefit pension plans and postretirement welfare benefit plans sponsored by Exelon. Essentially all Generation employees are eligible to participate in these plans. Benefits under these pension plans generally reflect each employee's compensation, years of service, and age at retirement.

The Pension Obligation and Non-Pension Postretirement Benefits Obligation on the Generation Consolidated Balance Sheets reflect Generation's obligations to the plan sponsor, Exelon. Employee-related assets and liabilities, including both pension and SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions," postretirement welfare liabilities, were allocated by Exelon to its subsidiaries based on the number of active employees as of January 1, 2001 as part of Exelon's corporate restructuring. Exelon allocates the components of pension expense to the participating employers based upon several factors, including the percentage of active employees in each participating unit.

Complete pension and other postretirement benefits information for the Exelon plans are disclosed in Note 15 of the Notes to Exelon's Consolidated Financial Statements.

Approximately $37 million and $13 million were included in operating and maintenance expense in 2002 and 2001, respectively, for Generation's allocated portion of Exelon's pension and postretirement benefit expense. Generation contributed $60 million to the Exelon-sponsored plans in 2002 and did not contribute in 2001. In 2000, Generation recorded a net pension benefit of $45 million and a net postretirement benefit cost of $43 million.

Exelon's costs of providing pension and postretirement benefits are dependent upon a number of factors, such as the rates of return on pension plan assets, discount rate, and the rate of increase in

health care costs. The market value of plan assets has been affected by sharp declines in the equity market since the third quarter of 2000. As a result, at December 31, 2002, Exelon was required to recognize an additional minimum liability as prescribed by SFAS No. 87, "Employer's Accounting for Pensions." The liability was recorded as a reduction to common equity, and the equity will be restored to the balance sheet in future periods when the fair value of plan assets exceeds the accumulated benefit obligations. Based upon the market value of plan assets at December 31, 2002, the amount of the reduction to shareholders' equity (net of income taxes) is $1.0 billion. The recording of this reduction, at the Exelon holding company level, did not affect net income or cash flow in 2002 or compliance with debt covenants.

Generation participates in a 401(k) savings plan sponsored by Exelon. The plan allows employees to contribute a portion of their pretax income in accordance with specified guidelines. Generation matches a percentage of employee contributions to the plan up to certain limits. The cost of Generation's matching contributions to the savings plan totaled $31 million, $23 million and $7 million for 2002, 2001 and 2000, respectively.

13. Commitments and Contingencies

Commercial Commitments. Generation's commercial commitments as of December 31, 2002, representing commitments not recorded on the balance sheet but potentially triggered by future events, including obligations to make payment on behalf of other parties and financing arrangements to secure its obligations, are as follows:

	Expiration within

	Total	2003	2004-2005	2006-2007	2008 and beyond
Credit Facility(a)	$ —	$ —	$ —	$ —	$ —
Letters of Credit (non-debt)(b)	11	6	5	—	—
Letters of Credit (Long-Term Debt)(c)	346	195	151	—	—
Performance Guarantees(d)	101	—	—	—	101
Surety Bonds(e)	43	—	—	—	43
Energy Marketing Contract Guarantees(f)	1	1	—	—	—
Nuclear Insurance Guarantee(g)	134	—	—	—	134
Sithe New England Equity Guarantee(h)	38	38	—	—	—
Total Commercial Commitments	$ 674	$ 240	$ 156	$ —	$ 278

(a) Credit Facility—Exelon, along with ComEd, PECO and Generation, maintain a $1.5 billion 364-day credit facility to support commercial paper issuances. At December 31, 2002, there were no borrowings against the credit facility. As of December 31, 2002, Generation does not have a sublimit under the facility. Additionally, at December 31, 2002, Generation did not have any commercial paper outstanding.

(b) Letters of Credit (non-debt)—Non-debt letters of credit maintained to provide credit support for certain transactions as requested by third parties.

(c) Letters of Credit (Long-Term Debt)—Direct-pay letters of credit issued in connection with variable-rate debt in order to provide liquidity in the event that it is not possible to remarket all of the debt as required following specific events, including changes in the basis of determining the interest rate on the debt.

(d) Performance Guarantees—Guarantees issued to ensure execution under specific contracts.

(e) Surety Bonds—Guarantees issued related to contract and commercial surety bonds, excluding bid bonds.

(f) Energy Marketing Contract Guarantees—Guarantees issued to ensure performance under energy commodity contracts.

(g) Nuclear Insurance Guarantee—Guarantee of nuclear insurance required under the Price-Anderson Act. This amount relates to Generation's guarantee of AmerGen's plants. Exelon has a $1.2 billion guarantee relating to Generation's directly owned plants that is not included in this amount.

(h) Sithe New England Equity Guarantee—See Note 4—Acquisitions and Dispositions for further information on the $38 million guarantee. After construction of the SBG stations is complete, Generation could be required to guarantee up to an additional $42 million in order to ensure that the SBG facilities have adequate funds available for potential outage and other operating costs and requirements.

Sithe Boston Generation Project Debt. The outstanding balance of the SBG Facility at December 31, 2002 was $1.0 billion. The SBG Facility provides that if SBG construction projects are not completed by June 12, 2003, the SBG Facility lenders will have the right, but will not be required, to, among other things, declare all amounts then outstanding under the SBG Facility and the interest rate swap agreements to be due. Generation believes that the construction projects will be substantially complete by June 12, 2003, but that all of the approvals required under the SBG Facility may not be issued by that date. Generation is currently evaluating whether the requirements of the SBG Facility relating to the construction projects can be satisfied by June 12, 2003. In the event that the requirements are not expected to be satisfied by June 12, 2003, Generation will contact the SBG Facility lenders concerning an amendment or waiver of these provisions of the SBG Facility. Generation currently expects that arrangements for such an amendment or waiver, if necessary, can be successfully negotiated with the SBG Facility lenders.

See Note 17—Unconsolidated Equity Investments for additional information about Generation's unconsolidated equity investments.

Capital Expenditures. Generation's estimated capital expenditures for 2003 are as follows:

	(in millions)
Production plant(a)	$ 566
Nuclear fuel	397
Total	$ 963

(a) Capital expenditures for production include expenditures to increase capacity of existing plants.

Capital Commitments. Generation and British Energy, Generation's joint venture partner in AmerGen, have each agreed to provide up to $100 million to AmerGen at any time that the Management Committee of AmerGen determines that in order to protect the public health and safety and/or to comply with NRC requirements, such funds are necessary to meet ongoing operating expenses or to safely maintain any AmerGen plant. Although Generation does not anticipate that AmerGen will make any acquisitions in 2003, Generation has committed to provide AmerGen with capital contributions equivalent to 50% of the purchase price of any acquisitions AmerGen makes in 2003.

Generation has a 70% interest in the Southeast Chicago Energy Project, LLC (Southeast Chicago), which owns a peaking facility in Chicago. Southeast Chicago is obligated to make equity distributions of $54 million over the next 20 years to the party, which is not affiliated with Generation, that owns the remaining 30% interest. This amount reflects a return of that party's investment in Southeast Chicago.

Generation has the right to purchase, generally at a premium, and the other party has the right to require Generation to purchase, generally at a discount, the 30% interest in Southeast Chicago. Additionally, Generation may be required to purchase the 30% interest upon the occurrence of certain events, including Generation's failure to maintain an investment grade rating.

Nuclear Insurance. The Price-Anderson Act limits the liability of nuclear reactor owners for claims that could arise from a single incident. As of January 1, 2003, the current limit is $9.5 billion and is subject to change to account for the effects of inflation and changes in the number of licensed reactors. Generation carries the maximum available commercial insurance of $300 million and the remaining $9.2 billion is provided through mandatory participation in a financial protection pool. Under the Price-Anderson Act, all nuclear reactor licensees can be assessed up to $89 million per reactor per incident, payable at no more than $10 million per reactor per incident per year. This assessment is subject to inflation and state premium taxes. In addition, the U.S. Congress could impose revenue-raising measures on the nuclear industry to pay claims. The Price-Anderson Act expired on August 1, 2002 but existing facilities, including those owned and operated by Generation, remain covered. The Price-Anderson Act provisions relating to commercial facilities were extended through 2003. The extension affects facilities obtaining NRC operating licenses in 2003. Existing facilities are unaffected by the extension.

Generation carries property damage, decontamination and premature decommissioning insurance for each station loss resulting from damage to its nuclear plants. In the event of an accident, insurance proceeds must first be used for reactor stabilization and site decontamination. If the decision is made to decommission the facility, a portion of the insurance proceeds will be allocated to a fund, which Generation is required by the NRC to maintain, to provide for decommissioning the facility. Generation is unable to predict the timing of the availability of insurance proceeds to Generation and the amount of such proceeds that would be available. Under the terms of the various insurance agreements, Generation could be assessed up to $124 million for losses incurred at any plant insured by the insurance companies. In the event that one or more acts of terrorism cause accidental property damage within a twelve month period from the first accidental property damage under one or more policies for all insureds, the maximum recovery for all losses by all insureds will be an aggregate of $3.2 billion plus such additional amounts as the insurer may recover for all such losses from reinsurance, indemnity, and any other source, applicable to such losses. The $3.2 billion maximum recovery limit is not applicable, however, in the event of a "certified act of terrorism" as defined in the Terrorism Risk Insurance Act of 2002, as a result of government indemnity. Generally, a "certified act of terrorism" is defined in the Terrorism Risk Insurance Act to be any act, certified by the U.S. government, to be an act of terrorism committed on behalf of a foreign person or interest.

Generation is a member of an industry mutual insurance company that provides replacement power cost insurance in the event of a major accidental outage at a nuclear station. The premium for this coverage is subject to assessment for adverse loss experience. Generation's maximum share of any assessment is $46 million per year. Recovery under this insurance for terrorist acts is subject to the $3.2 billion aggregate limit and secondary to the property insurance described above. This limit would also not apply in cases of certified acts of terrorism under the Terrorism Risk Insurance Act as described above.

In addition, Generation participates in the American Nuclear Insurers Master Worker Program, which provides coverage for worker tort claims filed for bodily injury caused by a nuclear energy accident. This program was modified, effective January 1, 1998, to provide coverage to all workers whose "nuclear-related employment" began on or after the commencement date of reactor operations. Generation will not be liable for a retrospective assessment under this new policy. However, in the event losses incurred under the small number of policies in the old program exceed accumulated reserves, a maximum retroactive assessment of up to $50 million could apply.

Generation is self-insured to the extent that any losses may exceed the amount of insurance maintained. Such losses could have a material adverse effect on Generation's financial condition and results of operations.

Energy Commitments. Generation's wholesale operations include the physical delivery and marketing of power obtained through its generation capacity, and long, intermediate and short-term contracts. Generation maintains a net positive supply of energy and capacity, through ownership of generation assets and purchased power and lease agreements, to protect it from the potential operational failure of one of its owned or contracted power generating units. Generation has also contracted for access to additional generation through bilateral long-term PPAs. These agreements are firm commitments related to power generation of specific generation plants and/or are dispatchable in nature. Generation enters into PPAs with the objective of obtaining low-cost energy supply sources to meet its physical delivery obligations to its customers. Generation has also purchased firm transmission rights to ensure that it has reliable transmission capacity to physically move its power supplies to meet customer delivery needs. The primary intent and business objective for the use of its capital assets and contracts is to provide Generation with physical power supply to enable it to deliver energy to meet customer needs. Generation primarily uses financial contracts in its wholesale marketing activities for hedging purposes. Generation also uses financial contracts to manage the risk surrounding trading for profit activities.

Generation has entered into bilateral long-term contractual obligations for sales of energy to load-serving entities, including electric utilities, municipalities, electric cooperatives, and retail load aggregators. Generation also enters into contractual obligations to deliver energy to wholesale market participants who primarily focus on the resale of energy products for delivery. Generation provides delivery of its energy to these customers through access to its transmission assets or rights for firm transmission.

Generation has PPAs with Midwest Generation, LLC (Midwest Generation) for the purchase of capacity from its coal-fired stations through 2004. Contracted capacity and capacity available through the exercise of an annual option are 1,696 MWs and 3,949 MWs in 2003 and 2004, respectively.

The agreements also provide for the option to purchase 1,084 MWs of oil and gas-fired capacity, and 857 MWs of peaking capacity, subject to reduction.

Generation has entered into PPAs with AmerGen, under which it will purchase all the energy from Unit No. 1 at Three Mile Island Nuclear Station (TMI) after December 31, 2001 through December 31, 2014. Under a January 1, 2003 PPA, Generation will purchase from AmerGen all of the residual energy from the Clinton Nuclear Power Station (Clinton), through December 31, 2003. Currently, the residual output is approximately 31% of the total output of Clinton. In accordance with the terms of the AmerGen partnership agreement, the 2003 PPA will be extended through the end of the AmerGen partnership agreement in 2006.

Generation has a long-term supply agreement through December 2022 with Distrigas of Massachusetts, LLC to guarantee physical gas supply to its New England generating units. Under the agreement, prices are indexed to New England gas markets.

At December 31, 2002, Generation had long-term commitments, relating to the purchase and sale of energy, capacity and transmission rights from unaffiliated utilities and others, including the Midwest Generation and AmerGen contracts, as expressed in the following tables:

	Net Capacity Purchases(1)	Power Only Sales	Power Only Purchases from AmerGen	Power Only Purchases from Non-Affiliates	Transmission Rights Purchases(2)
2003	$ 589	$ 2,442	$ 280	$ 1,722	$ 86
2004	639	1,088	292	768	93
2005	356	272	472	283	84
2006	328	92	472	239	3
2007	408	22	179	227	—
Thereafter	3,742	1	2,638	829	—
Total	$ 6,062	$ 3,917	$ 4,333	$ 4,068	$ 266

(1) On October 2, 2002, Generation notified Midwest Generation of its exercise of termination options under the existing Collins Generating Station (Collins) and Peaking Unit (Peaking) PPAs. Generation exercised its termination options on 1,727 MWs in 2003 and 2004. In 2003, Generation will take 1,778 MWs of option capacity under the Collins and Peaking Unit Agreements as well as 1,265 MWs of option capacity under the Coal Generation PPA. Net capacity purchases in 2004 include 3,474 MWs of optional capacity from Midwest Generation. Net Capacity Purchases also include capacity sales to TXU under the PPA entered into in connection with the purchase of two generating plants in April 2002, which states that TXU will purchase the plant output from May through September from 2002 through 2006. During the periods covered by the PPA, TXU will make fixed capacity payments and will provide fuel to Generation in return for exclusive rights to the energy and capacity of the generation plants. The combined capacity of the two plants is 2,334 MWs.

(2) Transmission Rights Purchases include estimated commitments in 2004 and 2005 for additional transmission rights that will be required to fulfill firm sales contracts.

Additionally, Generation has the following commitments:

In connection with the 2001 corporate restructuring, Generation entered into a PPA with ComEd under which Generation has agreed to supply all of ComEd's load requirements through 2004. Prices for this energy vary depending upon the time of day and month of delivery. During 2005 and 2006, ComEd's PPA is a partial requirements agreement under which ComEd will purchase all of its required energy and capacity from Generation, up to the available capacity of the nuclear generating plants formerly owned by ComEd and transferred to Generation. Under the terms of the PPA, Generation is responsible for obtaining any required transmission service, subject to ComEd's obligation to obtain network service over the ComEd system. The PPA also specifies that prior to 2005, ComEd and Generation will jointly determine and agree on a market-based price for energy delivered under the PPA for 2005 and 2006. In the event that the parties cannot agree to market-based prices for 2005 and 2006 prior to July 1, 2004, ComEd has the option of terminating the PPA effective December 31, 2004. ComEd will obtain any additional supply required from market sources in 2005 and 2006, and subsequent to 2006, will obtain all of its supply from market sources, which could include Generation.

In connection with the 2001 corporate restructuring, Generation entered into a PPA with PECO under which PECO obtains substantially all of its electric supply from Generation through 2010. Also, under the restructuring, PECO assigned its rights and obligations under various PPAs and fuel supply agreements to Generation. Generation supplies power to PECO from the transferred generation assets, assigned PPAs and other market sources.

Environmental Issues. Generation's operations have in the past and may in the future require substantial capital expenditures in order to comply with environmental laws. Additionally, under Federal and state environmental laws, Generation is generally liable for the costs of remediating environmental contamination of property now owned and of property contaminated by hazardous substances generated by Generation.

As of December 31, 2002, Generation had accrued $15 million for environmental investigation and remediation costs. Generation cannot reasonably estimate whether it will incur other significant liabilities for additional investigation and remediation costs at these or additional sites identified by Generation, environmental agencies or others, or whether such costs will be recoverable from third parties.

Leases. Minimum future operating lease payments, including lease payments for real estate and rail cars, as of December 31, 2002 were:

2003	$ 32
2004	20
2005	25
2006	25
2007	26
Thereafter	464
Total minimum future lease payments	$ 592

Rental expense under operating leases totaled $25 million, $29 million and $19 million for the years ended December 31, 2002, 2001 and 2000, respectively.

Litigation.

Cotter Corporation Litigation. During 1989 and 1991, actions were brought in Federal and state courts in Colorado against ComEd and its subsidiary, Cotter Corporation (Cotter), seeking unspecified damages and injunctive relief based on allegations that Cotter permitted radioactive and other hazardous material to be released from its mill into areas owned or occupied by the plaintiffs, resulting in property damage and potential adverse health effects. In 1994, a Federal jury returned nominal dollar verdicts against Cotter on eight plaintiffs' claims in the 1989 cases, which verdicts were upheld on appeal. The remaining claims in the 1989 actions were settled or dismissed. In 1998, a jury verdict was rendered against Cotter in favor of 14 of the plaintiffs in the 1991 cases, totaling approximately $6 million in compensatory and punitive damages, interest and medical monitoring. On appeal, the Tenth Circuit Court of Appeals reversed the jury verdict, and remanded the case for new trial. These plaintiffs' cases were consolidated with the remaining 26 plaintiffs' cases, which had not been tried. The consolidated trial was completed on June 28, 2001. The jury returned a verdict against Cotter and awarded $16 million in various damages. On November 20, 2001, the District Court entered an amended final judgment that included an award of both pre-judgment and post-judgment interests, costs, and medical monitoring expenses that total $43 million. In November 2000, another trial involving a separate sub-group of 13 plaintiffs, seeking $19 million in damages plus interest was completed in Federal District Court in Denver. The jury awarded nominal damages of $42,500 to 11 of 13 plaintiffs, but awarded no damages for any personal injury or health claims, other than requiring Cotter to perform periodic medical monitoring at minimal cost. Cotter appealed these judgments to the Tenth Circuit Court of Appeals. Cotter is vigorously contesting the awards.

On February 18, 2000, ComEd sold Cotter to an unaffiliated third party. As part of the sale, ComEd agreed to indemnify Cotter for any liability incurred by Cotter as a result of these actions, as well as any liability arising in connection with the West Lake Landfill discussed in the next paragraph.

In connection with Exelon's 2001 corporate restructuring, the responsibility to indemnify Cotter for any liability related to these matters was transferred by ComEd to Generation.

The United States Environmental Protection Agency (EPA) has advised Cotter that it is potentially liable in connection with radiological contamination at a site known as the West Lake Landfill in Missouri. Cotter is alleged to have disposed of approximately 39,000 tons of soils mixed with 8,700 tons of leached barium sulfate at the site. Cotter, along with three other companies identified by the EPA as potentially responsible parties (PRPs), has submitted a draft feasibility study addressing options for remediation of the site. The PRPs are also engaged in discussions with the State of Missouri and the EPA. The estimated costs of remediation for the site range from $0 to $87 million. Once a remedy is selected, it is expected that the PRPs will agree on an allocation of responsibility for the costs. Until an agreement is reached, Generation cannot predict its share of the costs.

Real Estate Tax Appeals. Generation is involved in tax appeals regarding a number of its nuclear facilities, Limerick Generating Station (Montgomery County, PA), Peach Bottom Atomic Power Station (York County, PA), and Quad Cities Station (Rock Island County, IL). Generation is also involved in the tax appeal for TMI (Dauphin County, PA) through AmerGen. Generation does not believe the outcome of these matters will have a material adverse effect on Generation's results of operations or financial condition.

Raytheon Arbitration. In March 2001, two subsidiaries of Sithe New England Holdings acquired in November 2002, brought an action in the New York Supreme Court against Raytheon Corporation (Raytheon) relating to its failure to honor its guaranty with respect to the performance of the Mystic and Fore River projects, as a result of the abandonment of the projects by the turnkey contractor. In a related proceeding, in May 2002, Raytheon submitted claims to the International Chamber of Commerce Court of Arbitration seeking equitable relief and damages for alleged owner caused performance delays in connection with the Fore River Power Plant Engineering, Procurement & Construction Agreement (EPC Agreement). The EPC Agreement, executed by a Raytheon subsidiary and guaranteed by Raytheon, governs the design, engineering, construction, start-up, testing and delivery of an 800-MW combined-cycle power plant in Weymouth, Massachusetts. Raytheon recently amended its claim and now seeks 141 days of schedule relief (which would reduce Raytheon's liquidated damage payment for late delivery by approximately $25 million) and additional damages of $16 million. Raytheon also has asserted a claim for loss of efficiency and productivity as a result of an alleged constructive acceleration, for which a claim has not yet been quantified. Generation believes the Raytheon assertions are without merit and is vigorously contesting these claims. Hearings by the International Chamber of Commerce Court of Arbitration with respect to liability were held in January and February 2003. A decision on liability is expected to be issued in May 2003 and, if necessary, additional hearings will be held on damages in May and June of 2003.

Credit Contingencies. Generation is a counterparty to Dynegy Inc. (Dynegy) in various energy transactions. In early July 2002, the credit ratings of Dynegy were downgraded by two credit rating agencies to below investment grade. As of December 31, 2002, Generation had a net receivable from Dynegy of approximately $3 million, and consistent with the terms of the existing credit arrangement, has received collateral in support of this receivable. Generation also has credit risk associated with Dynegy through Generation's equity investment in Sithe. Sithe is a 60% owner of the Independence generating station (Independence), a 1,040-MW gas-fired qualified facility that has an energy-only long-term tolling agreement with Dynegy, with a related financial swap arrangement. As of December 31, 2002, Sithe had recognized an asset on its balance sheet related to the fair market value of the financial swap agreement with Dynegy that is marked to market under the terms of SFAS No. 133. If Dynegy is unable to fulfill the terms of this agreement, Sithe would be required to impair this financial swap asset. Generation estimates, as a 49.9% owner of Sithe, that the impairment would result in an after-tax reduction of its earnings of approximately $10 million.

In addition to the impairment of the financial swap asset, if Dynegy was unable to fulfill its obligations under the financial swap agreement and the tolling agreement, Generation would likely incur a further impairment associated with Independence. Depending upon the timing of Dynegy's failure to fulfill its obligations and the outcome of any restructuring initiatives, Generation could realize an after-tax charge of between $0 and $130 million. In the event of a sale of Generation's investment in Sithe to a third party, proceeds from the sale could be negatively impacted between $65 million to $100 million (after-tax).

Additionally, the future economic value of AmerGen's PPA with Illinois Power, a subsidiary of Dynegy, could be impacted by events related to Dynegy's financial condition.

14. Fair Value of Financial Assets and Liabilities

The carrying amounts and fair values of Generation's financial assets and liabilities as of December 31 were as follows:

	2002		2001	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Non-derivatives:				
Assets:				
Nuclear decommissioning trust funds	$ 3,053	$ 3,053	$ 3,165	$ 3,165
Liabilities:				
Long-term debt (including amounts due within one year)	$ 2,137	$ 2,199	$ 1,025	$ 1,040
Derivatives:				
Energy derivatives	$ (163)	$ (163)	$ 92	$ 92

As of December 31, 2002 and 2001, Generation's carrying amounts of cash and cash equivalents and accounts receivable are representative of fair value because of the short-term nature of these instruments. Fair values of the trust accounts for decommissioning nuclear plants and long-term debt are estimated based on quoted market prices for the same or similar issues. The fair value of Generation's interest rate swaps and purchased power and sale contracts is determined using quoted exchange prices, external dealer prices, or internal valuation models which utilize assumptions of future energy prices and available market pricing curves.

Financial instruments that potentially subject Generation to concentrations of credit risk consist principally of cash equivalents and customer accounts receivable. Generation places its cash equivalents with high-credit quality financial institutions. Generally, such investments are in excess of the Federal Deposit Insurance Corporation limits.

Under the terms of the SBG Facility, SBG is required to effectively fix the interest rate on 50% of the borrowings under the facility through its maturity in 2007. As of December 31, 2002, Generation has entered into floating to fixed interest rate swap agreements that have effectively fixed the interest rate on $861 million of notional principal, or 83% of borrowings outstanding under the SBG Facility at December 31, 2002. These swaps have been designated as cash flow hedges under SFAS No. 133, and as such, as long as the hedge remains effective and the underlying transaction remains probable, changes in the fair value of these swaps will be recorded in accumulated other comprehensive income until earnings are affected by the variability of the cash flows being hedged. The fair market value exposure of these swaps was $92 million at December 31, 2002. Generation utilizes derivatives to manage the utilization of its available generating capacity and provision of wholesale energy to its affiliates. Generation also utilizes energy option contracts and energy financial swap arrangements to limit the market price risk associated with forward energy commodity contracts. Additionally, Generation enters into certain energy-related derivatives for trading or speculative purposes.

During 2002 and 2001, Generation recognized net gains of $6 million ($4 million, net of income taxes) and gains of $16 million ($10 million, net of income taxes), respectively, relating to mark-to-market adjustments of certain non-trading purchased power and sale contracts pursuant to SFAS No. 133. Mark-to-market adjustments on non-trading purchased power and sale contracts are reported in purchased power and fuel and mark-to-market adjustments on trading activities are reported as Operating Revenues in the Consolidated Statements of Income. During 2002 and 2001, Generation recognized net losses aggregating $9 million ($6 million, net of income taxes) and net gains aggregating $14 million ($10 million, net of income taxes), respectively, relating to mark-to-market adjustments on derivative instruments entered into for trading purposes. Generation commenced financial trading in the second quarter of 2001. Gains and losses associated with financial trading are reported as Operating Revenue in the Consolidated Statements of Income. During 2002 and 2001, no amounts were reclassified from accumulated other comprehensive income into earnings as a result of forecasted energy commodity transactions no longer being probable. For 2002, no amounts were reclassified from accumulated other comprehensive income into earnings as a result of forecasted financing transactions no longer being probable. For 2001, a $6 million gain ($4 million, net of income taxes) was reclassified from accumulated other comprehensive income into earnings as a result of forecasted financing transactions no longer being probable.

On January 1, 2001, Generation recognized a non-cash gain of $12 million, net of income taxes, in earnings and deferred a non-cash gain of $5 million, net of income taxes, in accumulated other comprehensive income, a component of member's equity, to reflect the initial adoption of SFAS No. 133, as amended. SFAS No. 133 must be applied to all derivative instruments and requires that such instruments be recorded in the balance sheet either as an asset or a liability measured at their fair value through earnings, with special accounting permitted for certain qualifying hedges. As of December 31, 2002, approximately $124 million of deferred net losses on derivative instruments accumulated in other comprehensive income are expected to be reclassified to earnings during the next twelve months. Amounts in accumulated other comprehensive income related to interest rate cash flows are reclassified into earnings when the forecasted interest payment occurs. Amounts in accumulated other comprehensive income related to energy commodity cash flows are reclassified into earnings when the forecasted purchase or sale of the energy commodity occurs. The majority of Generation's cash flow hedges are expected to settle within the next 3 years.

Generation classifies investments in the trust accounts for decommissioning nuclear plants as available-for-sale. The following tables show the fair values, gross unrealized gains and losses and amortized cost bases for the securities held in these trust accounts.

		December 31, 2002		
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Equity securities	$ 1,763	$ 72	$ (482)	$ 1,353
Debt securities				
Government obligations	938	62		1,000
Other debt securities	698	32	(30)	700

Total debt securities	1,636	94	(30)	1,700
Total available-for-sale securities	$ 3,399	$ 166	$ (512)	$ 3,053

	December 31, 2001			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Equity securities	$ 1,666	$ 130	$ (236)	$ 1,560
Debt securities				
Government obligations	882	28	(3)	907
Other debt securities	701	16	(19)	698
Total debt securities	1,583	44	(22)	1,605
Total available-for-sale securities	$ 3,249	$ 174	$ (258)	$ 3,165

Net unrealized losses of $346 million and $84 million were recognized in Accumulated Depreciation and Other Comprehensive Income in Generation's Consolidated Balance Sheets at December 31, 2002 and 2001, respectively.

	2002	2001
Proceeds from sales	$ 1,612	$ 1,624
Gross realized gains	56	76
Gross realized losses	(86)	(189)

Net realized gains of $2 million and $14 million were recognized in Accumulated Depreciation in Generation's Consolidated Balance Sheets at December 31, 2002 and 2001, respectively, and $32 million and $127 million of net realized losses were recognized in Other Income and Deductions in Generation's Consolidated Income Statements for 2002 and 2001, respectively. The available-for-sale securities held at December 31, 2002 have an average maturity of six to seven years. The cost of these securities was determined on the basis of specific identification. See Note 9—Nuclear Decommissioning and Spent Fuel Storage for further information regarding the nuclear decommissioning trusts.

15. Quarterly Data (Unaudited)

The data shown below include all adjustments which Generation considers necessary for a fair presentation of such amounts:

	Operating Revenues		Operating Income		Income (Loss) Before Cumulative Effect of a Change in Accounting Principle		Net Income	
	2002	2001	2002	2001	2002	2001	2002	2001
Quarter ended:								
March 31	$ 1,461	$ 1,628	$ 89	$ 268	$ 66	$ 158	$ 79	$ 170
June 30	1,559	1,583	113	113	84	71	84	71
September 30	2,212	2,193	186	225	163	140	163	140
December 31	1,626	1,422	121	266	74	143	74	143

16. Related-Party Transactions

Generation's financial statements include related-party transactions as reflected in the tables below.

	For the Years Ended December 31,		
	2002	2001	2000
Operating Revenues from Affiliates			
ComEd(1)	$ 2,542	$ 2,657	$ 403
PECO(1)	1,438	1,162	871
Exelon Energy(2)	247	284	277
Purchased Power from Affiliates			
AmerGen(3)	273	57	52
ComEd(4)	20	28	—
PECO(4)	3	6	—
Exelon Energy(4)	18	91	—
O&M from Affiliates			
Sithe(5)	13	—	—
ComEd(4)	14	12	—

PECO(4)	9	6	—
BSC(17)	116	110	46
Interest Expense from Affiliates			
Sithe(11)	2	—	—
Exelon(6,7)	5	23	2
ComEd(9)	—	9	—
PECO(8)	—	6	—
Interest Income from Affiliates			
AmerGen(10)	2	—	—
Sithe(18)	—	2	—
ComEd(12,13)	4	10	—
Services Provided to Affiliates			
AmerGen(14)	70	80	32
Sithe(15)	1	—	—

	December 31,	
	2002	2001
Receivables from Affiliates		
ComEd(1,4,9)	$ 339	$ 136
ComEd Decommissioning(16)	59	59
AmerGen(3,10)	39	44
PECO(1)	124	117
BSC(17)	14	28
Exelon Energy(2)	19	17
Long-Term Receivable from Affiliate		
Generation decommissioning obligation(16)	218	291
Other	2	—
Payables to Affiliates		
Sithe(5)	7	—
Exelon(7)	3	23
BSC(17)	—	11
Notes Payable to Affiliates		
Exelon(6)	329	—
Sithe(11)	534	—

(1) Effective January 1, 2001, Generation entered into PPAs with ComEd and PECO. See Note 13—Commitments and Contingencies for further information on the PPAs.

(2) Generation sells power to Exelon Energy.

(3) Generation has entered into PPAs dated December 18, 2001 and November 22, 1999 with AmerGen. Under the 2001 PPA, Generation has agreed to purchase from AmerGen all the energy from Unit No. 1 at Three Mile Island Nuclear Station from January 1, 2002 through December 31, 2014. Under the 1999 PPA, Generation agreed to purchase from AmerGen all of the residual energy from Clinton Nuclear Power Station (Clinton), through December 31, 2002. Currently, the residual output is approximately 31% of the total output of Clinton. In accordance with the terms of the AmerGen partnership agreement, the 1999 PPA will be extended through the end of the AmerGen partnership agreement in 2006.

(4) Generation purchases power from AmerGen under PPAs as discussed in the above section of this note. Additionally, Generation purchases power from PECO for Generation's own use, buys back excess power from Exelon Energy and purchases transmission and ancillary services from ComEd.

(5) Under a service agreement dated December 18, 2000, Sithe provides Generation certain fuel and project development services. Sithe is compensated for these services in the amount agreed to in the work order, but not less than the higher of fully allocated costs for performing such services or the market price.

(6) Generation had a $329 million payable to Exelon at December 31, 2002, related to the acquisition of two generating plants in April of 2002.

(7) In relation to the December 18, 2000 acquisition of 49.9% of Sithe common stock, Generation had a $700 million payable to Exelon, which was repaid in the second quarter of 2001.

(8) Generation paid interest to PECO in 2001 related to a loan.

(9) In order to facilitate payment processing, ComEd processes certain invoice payments on behalf of Generation.

(10)

In February 2002, Generation entered into an agreement to loan AmerGen up to $75 million at an interest rate equal to the 1-month London Interbank Offering Rate plus 2.25%. In July 2002, the limit of the loan agreement was increased to $100 million and the maturity date was extended to July 1, 2003. As of December 31 2002, the outstanding principal balance of the loan was $35 million.

(11) Under the terms of the agreement to acquire Sithe New England dated November 1, 2002, Generation issued a $534 million note to be paid in full on June 18, 2003 to Sithe. The note bears interest at the rate equal to LIBOR plus 0.875%. Interest accrued on the note as of December 31, 2002 was $2 million.

(12) In consideration for the net assets transferred as a part of the corporate restructuring effective January 1, 2001, Generation had a note receivable from ComEd. This note was repaid in 2001.

(13) Interest income for 2002 is related to unpaid ComEd PPA billings.

(14) Under a service agreement dated March 1, 1999, Generation provides AmerGen with certain operation and support services to the nuclear facilities owned by AmerGen. This service agreement has an indefinite term and may be terminated by Generation or AmerGen with 90 days notice. Generation is compensated for these services in an amount agreed to in the work order, which is not less than the higher of its fully allocated cost for performing each service or the market price for such service.

(15) Under a service agreement dated December 18, 2000, Generation provides certain engineering and environmental services for fossil facilities owned by Sithe and for certain developmental projects. Generation is compensated for these services in an amount agreed to in the work order, but not less than the higher of fully allocated costs for performing such services or the market price.

(16) Generation had a short-term and a long-term receivable from ComEd, primarily representing ComEd's legal requirements to remit collections of nuclear decommissioning costs from customers to Generation resulting from the 2001 corporate restructuring.

(17) Generation receives a variety of corporate support services from BSC, including legal, human resources, financial and information technology services. Such services are provided at cost, including applicable overhead. Some third party reimbursements due Generation are recovered through BSC.

(18) In August 2001, Exelon loaned Sithe, an equity method investee of Generation, $150 million. The note, which bore interest at the eurodollar rate, plus 2.25%, was repaid in December 2001 with the proceeds of bank borrowings. In connection with the bank borrowings, Exelon provided the lender with a support letter confirming its investment in Sithe and Exelon's agreement to maintain a positive net worth of Sithe.

17. Unconsolidated Equity Investments

Sithe Energies, Inc. Generation is a 49.9% owner of Sithe and accounts for the investment as an unconsolidated equity investment. The Sithe New England asset purchase did not affect the accounting for Sithe as an equity investment. Separate from the Sithe New England transaction, Generation is subject to a Put and Call Agreement (PCA) that gives Generation the right to purchase (Call) the remaining 50.1% of Sithe, and gives the other Sithe shareholders the right to sell (Put) their interest to Generation. At the time of the purchase of Sithe in 2000, the other remaining interests in Sithe were held by Vivendi (34.2%), Marubeni (14.9%) and Sithe management (1%). If the Put option is exercised, Generation has the obligation to complete the purchase. At the end of this exercise period, which is December 2005, if Generation has not exercised its Call option and the other stockholders have not exercised their Put rights, Generation will have an additional one-time option to purchase

shares from the other stockholders to bring Generation's ownership in Sithe from the current 49.9% to 50.1% of Sithe's total outstanding common stock.

The PCA originally provided that the Put and Call options became exercisable as of December 18, 2002 and expired in December 2005. However, upon Apollo Energy, LLC's (Apollo) purchase of Vivendi's and Sithe management's ownership shares, Apollo agreed to delay the effective date of its Put right until June 1, 2003 and, if certain conditions are met, until September 1, 2003. There are also certain events that could trigger Apollo's Put right becoming effective prior to June 1, 2003 including Exelon being downgraded below investment grade by Standard and Poor's Rating Group or Moody's Investors Service, Inc., a stock purchase agreement between Generation and Apollo being executed and subsequently terminated, or the occurrence of any event of default, other than a change of control, under certain Generation or Apollo credit agreements. Depending on the triggering event, the put price of approximately $460 million, growing at a market rate of interest, needs to be funded within 18 or 30 days of the Put being exercised. There have been no changes to the Put and Call terms with respect to Marubeni's remaining interest.

The delay in the effective date of Apollo's Put right allows Generation to explore a further restructuring of its investment in Sithe. Generation is continuing discussions with Apollo and Marubeni regarding restructuring alternatives that are designed in part to resolve its ownership limitations of Sithe's qualifying facilities. In addition, Generation is exploring the sale of its interest in Sithe. In the event of a sale, Generation may recognize a one-time loss. Generation would hope to implement any additional restructuring or a sale of its Sithe investment in 2003. If Generation is unsuccessful in restructuring the Sithe transaction or selling its interest and, as a result, purchases the remaining 50.1% of Sithe under the PCA, Generation will proceed to implement measures to address the ownership of the qualified facilities as well as divest non-strategic assets, for which the outcome is uncertain.

If Generation exercises its option to acquire the remaining outstanding common stock in Sithe, or if all the other stockholders exercise their Put Rights, the purchase price for Apollo's 35.2% interest will be approximately $460 million, growing at a market rate of interest. The additional 14.9% interest will be valued at fair market value subject to a floor of $141 million and a ceiling of $290 million.

If Generation increases its ownership in Sithe to 50.1% or more, Sithe may become a consolidated subsidiary and Generation's financial results may include Sithe's financial results from the date of purchase. At December 31, 2002, Sithe had total assets of $2.6 billion and total debt of $1.3 billion. This $1.3 billion includes $624 million of subsidiary debt incurred primarily to finance the construction of six generating facilities, $461 million of subordinated debt, $103 million of line of credit borrowings, $43 million of current portion of long-term debt and capital leases, $30 million of capital leases, and excludes $453 million of non-recourse project debt associated with Sithe's equity investments. For the year ended December 31, 2002, Sithe had revenues of $1.0 billion. As of December 31, 2002, Generation had a $478 million equity investment in Sithe.

Additionally, the debt on the books of Generation's unconsolidated equity investments and joint ventures is not reflected on its Consolidated Balance Sheets. Generation estimates that this debt, including, Sithe's debt described in the preceding paragraph, totals approximately $1.3 billion and that Generation's portion of that amount, based on its ownership interest in the investments, is approximately $673 million.

AmerGen Energy Company, LLC. Generation and British Energy each own a 50% equity interest in AmerGen. Established in 1997, AmerGen was formed to pursue opportunities to acquire and operate nuclear generation facilities in the North America. Currently, AmerGen owns and operates three nuclear generation facilities: Clinton located in Illinois, TMI located in Pennsylvania, and Oyster Creek, which was acquired in August 2000, located in New Jersey. Oyster Creek was acquired from GPU, Inc. (GPU) for $10 million. Under the terms of the purchase agreement, GPU agreed to fund outage costs of $89 million, including the cost of fuel, for a refueling outage that occurred in 2000.

AmerGen is repaying these costs to GPU in equal annual installments through 2009. In addition, AmerGen assumed full responsibility for the ultimate decommissioning of Oyster Creek. At the closing of the sale, GPU provided funding for the decommissioning trust of $440 million. In conjunction with this acquisition, AmerGen has received a fully funded decommissioning trust fund which has been computed assuming the anticipated costs to appropriately decommission Oyster Creek discounted to net present value using the NRC's mandated rate of 2%. The agreement with the seller for Clinton calls for Generation to sell 75% of the output back to Illinois Power for a term expiring at the end of 2004. The agreement with the seller for all output of Oyster Creek expires March 2003. The agreement between Generation and TMI for all output expires December 2014.

AmerGen maintains a nuclear decommissioning trust fund for each of its plants in accordance with NRC regulations and believes that amounts in these trust funds, together with the investment earnings thereon and additional contributions for Clinton from Illinois Power, will be sufficient to meet its decommissioning obligations.

Generation's investment in AmerGen as of December 31, 2002 and 2001 was $160 million and $95 million, respectively. Generation and British Energy have each agreed to provide up to $100 million to AmerGen at any time that the Management Committee of AmerGen determines that, in order to protect the public health and safety and/or to comply with NRC requirements, these funds are necessary to meet ongoing operating expenses or to safely maintain any AmerGen plant. The current financial condition of British Energy has been the focus of media attention recently. Generation cannot predict the ability of British Energy to provide funds to AmerGen. However, we do not believe this will impact AmerGen's ability to conduct its business.

The table below presents summarized financial information for AmerGen:

	For the Years Ended December 31,		
	2002	2001	2000
Income Statement Information			
Operating revenues	$ 644	$ 602	$ 450
Operating income	124	122	9
Income before cumulative effect of change in accounting principle	117	156	(5)
Net Income	161	156	(5)

	December 31,	
	2002	2001
Balance Sheet Information		
Current assets	$ 89	$ 115
Noncurrent assets	1,490	1,394
Total assets	$ 1,579	$ 1,509
Current liabilities	$ 148	$ 184
Noncurrent liabilities	1,112	1,126
Members' capital	80	80
Additional paid-in capital	—	—
Retained earnings	316	155
Accumulated other comprehensive income (loss)	(77)	(36)
Total capitalization and liabilities	$ 1,579	$ 1,509

The table below presents summarized financial information for Sithe:

	For the Years Ended December 31,		
	2002	2001	2000
Income Statement Information			
Operating revenues	$ 1,031	$ 1,090	$ 1,226
Operating income	170	175	537
Net Income	(348)	(164)	260

	December 31,	
	2002	2001
Balance Sheet Information		
Current assets	$ 1,145	$ 508
Noncurrent assets	1,427	3,515
Total assets	$ 2,572	$ 4,023
Current liabilities	$ 256	$ 407
Noncurrent liabilities	1,509	2,513
Additional paid-in capital	735	735
Retained earnings	89	437
Accumulated other comprehensive income (loss)	(17)	(69)
Total capitalization and liabilities	$ 2,572	$ 4,023

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Exelon, ComEd, PECO and Generation

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Exelon

The information required by Item 10 relating to directors and nominees for election as directors at Exelon's Annual Meeting of shareholders is incorporated herein by reference to the information under the heading "BOARD OF DIRECTORS" on pages 12-14 in Exelon's definitive Proxy Statement (2003 Exelon Proxy Statement) filed with the SEC on March 13, 2003, pursuant to Regulation 14A under the Securities Exchange Act of 1934. The information required by Item 10 relating to executive officers is set forth above in ITEM 1. Business—Executive Officers of Exelon, ComEd, PECO and Generation.

ComEd

The information required by Item 10 relating to directors and nominees for election as directors at ComEd's annual meeting of shareholders is incorporated herein by reference to information under the subheadings "Nominees" and "Security Ownership of Certain Beneficial Owners and Management" under the heading "Election of Directors" in ComEd's definitive Information Statement (2003 ComEd Information Statement) to be filed with the SEC prior to April 30, 2003, pursuant to Regulation 14C under the Securities Exchange Act of 1934. The information required by Item 10 relating to executive officers is set forth above in ITEM 1. Business—Executive Officers of Exelon, ComEd, PECO and Generation.

PECO

The information required by Item 10 relating to directors and nominees for election as directors at PECO's annual meeting of shareholders is incorporated herein by reference to information under the subheadings "Nominees" and "Security Ownership of Certain Beneficial Owners and Management" under the heading "Election of Directors" in PECO's definitive Information Statement (2003 PECO Information Statement) to be filed with the SEC prior to April 30, 2003, pursuant to Regulation 14C under the Securities Exchange Act of 1934. The information required by Item 10 relating to executive officers is set forth above in ITEM 1. Business—Executive Officers of Exelon, ComEd, PECO and Generation.

ITEM 11. EXECUTIVE COMPENSATION

Exelon

The information required by Item 11 is incorporated herein by reference to the information labeled "Executive Compensation" on pages 24-36 and "Board Compensation" on page 18 in the 2003 Exelon Proxy Statement.

ComEd

The information required by Item 11 is incorporated herein by reference to the paragraph labeled "Board Compensation" and the paragraphs under the heading "Executive Compensation" (other than the paragraphs under the subheading "Compensation Committee Report on Executive Compensation") in the 2003 ComEd Information Statement.

PECO

The information required by Item 11 is incorporated herein by reference to the paragraph labeled "Board Compensation" and the paragraphs under the heading "Executive Compensation" (other than

the paragraphs under the subheading "Compensation Committee Report on Executive Compensation") in the 2003 PECO Information Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Exelon

The information required by Item 12 relating to security ownership of certain beneficial owners and management is incorporated herein by reference to the stock ownership information under the heading "BENEFICIAL OWNERSHIP" on pages 10-11 in the 2003 Exelon Proxy Statement.

Securities Authorized for Issuance under Equity Compensation Plans

Plan Category	Number of securities to be issued upon exercise of outstanding options	Weighted-average price of outstanding options	Number of securities remaining available for future issuance under equity compensation plans(a)
Equity compensation plans approved by security holders	14,782,309	$ 46.14	13,478,026
Equity Compensation plans not approved by security holders	1,104,681	41.09	—
Total	15,886,990	$ 45.80	13,478,026

(a) Excludes securities to be issued upon exercise of outstanding options.

ComEd

The information required by Item 12 relating to security ownership of certain beneficial owners and management is incorporated herein by reference to the stock ownership information under the heading "Beneficial Ownership" in the 2003 ComEd Information Statement.

Securities Authorized for Issuance under Equity Compensation Plans: none

PECO

The information required by Item 12 relating to security ownership of certain beneficial owners and management is incorporated herein by reference to the stock ownership information under the heading "Beneficial Ownership" in the 2003 PECO Information Statement.

Securities Authorized for Issuance under Equity Compensation Plans: none

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Exelon

The information required by Item 13 is incorporated herein by reference to the information labeled "OTHER INFORMATION—Transactions with Management" on pages 39-40 in the 2003 Exelon Proxy Statement.

ComEd

The information required by Item 13 is incorporated herein by reference to the information under the subheading "Transactions with Management" under the heading "Other Information" in the 2003 ComEd Information Statement.

PECO

None.

ITEM 14. CONTROLS AND PROCEDURES

Exelon

Within the 90 days prior to the date of this Report, Exelon's management, including the principal executive officer and principal financial officer, evaluated Exelon's disclosure controls and procedures related to the recording, processing, summarization and reporting of information in Exelon's periodic reports that it files with the Securities and Exchange Commission (SEC). These disclosure controls and procedures have been designed to ensure that (a) material information relating to Exelon, including its consolidated subsidiaries, is made known to Exelon's management, including these officers, by other employees of Exelon and its subsidiaries, and (b) this information is recorded, processed, summarized, evaluated and reported, as applicable, within the time periods specified in the SEC's rules and forms. Due to the inherent limitations of control systems, not all misstatements may be detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls could be circumvented by the individual acts of some persons or by collusion of two or more people. Exelon's controls and procedures can only provide reasonable, not absolute, assurance that the above objectives have been met. Also, Exelon does not control or manage certain of its unconsolidated entities and as such, the disclosure controls and procedures with respect to such entities are more limited than those it maintains with respect to its consolidated subsidiaries.

As of the date of their evaluation, these officers concluded that, subject to limitations noted above, the design of the disclosure controls and procedures provide reasonable assurance that they can accomplish their objectives. Exelon continually strives to improve its disclosure controls and procedures to enhance the quality of its financial reporting and to maintain dynamic systems that change as conditions warrant.

There have been no significant changes in Exelon's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

ComEd

Within the 90 days prior to the date of this Report, ComEd's management, including the principal executive officer and principal financial officer, evaluated ComEd's disclosure controls and procedures related to the recording, processing, summarization and reporting of information in ComEd's periodic reports that it files with the Securities and Exchange Commission (SEC). These disclosure controls and procedures have been designed to ensure that (a) material information relating to ComEd, including its consolidated subsidiaries, is made known to ComEd's management, including these officers, by other employees of ComEd and its subsidiaries, and (b) this information is recorded, processed, summarized, evaluated and reported, as applicable, within the time periods specified in the SEC's rules and forms. Due to the inherent limitations of control systems, not all misstatements may be detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls could be circumvented by the individual acts of some persons or by collusion of two or more people. ComEd's controls and

procedures can only provide reasonable, not absolute, assurance that the above objectives have been met. Also, ComEd does not control or manage certain of its unconsolidated entities and as such, the disclosure controls and procedures with respect to such entities are more limited than those it maintains with respect to its consolidated subsidiaries.

As of the date of their evaluation, these officers concluded that, subject to limitations noted above, the design of the disclosure controls and procedures provide reasonable assurance that they can accomplish their objectives. ComEd continually strives to improve its disclosure controls and procedures to enhance the quality of its financial reporting and to maintain dynamic systems that change as conditions warrant.

There have been no significant changes in ComEd's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

PECO

Within the 90 days prior to the date of this Report, PECO's management, including the principal executive officer and principal financial officer, evaluated PECO's disclosure controls and procedures related to the recording, processing, summarization and reporting of information in PECO's periodic reports that it files with the Securities and Exchange Commission (SEC). These disclosure controls and procedures have been designed to ensure that (a) material information relating to PECO, including its consolidated subsidiaries, is made known to PECO's management, including these officers, by other employees of PECO and its subsidiaries, and (b) this information is recorded, processed, summarized, evaluated and reported, as applicable, within the time periods specified in the SEC's rules and forms. Due to the inherent limitations of control systems, not all misstatements may be detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls could be circumvented by the individual acts of some persons or by collusion of two or more people. PECO's controls and procedures can only provide reasonable, not absolute, assurance that the above objectives have been met. Also, PECO does not control or manage certain of its unconsolidated entities and as such, the disclosure controls and procedures with respect to such entities are more limited than those it maintains with respect to its consolidated subsidiaries.

As of the date of their evaluation, these officers concluded that, subject to limitations noted above, the design of the disclosure controls and procedures provide reasonable assurance that they can accomplish their objectives. PECO continually strives to improve its disclosure controls and procedures to enhance the quality of its financial reporting and to maintain dynamic systems that change as conditions warrant.

There have been no significant changes in PECO's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

Generation

Within the 90 days prior to the date of this Report, Generation's management, including the principal executive officer and principal financial officer, evaluated Generation's disclosure controls and procedures related to the recording, processing, summarization and reporting of information in Generation's periodic reports that it files with the Securities and Exchange Commission (SEC). These disclosure controls and procedures have been designed to ensure that (a) material information relating to Generation, including its consolidated subsidiaries, is made known to Generation's management, including these officers, by other employees of Generation and its subsidiaries, and (b) this information is recorded, processed, summarized, evaluated and reported, as applicable, within the time periods specified in the SEC's rules and forms. Due to the inherent limitations of control systems, not all misstatements may be detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls could be circumvented by the individual acts of some persons or by collusion of two or more people. Generation's controls and procedures can only provide reasonable, not absolute, assurance that the above objectives have been met. Also, Generation does not control or manage certain of its unconsolidated entities and as such, the disclosure controls and procedures with respect to such entities are more limited than those it maintains with respect to its consolidated subsidiaries.

As of the date of their evaluation, these officers concluded that, subject to limitations noted above, the design of the disclosure controls and procedures provide reasonable assurance that they can accomplish their objectives. Generation continually strives to improve its disclosure controls and procedures to enhance the quality of its financial reporting and to maintain dynamic systems that change as conditions warrant.

There have been no significant changes in Generation's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

Report of Independent Accountants on
Financial Statement Schedule

To the Shareholders and Board of Directors
of Exelon Corporation:

Our audits of the consolidated financial statements referred to in our report dated January 29, 2003, except for Note 23 for which the date is February 20, 2003, appearing in the 2002 Annual Report to Shareholders of Exelon Corporation (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the financial statement schedule listed in Item 15(a)(1)(ii) of this Form 10-K. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

PricewaterhouseCoopers LLP

Chicago, Illinois
January 29, 2003

(a) Financial Statements and Financial Statement Schedules

(1) Exelon

(i) Financial Statements

Consolidated Statements of Income for the years 2002, 2001 and 2000

Consolidated Statements of Cash Flows for the years 2002, 2001 and 2000

Consolidated Balance Sheets as of December 31, 2002 and 2001

Consolidated Statements of Changes in Shareholders' Equity for the years 2002, 2001 and 2000

Consolidated Statements of Comprehensive Income for the years 2002, 2001 and 2000

Notes to Consolidated Financial Statements

(ii) Financial Statement Schedule

EXELON CORPORATION AND SUBSIDIARY COMPANIES

Schedule II—Valuation and Qualifying Accounts
(in millions)

Column A	Column B	Column C		Column D	Column E
		Additions			
Description	Balance at Beginning of Year	Charged to Cost and Expenses	Charged to Other Accounts	Deductions	Balance at End of Year
For The Year Ended December 31, 2002					
Allowance for Uncollectible Accounts	$ 213	$ 129	$ —	$ 210(a)	$ 132
Reserve for:					
Merger-Related Costs	$ 114	$ —	$ (12)	$ 74	$ 28
Injuries and Damages	$ 72	$ 42	$ 10	$ 25(b)	$ 99
Environmental Investigation and Remediation	$ 156	$ 21	$ 12	$ 33(c)	$ 156
Obsolete Materials	$ 18	$ 9	$ 4	$ 13	$ 18
For The Year Ended December 31, 2001					
Allowance for Uncollectible Accounts	$ 200	$ 145	$ —	$ 132(a)	$ 213
Reserve for:					
Merger-Related Costs	$ 144	$ —	$ 41	$ 71	$ 114
Injuries and Damages	$ 69	$ 17	$ 2	$ 16(b)	$ 72
Environmental Investigation and Remediation	$ 171	$ 1	$ —	$ 16(c)	$ 156
Obsolete Materials	$ 103	$ 16	$ —	$ 101	$ 18
For The Year Ended December 31, 2000					
Allowance for Uncollectible Accounts	$ 112	$ 87	$ 59(d)	$ 58(a)	$ 200
Reserve for:					
Merger-Related Costs	$ —	$ —	$ 149(e)	$ 5	$ 144
Injuries and Damages	$ 23	$ 9	$ 48(f)	$ 11(b)	$ 69
Environmental Investigation and Remediation	$ 57	$ 26	$ 98(e)	$ 10(c)	$ 171
Obsolete Materials	$ —	$ 48	$ 55(e)	$ —	$ 103

(a) Write-off of individual accounts receivable.

(b) Payments of claims and related costs.

(c) Expenditures for site investigation and remediation.

(d) Includes October 20, 2000 opening balance of former Unicom Corporation of $48 million.

(e) Reflects October 20, 2000 opening balance of former Unicom Corporation.

(f) Reflects October 20, 2000 opening balance of former Unicom Corporation of $47 million.

(2) ComEd

(i) Financial Statements

Consolidated Statements of Income for the years 2002 and 2001, and the periods from October 20, 2000 to December 31, 2000 and from January 1, 2000 to October 19, 2000

Consolidated Statements of Cash Flows for the years 2002 and 2001, and the periods from October 20, 2000 to December 31, 2000 and from January 1, 2000 to October 19, 2000

Consolidated Balance Sheets as of December 31, 2002 and 2001

Consolidated Statements of Changes in Shareholders' Equity for the years 2002 and 2001, and the periods from October 20, 2000 to December 31, 2000 and from January 1, 2000 to October 19, 2000

Consolidated Statements of Comprehensive Income for the years 2002 and 2001, and the periods from October 20, 2000 to December 31, 2000 and from January 1, 2000 to October 19, 2000

Notes to Consolidated Financial Statements

(ii) Financial Statement Schedule

COMMONWEALTH EDISON COMPANY AND SUBSIDIARY COMPANIES

Schedule II—Valuation and Qualifying Accounts
(in millions)

Column A	Column B	Column C		Column D	Column E	Column F
		Additions and adjustments				
Description	Balance at Beginning of Year	Charged to Cost and Expenses	Charged to Other Accounts	Deductions	Restructuring Transfers(a)	Balance at End of Year
For The Year Ended December 31, 2002						
Allowance for Uncollectible Accounts	$ 49	$ 50	$ —	$ 75	$ —	$ 24
Reserve for:						
Merger-Related Costs	$ 63	$ —	$ (9)	$ 41	$ —	$ 13
Injuries and Damages	$ 37	$ 23	$ —	$ 14(b)	$ —	$ 46
Environmental Investigation and Remediation	$ 105	$ 19	$ —	$ 23(c)	$ —	$ 101
Obsolete Materials	$ 6	$ —	$ —	$ 1	$ —	$ 5
For The Year Ended December 31, 2001						
Allowance for Uncollectible Accounts	$ 60	$ 42	$ 1	$ 54	$ —	$ 49
Reserve for:						
Merger-Related Costs	$ 144	$ —	$ 25	$ 29	$ 77	$ 63
Injuries and Damages	$ 48	$ 4	$ —	$ 7(b)	$ 8	$ 37
Environmental Investigation and Remediation	$ 117	$ 1	$ —	$ 13(c)	$ —	$ 105
Obsolete Materials	$ 98	$ —	$ —	$ 14	$ 78	$ 6
For The Year Ended December 31, 2000						
Allowance for Uncollectible Accounts	$ 49	$ 46	$ 11	$ 46	$ —	$ 60
Reserve for:						
Merger-Related Costs	$ —	$ —	$ 149	$ 5	$ —	$ 144
Injuries and Damages	$ 55	$ 10	$ 5	$ 22(b)	$ —	$ 48
Environmental Investigation and Remediation	$ 100	$ 26	$ —	$ 9(c)	$ —	$ 117
Obsolete Materials	$ 27	$ 57	$ 19	$ 5	$ —	$ 98

(a) Represents amounts transferred as part of the 2001 Corporate Restructuring. See ITEM 8. Financial Statements and Supplementary Information—ComEd—Note 2—Corporate Restructuring of Notes to Consolidated Financial Statements.

(b) Payments of claims and related costs.

(c) Expenditures for site investigation and remediation.

(3) PECO

(i) Financial Statements

Consolidated Statements of Income for the years 2002, 2001 and 2000
Consolidated Statements of Cash Flows for the years 2002, 2001 and 2000
Consolidated Balance Sheets as of December 31, 2002 and 2001
Consolidated Statements of Changes in Shareholders' Equity for the years 2002, 2001 and 2000
Consolidated Statements of Comprehensive Income for the years 2002, 2001 and 2000
Notes to Consolidated Financial Statements

(ii) Financial Statement Schedule

PECO ENERGY COMPANY AND SUBSIDIARY COMPANIES

Schedule II—Valuation and Qualifying Accounts
(in millions)

Column A	Column B	Column C	Column D	Column E	Column F
		Additions and adjustments			

Description	Balance at Beginning of Year	Charged to Cost and Expenses	Charged to Other Accounts	Deductions	Restructuring Transfers(a)	Balance at End of Year
For The Year Ended December 31, 2002						
Allowance for Uncollectible Accounts	$ 110	$ 45	$ —	$ 83(b)	$ —	$ 72
Reserve for:						
Injuries and Damages	$ 25	$ 10	$ —	$ 11(c)	$ —	$ 24
Environmental Investigation and Remediation	$ 37	$ 3	$ 6	$ 6(d)	$ —	$ 40
Obsolete Materials	$ 1	$ —	$ —	$ 1	$ —	$ —
For The Year Ended December 31, 2001						
Allowance for Uncollectible Accounts	$ 131	$ 69	$ —	$ 67(b)	$ 23	$ 110
Reserve for:						
Injuries and Damages	$ 21	$ 13	$ —	$ 9(c)	$ —	$ 25
Environmental Investigation and Remediation	$ 54	$ —	$ —	$ 2(d)	$ 15	$ 37
Obsolete Materials	$ 3	$ 6	$ —	$ 7	$ 1	$ 1
For The Year Ended December 31, 2000						
Allowance for Uncollectible Accounts	$ 112	$ 68	$ —	$ 49(b)	$ —	$ 131
Reserve for:						
Injuries and Damages	$ 23	$ 7	$ —	$ 9(c)	$ —	$ 21
Environmental Investigation and Remediation	$ 57	$ —	$ —	$ 3(d)	$ —	$ 54

(a) Represents amounts transferred as part of the 2001 Corporate Restructuring. See ITEM 8. Financial Statements and Supplementary Information—PECO—Note 2—Corporate Restructuring of Notes to the Consolidated Financial Statements.

(b) Write-off of individual accounts receivable.

(c) Payments of claims and related costs.

(d) Expenditures for site investigation and remediation.

(4) **Generation**

(i) Financial Statements

Consolidated Statements of Income for the years 2002, 2001 and 2000

Consolidated Statements of Cash Flow for the years 2002, 2001 and 2000

Consolidated Balance Sheets as of December 31, 2002 and 2001

Consolidated Statements of Changes in Divisional/Member's Equity for the years 2002, 2001 and 2000

Consolidated Statements of Comprehensive Income for the years 2002, 2001 and 2000

Notes to Consolidated Financial Statements

(ii) Financial Statement Schedule

EXELON GENERATION COMPANY AND SUBSIDIARY COMPANIES

Schedule II—Valuation and Qualifying Accounts
(in millions)

	Column A	Column B	Column C	Column D	Column E	Column F
		Additions and adjustments				
Description	Balance at Beginning of Year	Charged to Cost and Expenses	Charged to Other Accounts	Deductions	Merger Transfer(a)	Balance at End of Year
For The Year Ended December 31, 2002						
Allowance for Uncollectible Accounts	$ 17	$ 26	$ —	$ 21(b)	$ —	$ 22
Reserve for:						
Merger Related Costs	$ 31	$ —	$ (2)	$ 22(c)	$ —	$ 7
Injuries and Damages	$ 12	$ 25	$ —	$ 9	$ —	$ 28

Environmental Investigation and Remediation	$ 14	$ —	$ 7(e)	$ 6(d)	$ —	$ 15
Obsolete Materials	$ 12	$ 10	$ 3	$ 12	$ —	$ 13
For The Year Ended December 31, 2001						
Allowance for Uncollectible Accounts	$ 2	$ 16	$ —	$ 1(b)	$ —	$ 17
Reserve for:						
Merger Related Costs	$ 50	$ —	$ (10)	$ 9	$ —	$ 31
Injuries and Damages	$ 8	$ —	$ 4	$ —	$ —	$ 12
Environmental Investigation and Remediation	$ 15	$ —	$ —	$ 1(d)	$ —	$ 14
Obsolete Materials	$ 79	$ 11	$ —	$ 78	$ —	$ 12
For The Year Ended December 31, 2000						
Allowance for Uncollectible Accounts	$ —	$ 2	$ —	$ —(b)	$ —	$ 2
Reserve for:						
Merger Related Costs	$ —	$ —	$ —	$ —	$ 50	$ 50
Injuries and Damages	$ —	$ —	$ 8	$ —(c)	$ —	$ 8
Environmental Investigation and Remediation	$ 16	$ —	$ —	$ 1(d)	$ —	$ 15
Obsolete Materials	$ 1	$ —	$ 78	$ —	$ —	$ 79

(a) Represents amounts transferred as part of the Merger. See ITEM 8. Financial Statements and Supplementary Information—Generation—Note 2—Merger of the Notes to Consolidated Financial Statements.

(b) Write-off of individual accounts receivable.

(c) Payments of claims and related costs.

(d) Expenditures for site investigation and remediation.

(e) Result of New England Holdings asset acquisition in November 2002.

The individual financial statements and schedules of Exelon's and ComEd's unconsolidated wholly-owned subsidiaries have been omitted from their respective Annual Reports on Form 10-K because the investments are not material in relation to their respective financial positions or results of operations. As of December 31, 2001, the assets of the unconsolidated subsidiaries, in the aggregate, were less than 1% of Exelon's and ComEd's consolidated assets. The 2001 revenues of the unconsolidated subsidiaries, in the aggregate, were less than 1% of Exelon's and ComEd's consolidated annual revenues.

(b) Reports on Form 8-K

Exelon, ComEd, PECO and/or Generation filed Current Reports on Form 8-K during the fourth quarter of 2002 regarding the following items:

Date of Earliest Event Reported	Description of Item Reported
October 2, 2002	"ITEM 5. OTHER EVENTS" filed by Exelon, ComEd and Generation, regarding Generation's exercise of certain options under its purchased power agreement with Midwest Generation, LLC.
October 10, 2002	"ITEM 5. OTHER EVENTS" filed by Exelon and ComEd, regarding the results of the audit by Liberty Consulting Group related to the pending Delivery Services Rate Case.
October 14, 2002	"ITEM 5. OTHER EVENTS" filed by Exelon, announcing that Robert S. Shapard accepted the position of Executive Vice President and Chief Financial Officer.
October 18, 2002	"ITEM 5. OTHER EVENTS" filed by Exelon, ComEd, PECO and Generation, announcing Exelon's expected third quarter 2002 earnings and its plans to restate other comprehensive income.
October 21, 2002	"ITEM 5. OTHER EVENTS" filed by Exelon, ComEd, PECO and Generation, regarding Exelon's presentation at the Edison Electric Institute Financial Conference.
October 30, 2002	"ITEM 5. OTHER EVENTS" filed by Exelon, ComEd, PECO and Generation regarding the announcement of Exelon's third quarter earnings and the closing of Generation's acquisition of Sithe New England Holdings, LLC and "ITEM 9. REGULATION FD DISCLOSURE" filed by Exelon, ComEd, PECO and Generation regarding comments made during the third quarter earnings conference call and the financial impact of the Sithe New England Holdings Acquisition.
November 4, 2002	"ITEM 5. OTHER EVENTS" filed by Exelon, ComEd, PECO and Generation announcing that effective November 4, 2002, Robert S. Shapard assumed the role of Chief Financial Officer and Exelon renewed its $1.5 billion credit facility, in which ComEd, PECO and Generation participate.
December 19, 2002	"ITEM 9. REGULATION FD DISCLOSURE" filed by Exelon and Generation regarding the note to Exelon's financial community related to an update on its Sithe investment.

(c) Exhibits

Certain of the following exhibits are incorporated herein by reference under Rule 12b-32 of the Securities and Exchange Act of 1934, as amended. Certain other instruments which would otherwise be required to be listed below have not been so listed because such instruments do not authorize securities in an amount which exceeds 10% of the total assets of the applicable registrant and its subsidiaries on a consolidated basis and the relevant registrant agrees to furnish a copy of any such instrument to the Commission upon request.

Exhibit No.	Description
2-1	Amended and Restated Agreement and Plan of Merger dated as of October 20, 2000, among PECO Energy Company, Exelon Corporation and Unicom Corporation (File No. 1-01401, PECO Energy Company Form 10-Q for the quarter ended September 30, 2000, Exhibit 2-1).
3-1	Articles of Incorporation of Exelon Corporation (Registration Statement No. 333-37082, Form S-4, Exhibit 3-1).
3-2	Bylaws of Exelon Corporation (Registration Statement No. 333-37082, Form S-4, Exhibit 3-2).
3-3	Amended and Restated Articles of Incorporation of PECO Energy Company (File No. 1-01401, 2000 Form 10-K, Exhibit 3-3).
3-4	Bylaws of PECO Energy Company, adopted February 26, 1990 and amended January 26, 1998 (File No. 1-01401, 1997 Form 10-K, Exhibit 3-2).
3-5	Restated Articles of Incorporation of Commonwealth Edison Company effective February 20, 1985, including Statements of Resolution Establishing Series, relating to the establishment of three new series of Commonwealth Edison Company preference stock known as the "$9.00 Cumulative Preference Stock," the "$6.875 Cumulative Preference Stock" and the "$2.425 Cumulative Preference Stock" (File No. 1-1839, 1994 Form 10-K, Exhibit 3-2).
3-6	Bylaws of Commonwealth Edison Company, effective September 2, 1998, as amended through October 20, 2000 (File No. 1-1839, 2000 Form 10-K, Exhibit 3-6).
3-7	Certificate of Formation of Exelon Generation Company, LLC (Registration Statement No. 333-85496, Form S-4, Exhibit 3-1).
3-8	Exelon Generation Company, LLC Operating Agreement (Registration Statement No. 333-85496, Form S-4, Exhibit 3-2).
4-1	$1,500,000,000 Credit Agreement dated as of November 22, 2002 among Exelon Corporation, Commonwealth Edison Company, PECO Energy Company and Exelon Generation Company, LLC as Borrowers, various financial institutions named therein as Lenders, Bank One, NA, as Administrative Agent, ABN AMRO Bank, N.V. and Dresden Bank AG, New York and Grand Cayman Branches, as Co-Documentation Agents and Citibank, N.A. and Wachovia Bank, National Association, as Co-Syndication Agents, and Banc One Capital Markets, Inc., as Lead Arranger and Sole Book Runner.
4-2	First and Refunding Mortgage dated May 1, 1923 between The Counties Gas and Electric Company (predecessor to PECO Energy Company) and Fidelity Trust Company, Trustee (First Union National Bank, successor), (Registration No. 2-2281, Exhibit B-1).

4-2-1 Supplemental Indentures to PECO Energy Company's First and Refunding Mortgage:

Dated as of	File Reference	Exhibit No.
May 1, 1927	2-2881	B-1(c)
March 1, 1937	2-2881	B-1(g)
December 1, 1941	2-4863	B-1(h)
November 1, 1944	2-5472	B-1(i)
December 1, 1946	2-6821	7-1(j)
September 1, 1957	2-13562	2(b)-17
May 1, 1958	2-14020	2(b)-18
March 1, 1968	2-34051	2(b)-24
March 1, 1981	2-72802	4-46
March 1, 1981	2-72802	4-47
December 1, 1984	1-01401, 1984 Form 10-K	4-2(b)
April 1, 1991	1-01401, 1991 Form 10-K	4(e)-76
December 1, 1991	1-01401, 1991 Form 10-K	4(e)-77
June 1, 1992	1-01401, June 30, 1992 Form 10-Q	4(e)-81
March 1, 1993	1-01401, 1992 Form 10-K	4(e)-86
May 1, 1993	1-01401, March 31, 1993 Form 10-Q	4(e)-88
May 1, 1993	1-01401, March 31, 1993 Form 10-Q	4(e)-89
August 15, 1993	1-01401, Form 8-A dated August 19, 1993	4(e)-92
May 1, 1995	1-01401, Form 8-K dated May 24, 1995	4(e)-96
September 15, 2002	1-01401, September 30, 2002 Form 10-Q	4-1
October 1, 2002	1-01401, September 30, 2002 Form 10-Q	4-2

4-3 Exelon Corporation Dividend Reinvestment and Stock Purchase Plan (Registration Statement No. 333-84446, Form S-3, Prospectus).

4-4 Mortgage of Commonwealth Edison Company to Illinois Merchants Trust Company, Trustee (BNY Midwest Trust Company, as current successor Trustee), dated July 1, 1923, as supplemented and amended by Supplemental Indenture thereto dated August 1, 1944. (File No. 2-60201, Form S-7, Exhibit 2-1).

4-4-1 Supplemental Indentures to aforementioned Commonwealth Edison Mortgage.

Dated as of	File Reference	Exhibit No.
August 1, 1946	2-60201, Form S-7	2-1
April 1, 1953	2-60201, Form S-7	2-1
March 31, 1967	2-60201, Form S-7	2-1
April 1,1967	2-60201, Form S-7	2-1
February 28, 1969	2-60201, Form S-7	2-1
May 29, 1970	2-60201, Form S-7	2-1
June 1, 1971	2-60201, Form S-7	2-1
April 1, 1972	2-60201, Form S-7	2-1
May 31, 1972	2-60201, Form S-7	2-1
June 15, 1973	2-60201, Form S-7	2-1
May 31, 1974	2-60201, Form S-7	2-1
June 13, 1975	2-60201, Form S-7	2-1
May 28, 1976	2-60201, Form S-7	2-1
June 3, 1977	2-60201, Form S-7	2-1
May 17, 1978	2-99665, Form S-3	4-3
August 31, 1978	2-99665, Form S-3	4-3
June 18, 1979	2-99665, Form S-3	4-3
June 20, 1980	2-99665, Form S-3	4-3
April 16, 1981	2-99665, Form S-3	4-3
April 30, 1982	2-99665, Form S-3	4-3
April 15, 1983	2-99665, Form S-3	4-3
April 13, 1984	2-99665, Form S-3	4-3
April 15, 1985	2-99665, Form S-3	4-3
April 15, 1986	33-6879, Form S-3	4-9
June 15, 1990	33-38232, Form S-3	4-12
October 1, 1991	33-40018, Form S-3	4-13
October 15, 1991	33-40018, Form S-3	4-14
May 15, 1992	33-48542, Form S-3	4-14
September 15, 1992	33-53766, Form S-3	4-14
February 1, 1993	1-1839, 1992 Form 10-K	4-14
April 1, 1993	33-64028, Form S-3	4-12
April 15, 1993	33-64028, Form S-3	4-13
June 15, 1993	1-1839, Form 8-K dated May 21, 1993	4-1
July 15, 1993	1-1839, Form 10-Q for quarter ended June 30, 1993.	4-1
January 15, 1994	1-1839, 1993 Form 10-K	4-15
December 1, 1994	1-1839, 1994 Form 10-K	4-16
June 1, 1996	1-1839, 1996 Form 10-K	4-16
March 1, 2002	1-1839, 2001 Form 10-K	4-4-1
May 20, 2002		
June 1, 2002		
October 7, 2002		
January 13, 2003	1-1839, Form 8-K	4-4

4-4-2 Instrument of Resignation, Appointment and Acceptance dated as of February 20, 2002, under the provisions of the Mortgage dated July 1, 1923, and Indentures Supplemental thereto, regarding corporate trustee (File No. 1-1839, 2001 Form 10-K, Exhibit 4-4-2).

4-4-3 Instrument dated as of January 31, 1996, under the provisions of the Mortgage dated July 1, 1923 and Indentures Supplemental thereto, regarding individual trustee (File No. 1-1839, 1995 Form 10-K, Exhibit 4-29).

4-5 Indenture dated as of September 1, 1987 between Commonwealth Edison Company and Citibank, N.A., Trustee relating to Notes (File No. 1-1839, Form S-3, Exhibit 4-13).

4-6-1 Supplemental Indentures to aforementioned Indenture.

Dated as of	File Reference	Exhibit No.

	September 1, 1987	33-32929, Form S-3	4-16
	January 1, 1997	1-1839, 1999 Form 10-K	4-21
	September 1, 2000	1-1839, 2000 Form 10-K	4-7-3

4-7	Indenture dated June 1, 2001 between Generation and First Union National Bank (now Wachovia Bank, National Association) (Registration Statement No. 333-85496, Form S-4, Exhibit 4.1).
10-1	Stock Purchase Agreement among Exelon (Fossil) Holdings, Inc., as Buyer and The Stockholders of Sithe Energies, Inc., as Sellers, and Sithe Energies, Inc. (File No. 0-16844, PECO Energy Company Form 10-Q for the quarter ended September 30, 2000, Exhibit 10-1).
10-2	$1,250,000,000 Credit and Reimbursement Agreement dated as of January 31, 2001 by and among Exelon Boston Generating, LLC (successor to Sithe Boston Generating, LLC), as Borrower, the Lenders named therein, Bayerische Landesbank Girozentrale, as DSR LC Issuer, BNP Paribas, as Administrative Agent.
10-3	Power Purchase Agreement among Generation and PECO (Registration Statement No. 333-85496, Form S-4, Exhibit 10.1).
10-4	Power Purchase Agreement among Generation and ComEd (Registration Statement No. 333-85496, Form S-4, Exhibit 10.2).
10-5	Amended and restated employment agreement between Exelon Corporation and John W. Rowe dated as of November 26, 2001* (File No. 1-16169, 2001 Form 10-K, Exhibit 10-2).
10-6	Separation Agreement between Exelon and Corbin A. McNeill, Jr., dated as of April 23, 2002* (File No. 1-16169, March 31, 2002 Form 10-Q, Exhibit 10-1).
10-7	Employment Agreement by and among Exelon Corporation, Exelon Generation Company, LLC and Oliver D. Kingsley, Jr. dated as of September 5, 2002* (File Nos. 1-16169 and 333-85496, September 30, 2002 Form 10-Q, Exhibit 10-1).
10-8	Exelon Corporation Deferred Compensation Plan (File No. 1-16169, 2001 Form 10-K, Exhibit 10-3).
10-9	Exelon Corporation Retirement Program (File No. 1-16169, 2001 Form 10-K, Exhibit 10-4).
10-10	PECO Energy Company Unfunded Deferred Compensation Plan for Directors* (Registration Statement No. 333-49780, Form S-8, Exhibit 4-4).
10-11	Exelon Corporation Long-Term Incentive Plan As Amended and Restated effective January 28, 2002 * (File No. 1-16169, Exelon Proxy Statement dated March 13, 2002, Appendix B).
10-11-1	Form of Restricted Stock Award Agreement under the Exelon Corporation Long-Term Incentive Plan* (File No. 1-16169, 2001 Form 10-K, Exhibit 10-6-1).
10-11-2	Forms of Transferable Stock Option Award Agreement under the Exelon Corporation Long-Term Incentive Plan* (File No. 1-16169, 2001 Form 10-K, Exhibit 10-6-2).
10-11-3	Forms of Stock Option Award Agreement under the Exelon Corporation Long-Term Incentive Plan* (File No. 1-16169, 2001 Form 10-K, Exhibit 10-6-3).

10-12	PECO Energy Company Management Incentive Compensation Plan *(File No. 1-01401, 1997 Proxy Statement, Appendix A).
10-13	PECO Energy Company 1998 Stock Option Plan *(Registration Statement No. 333-37082, Post-Effective Amendment No. 1 to Form S-4, Exhibit 4-3).
10-14	Exelon Corporation Employee Savings Plan (File No. 1-16169, 2001 Form 10-K, Exhibit 10-9).
10-15	Second Amended and Restated Trust Agreement for PECO Energy Transition Trust (File No. 333-58055, PECO Energy Transition Trust Report on Form 8-K dated May 2, 2000, Exhibit 4.1).
10-16	Indenture dated as of March 1, 1999 between PECO Energy Transition Trust and The Bank of New York. (File No. 333-58055, PECO Energy Transition Trust Report on Form 8-K dated March 25, 1999, Exhibit 4.3.1).
10-16-1	Series Supplement dated as of March 25, 1999 between PECO Energy Transition Trust and The Bank of New York. (File No. 333-58055, PECO Energy Transition Trust Report on Form 8-K dated March 25, 1999, Exhibit 4.3.2).
10-16-2	Series Supplement dated as of March 1, 2001 between PECO Energy Transition Trust and The Bank of New York. (File No. 333-58055, PECO Energy Transition Trust Report on Form 8-K dated March 1, 2001, Exhibit 4.3.2).
10-16-3	Series Supplement dated as of May 2, 2000 between PECO Energy Transition Trust and The Bank of New York (File No. 333-58055, PECO Energy Transition Trust Report on Form 8-K dated May 2, 2000, Exhibit 4.3.2).

10-17	Intangible Transition Property Sale Agreement dated as of March 25,1999, as amended and restated as of May 2, 2000, between PECO Energy Transition Trust and PECO Energy Company. (File No. 333-58055, PECO Energy Transition Trust Report on Form 8-K dated May 2, 2000, Exhibit 10.1).
10-17-1	Amendment No. 1 to Intangible Transition Property Sale Agreement dated as of March 25, 1999, as amended and restated as of May 2, 2000 (File No. 1-01401, PECO Energy Company and PECO Energy Transition Trust Report on Form 8-K dated March 1, 2001).
10-18	Master Servicing Agreement dated as of March 25, 1999, as amended and restated as of May 2, 2000, between PECO Energy Transition Trust and PECO Energy Company. (File No. 333-58055, PECO Energy Transition Trust Current Report on Form 8-K dated May 2, 2000, Exhibit 10.2).
10-18-1	Amendment No. 1 to Master Servicing Agreement dated as of March 25, 1999, as amended and restated as of May 2, 2000 (File No. 1-01401, PECO Energy Company and PECO Energy Transition Trust Report on Form 8-K dated March 1, 2001).
10-19	Exelon Corporation Cash Balance Pension Plan (File No. 1-16169, 2001 Form 10-K, Exhibit 10-14).
10-20	Joint Petition for Full Settlement of PECO Energy Company's Restructuring Plan and Related Appeals and Application for a Qualified Rate Order and Application for Transfer of Generation Assets dated April 29, 1998. (Registration Statement No. 333-58055, Exhibit 10.3).
10-21	Joint Petition for Full Settlement of PECO Energy Company's Application for Issuance of Qualified Rate Order Under Section 2812 of the Public Utility Code dated March 8, 2000 (Amendment No. 1 to Registration Statement No. 333-31646, Exhibit 10.4).

10-22	Unicom Corporation Amended and Restated Long-Term Incentive Plan *(File No. 1-11375, Unicom Proxy Statement dated April 7, 1999, Exhibit A).
10-22-1	First Amendment to Unicom Corporation Amended and Restated Long Term Incentive Plan *(Registration Statement No. 333-49780, Form S-8, Exhibit 4-8).
10-22-2	Second Amendment to Unicom Corporation Amended and Restated Long Term Incentive Plan *(Registration Statement No. 333-49780, Form S-8, Exhibit 4-9).
10-23	Unicom Corporation General Provisions Regarding 1996 Stock Option Awards Granted under the Unicom Corporation and Long-Term Incentive Plan. *(File Nos. 1-11375 and 1-1839, 1996 Form 10-K, Exhibit 10-9).
10-24	Unicom Corporation General Provisions Regarding 1996B Stock Option Awards Granted under the Unicom Corporation Long-Term Incentive Plan. *(File Nos. 1-11375 and 1-1839, 1996 Form 10-K, Exhibit 10-8).
10-25	Unicom Corporation General Provisions Regarding Stock Option Awards Granted under the Unicom Corporation Long-Term Incentive Plan (Effective July 10, 1997) (File Nos. 1-11375 and 1-1839, 1999 Form 10-K, Exhibit 10-8).
10-26	Unicom Corporation Deferred Compensation Unit Plan, as amended *(File Nos. 1-11375 and 1-1839, 1995 Form 10-K, Exhibit 10-12).
10-27	Exelon Corporation Corporate Stock Deferral Plan* (File No. 1-16169, 2001 Form 10-K, Exhibit 10-22).
10-28	Unicom Corporation Retirement Plan for Directors, as amended *(Registration Statement No. 333-49780, Form S-8, Exhibit 4-12).
10-29	Commonwealth Edison Company Retirement Plan for Directors, as amended *(Registration Statement No. 333-49780, Form S-8, Exhibit 4-13).
10-30	Unicom Corporation 1996 Directors' Fee Plan *(File No. 1-11375, Unicom Proxy Statement dated April 8, 1996, Appendix A).
10-30-1	Second Amendment to Unicom Corporation 1996 Directors Fee Plan *(Registration Statement No. 333-49780, Form S-8, Exhibit 4-11).
10-31	Change in Control Agreement between Unicom Corporation, Commonwealth Edison Company and certain senior executives * (File Nos. 1-11375 and 1-1839, 1998 Form 10-K, Exhibit 10-24).
10-31-1	Forms of Change in Control Agreement Between PECO Energy Company and Certain Employees * (File No. 1-1401, 2000 Form 10-K, Exhibit 10-25-1).
10-32	Commonwealth Edison Company Executive Group Life Insurance Plan *(File No. 1-1839, 1980 Form 10-K, Exhibit 10-3).
10-32-1	Amendment to the Commonwealth Edison Company Executive Group Life Insurance Plan *(File No. 1-1839, 1981 Form 10-K, Exhibit 10-4).
10-32-2	Amendment to the Commonwealth Edison Company Executive Group Life Insurance Plan dated December 12, 1986 *(File No. 1-1839, 1986 Form 10-K, Exhibit 10-6).

10-32-3	Amendment to the Commonwealth Edison Company Executive Group Life Insurance Plan to implement program of "split dollar life insurance" dated December 13, 1990 *(File No. 1-1839, 1990 Form 10-K, Exhibit 10-10).
10-32-4	Amendment to Commonwealth Edison Company Executive Group Life Insurance Plan to stabilize the death benefit applicable to participants dated July 22, 1992 *(File No. 1-1839, 1992 Form 10-K, Exhibit 10-13).

10-33	First Amendment to Exelon Corporation Employee Savings Plan (File No. 1-16169, 2001 Form 10-K, Exhibit 10-29).
10-33-1	First Amendment to the Commonwealth Edison Company Supplemental Management Retirement Plan. * (File No. 1-1839, 2000 Form 10-K, Exhibit 10-27-1)
10-34	Second Amendment and Restated Exelon Corporation Key Management Severance Plan* (File No. 1-16169, 2001 Form 10-K, Exhibit 10-30).
10-35	Forms of Change in Control Agreement between Exelon Corporation and certain senior executives (File No. 1-16169, 2001 Form 10-K, Exhibit 10-31).
10-36	Amendment No. 1 to Exelon Corporation Supplemental Management Retirement Plan* (File No. 1-16169, 2001 Form 10-K, Exhibit 10-32).
10-37	Form of Stock Award Agreement under the Unicom Corporation Long-Term Incentive Plan *(File Nos. 1-11375 and 1-1839, 1997 Form 10-K, Exhibit 10-37).
10-38	Amended and Restated Key Management Severance Plan for Unicom Corporation and Commonwealth Edison Company dated March 8, 1999 * (File No. 1-1839, 1999 Form 10-K, Exhibit 10-38).
10-38-1	Exelon Corporation Employee Stock Purchase Plan (Registration Statement No. 333-61390, Form S-8, Exhibit 4.2).
10-38-2	First Amendment to the Exelon Corporation Employee Stock Purchase Plan (File No. 1-16169, 2001 Form 10-K, Exhibit 10-34-2).
10-39	PECO Energy Company Supplemental Pension Benefit Plan (As Amended and Restated January 1, 2001)* (File No. 1-1401, 2001 Form 10-K, Exhibit 10-35).
10-40	Exelon Corporation 2001 Performance Share Awards for Power Team Employees under the Exelon Corporation Long Term Incentive Plan* (File No. 1-16169, 2001 Form 10-K, Exhibit 10-36).
10-41	Agreement Regarding Various Matters Involving or Affecting Rates for Electric Service Offered by Commonwealth Edison Company dated as of March 3, 2003 among Commonwealth Edison Company and the other parties named therein.
10-41-1	Amendment dated as of March 10, 2003 to the Agreement Regarding Various Matters Involving or Affecting Rates for Electric Service Offered by Commonwealth Edison Company.
16	Arthur Andersen Letter to Securities and Exchange Commission regarding the change in certifying accountant (File No. 1-01839, Exelon Corporation Report on Form 8-K dated November 28, 2000, Exhibit 16).
18-1	Letter from PricewaterhouseCoopers LLP addressed to Exelon Corporation concerning a change in accounting principles (File No. 1-16169, 2000 Form 10-K from PricewaterhouseCoopers LLP addressed to Exelon Corporation concerning a change in accounting principles (File No. 1-16169, 2000 Form 10-K, Exhibit 18-1).
18-2	Letter from PricewaterhouseCoopers LLP addressed to PECO Energy Company concerning a change in accounting principles (File No. 1-1401, 2000 Form 10-K, Exhibit 18-2).
21	Subsidiaries
21-1	Exelon Corporation
21-2	Commonwealth Edison Company (File No. 1-1839, 2000 Form 10-K, Exhibit 21-3).
21-3	PECO Energy Company (File No. 1-1401, 2000 Form 10-K, Exhibit 21-2).

23	Consent of Independent Accountants
23-1	Exelon Corporation

23-2	Commonwealth Edison Company
23-3	PECO Energy Company
24	Power of Attorney
24-1	Edward A. Brennan
24-2	Carlos H. Cantu
24-3	M. Walter D'Alessio
24-4	Nicholas DeBenedictis
24-5	Bruce DeMars
24-6	G. Fred DiBona, Jr.
24-7	Reserved
24-8	Richard H. Glanton
24-9	Reserved
24-10	Edgar D. Jannotta
24-11	John M. Palms, Ph.D.
24-12	John W. Rogers, Jr.
24-13	Ronald Rubin
24-14	Richard L. Thomas
99-1	Exelon Corporation's Current Report on Form 8-K dated February 21, 2003, (File No. 1-16169).
	Certifications Pursuant to Section 1350 of Chapter 63 of Title 18 United States Code (Sarbanes—Oxley Act of 2002) as to the Annual Report on Form 10-K for the year ended December 31, 2002 filed by the following officers for the following registrants:
99-2	Filed by John W. Rowe for Exelon Corporation
99-3	Filed by Robert S. Shapard for Exelon Corporation
99-4	Filed by Pamela B. Strobel for Commonwealth Edison Company
99-5	Filed by Robert S. Shapard for Commonwealth Edison Company
99-6	Filed by Pamela B. Strobel for PECO Energy Company
99-7	Filed by Robert S. Shapard for PECO Energy Company
99-8	Filed by Oliver D. Kingsley for Exelon Generation Company, LLC
99-9	Filed by Robert S. Shapard for Exelon Generation Company, LLC

* Compensatory plan or arrangements in which directors or officers of the applicable registrant participate and which are not available to all employees.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Chicago and State of Illinois on the 21st day of March, 2003.

EXELON CORPORATION

By: /s/ JOHN W. ROWE

Name: John W. Rowe
Title: *Chairman, President and Chief Executive Officer*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities indicated on the 21st day of March, 2003.

Signature	Title
/s/ JOHN W. ROWE John W. Rowe	Chairman, President and Chief Executive Officer (Principal Executive Officer)
/s/ ROBERT S. SHAPARD Robert S. Shapard	Executive Vice President and Chief Financial Officer (Principal Financial Officer)
/s/ MATTHEW F. HILZINGER Matthew F. Hilzinger	Vice President and Corporate Controller (Principal Accounting Officer)

This annual report has also been signed below by John W. Rowe, Attorney-in-Fact, on behalf of the following Directors on the date indicated:

EDWARD A. BRENNAN	RICHARD H. GLANTON
CARLOS H. CANTU	EDGAR D. JANNOTTA
M. WALTER D'ALESSIO	JOHN M. PALMS, PH.D.
NICHOLAS DEBENEDICTIS	JOHN W. ROGERS, JR.
BRUCE DEMARS	RONALD RUBIN
G. FRED DIBONA, JR.	RICHARD L. THOMAS

By: /s/ JOHN W. ROWE March 21, 2003

Name: John W. Rowe
Title: Chairman, President and Chief Executive Officer

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Chicago and State of Illinois on the 21st day of March, 2003.

COMMONWEALTH EDISON COMPANY

By: /s/ JOHN W. ROWE

Name: John W. Rowe
Title: *Chairman, President and Chief Executive Officer, Exelon and Director*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities indicated on the 21st day of March, 2003.

Signature	Title
/s/ JOHN W. ROWE John W. Rowe	Chairman, President and Chief Executive Officer, Exelon and Director
/s/ PAMELA B. STROBEL Pamela B. Strobel	Chair (Principal Executive Officer)
/s/ ROBERT S. SHAPARD Robert S. Shapard	Executive Vice President and Chief Financial Officer, Exelon (Principal Financial Officer)
/s/ FRANK M. CLARK Frank M. Clark	President and Director
/s/ KATHRYN M. HOUTSMA Kathryn M. Houtsma	Vice President, Finance (Principal Accounting Officer)
/s/ RUTH ANN M. GILLIS	Director

Ruth Ann M. Gillis

/s/ KENNETH G. LAWRENCE Kenneth G. Lawrence	Director

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Chicago and State of Illinois on the 21st day of March, 2003.

PECO ENERGY COMPANY

By: /s/ JOHN W. ROWE

Name: John W. Rowe
Title: *Chairman, President and Chief Executive Officer, Exelon and Director*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities indicated on the 21st day of March, 2003.

Signature	Title
/s/ JOHN W. ROWE John W. Rowe	Chairman, President and Chief Executive Officer, Exelon and Director
/s/ PAMELA B. STROBEL Pamela B. Strobel	Chair (Principal Executive Officer)
/s/ ROBERT S. SHAPARD Robert S. Shapard	Executive Vice President and Chief Financial Officer, Exelon (Principal Financial Officer)
/s/ KENNETH G. LAWRENCE Kenneth G. Lawrence	President and Director
/s/ FRANK F. FRANKOWSKI Frank F. Frankowski	Vice President, Finance (Principal Accounting Officer)
/s/ RUTH ANN M. GILLIS Ruth Ann M. Gillis	Director

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Chicago and State of Illinois on the 21st day of March, 2003.

EXELON GENERATION COMPANY, LLC

By: /s/ JOHN W. ROWE

Name: John W. Rowe
Title: *Chairman, President and Chief Executive Officer, Exelon*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities indicated on the 21st day of March, 2003.

Signature	Title

/s/ JOHN W. ROWE John W. Rowe	Chairman, President and Chief Executive Officer, Exelon
/s/ OLIVER D. KINGSLEY JR. Oliver D. Kingsley Jr.	Chief Executive Officer and President (Principal Executive Officer)
/s/ ROBERT S. SHAPARD Robert S. Shapard	Executive Vice President and Chief Financial Officer, Exelon (Principal Financial and Accounting Officer)
/s/ THOMAS H. WEIR Thomas H. Weir	Controller

**CERTIFICATION PURSUANT TO RULE 13A-14 AND 15D-14
OF THE SECURITIES AND EXCHANGE ACT OF 1934**

I, John W. Rowe, certify that:

1. I have reviewed this annual report on Form 10-K of Exelon Corporation;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 21, 2003	/s/ JOHN W. ROWE *Chairman, President and Chief Executive Officer* *(Principal Executive Officer)*

**CERTIFICATION PURSUANT TO RULE 13A-14 AND 15D-14
OF THE SECURITIES AND EXCHANGE ACT OF 1934**

I, Robert S. Shapard, certify that:

1. I have reviewed this annual report on Form 10-K of Exelon Corporation;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

    a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

    b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

    c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

    a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 21, 2003	/s/ ROBERT S. SHAPARD
	Executive Vice President and Chief Financial Officer *(Principal Financial Officer)*

CERTIFICATION PURSUANT TO RULE 13A-14 AND 15D-14
OF THE SECURITIES AND EXCHANGE ACT OF 1934

I, Pamela B. Strobel, certify that:

1. I have reviewed this annual report on Form 10-K of Commonwealth Edison Company;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

    a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

    b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

    c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 21, 2003

/s/ PAMELA B. STROBEL

Chair
(Principal Executive Officer)

CERTIFICATION PURSUANT TO RULE 13A-14 AND 15D-14
OF THE SECURITIES AND EXCHANGE ACT OF 1934

I, Robert S. Shapard, certify that:

1. I have reviewed this annual report on Form 10-K of Commonwealth Edison Company;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 21, 2003

/s/ ROBERT S. SHAPARD

Executive Vice President and Chief Financial Officer, Exelon
(Principal Financial Officer)

CERTIFICATION PURSUANT TO RULE 13A-14 AND 15D-14
OF THE SECURITIES AND EXCHANGE ACT OF 1934

I, Pamela B. Strobel, certify that:

1. I have reviewed this annual report on Form 10-K of PECO Energy Company;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 21, 2003

/s/ PAMELA B. STROBEL

Chair
(Principal Executive Officer)

CERTIFICATION PURSUANT TO RULE 13A-14 AND 15D-14
OF THE SECURITIES AND EXCHANGE ACT OF 1934

I, Robert S. Shapard, certify that:

1. I have reviewed this annual report on Form 10-K of PECO Energy Company;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a)

all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 21, 2003

/s/ ROBERT S. SHAPARD

Executive Vice President and Chief Financial Officer, Exelon
(Principal Financial Officer)

CERTIFICATION PURSUANT TO RULE 13A-14 AND 15D-14
OF THE SECURITIES AND EXCHANGE ACT OF 1934

I, Oliver D. Kingsley Jr., certify that:

1. I have reviewed this annual report on Form 10-K of Exelon Generation Company, LLC;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 21, 2003

/s/ OLIVER D. KINGSLEY JR.

Chief Executive Officer and President
(Principal Executive Officer)

CERTIFICATION PURSUANT TO RULE 13A-14 AND 15D-14
OF THE SECURITIES AND EXCHANGE ACT OF 1934

I, Robert S. Shapard, certify that:

1. I have reviewed this annual report on Form 10-K of Exelon Generation Company, LLC;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

    a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

    b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

    c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

    a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 21, 2003

/s/ ROBERT S. SHAPARD

Executive Vice President and Chief Financial Officer, Exelon
(Principal Financial Officer)

QuickLinks

QuickLinks -- Click here to rapidly navigate through this document

Exhibit 4-1

$1,500,000,000

CREDIT AGREEMENT

dated as of November 22, 2002

among

EXELON CORPORATION,

COMMONWEALTH EDISON COMPANY,

PECO ENERGY COMPANY

and

EXELON GENERATION COMPANY, LLC

as Borrowers

VARIOUS FINANCIAL INSTITUTIONS

as Lenders

BANK ONE, NA

as Administrative Agent

ABN AMRO BANK, N.V.

and

DRESDNER BANK AG, NEW YORK AND GRAND CAYMAN BRANCHES

as Co-Documentation Agents

and

CITIBANK, N.A.

and

WACHOVIA BANK, NATIONAL ASSOCIATION

as Co-Syndication Agents

BANC ONE CAPITAL MARKETS, INC.

Lead Arranger and Sole Book Runner

CREDIT AGREEMENT
dated as of November 22, 2002

EXELON CORPORATION, COMMONWEALTH EDISON COMPANY, PECO ENERGY COMPANY, EXELON GENERATION COMPANY, LLC, the banks listed on the signature pages hereof, BANK ONE, NA, as Administrative Agent, ABN AMRO BANK, N.V. and DRESDNER BANK AG, NEW YORK AND GRAND CAYMAN BRANCHES, as Co-Documentation Agents, and CITIBANK, N.A. and WACHOVIA BANK, NATIONAL ASSOCIATION, as Co-Syndication Agents, hereby agree as follows:

ARTICLE I

DEFINITIONS AND ACCOUNTING TERMS

SECTION 1.01 *Certain Defined Terms.* As used in this Agreement, each of the following terms shall have the meaning set forth below (each such meaning to be equally applicable to both the singular and plural forms of the term defined):

"*Adjusted Funds From Operations*" means, for any Borrower for any period, such Borrower's Net Cash Flows From Operating Activities for such period *minus* such Borrower's Transitional Funding Instrument Revenue for such period *plus* such Borrower's Net Interest Expense for such period *minus*, to the extent applicable, the portion (but, if such Borrower or any of its Subsidiaries (other than Sithe Holdings and its Subsidiaries) has made any loans or advances to, or investments in, Sithe Holdings or any of its Subsidiaries during such period, not less than zero) of such Borrower's Net Cash Flows From Operating Activities attributable to Sithe Holdings and its Subsidiaries.

"*Administrative Agent*" means Bank One in its capacity as administrative agent for the Lenders pursuant to *Article VII*, and not in its individual capacity as a Lender, and any successor Administrative Agent appointed pursuant to *Section 7.06*.

"*Advance*" means an advance by a Lender to a Borrower hereunder. An Advance may be a Base Rate Advance or a Eurodollar Rate Advance, each of which shall be a "*Type*" of Advance.

"*Affiliate*" means, as to any Person, any other Person that, directly or indirectly, controls, is controlled by or is under common control with such Person or is a director or officer of such Person.

"*Agents*" means the Administrative Agent, the Co-Documentation Agents and the Co-Syndication Agents; and "*Agent*" means any one of the foregoing.

"*Applicable Lending Office*" means, with respect to each Lender, such Lender's Domestic Lending Office in the case of a Base Rate Advance and such Lender's Eurodollar Lending Office in the case of a Eurodollar Rate Advance.

"*Applicable Margin*"—see *Schedule II*.

"*Assignment and Acceptance*" means an assignment and acceptance entered into by a Lender and an Eligible Assignee, and accepted by the Administrative Agent, in substantially the form of *Exhibit C*.

"*Bank One*" means Bank One, NA, a national banking association with its main office in Chicago, Illinois.

"*Base Rate*" means, for any period, a fluctuating interest rate per annum which rate per annum shall at all times be equal to the higher of:

(a) the Prime Rate; and

(b) the sum of 0.5% per annum *plus* the Federal Funds Rate in effect from time to time.

"*Base Rate Advance*" means an Advance that bears interest as provided in *Section 2.06(a)*.

"*Borrowers*" means Exelon, ComEd, PECO and Genco; and "*Borrower*" means any one of the foregoing.

"*Borrowing*" means a group of Advances to the same Borrower of the same Type made, continued or converted on the same day by the Lenders ratably according to their Pro Rata Shares and, in the case of a Borrowing of Eurodollar Rate Advances, having the same Interest Period.

"*Business Day*" means a day on which banks are not required or authorized to close in Philadelphia, Pennsylvania, Chicago, Illinois or New York, New York, and, if the applicable Business Day relates to any Eurodollar Rate Advances, on which dealings are carried on in the London interbank market.

"*Closing Date*" shall mean the date on which all conditions precedent to the initial Credit Extension have been satisfied.

"*Code*" means the Internal Revenue Code of 1986, and the regulations promulgated thereunder, in each case as amended, reformed or otherwise modified from time to time.

"*Co-Documentation Agent*" means each of ABN AMRO Bank, N.V. and Dresdner Bank AG, New York and Grand Cayman Branches in its capacity as a co-documentation agent hereunder.

"*Commitment*" means, for any Lender, such Lender's commitment to make Advances and participate in Facility LCs for the account of each Borrower hereunder.

"*Commitment Amount*" means, for any Lender at any time, the amount set forth opposite such Lender's name on the signature pages hereof or, if such Lender has entered into any Assignment and Acceptance, set forth for such Lender in the Register maintained by the Administrative Agent pursuant to *Section 8.07(c)*, as such amount may be reduced pursuant to *Section 2.04*.

"*Commitment Termination Date*" means, with respect to any Borrower, the earlier of (i) November 21, 2003 or such later date to which the scheduled Commitment Termination Date for such Borrower may be extended pursuant to *Section 2.17* (or, if any such date is not a Business Day, the next preceding Business Day) or (ii) the date of termination in whole of the Commitments to such Borrower pursuant to *Section 2.04* or *6.01*.

"*ComEd*" means Commonwealth Edison Company, an Illinois corporation, or any Eligible Successor thereof.

"*ComEd Sublimit*" means $200,000,000, subject to adjustment as provided in *Section 2.04(c)*.

"*ComEd Mortgage*" means the Mortgage, dated July 1, 1923, as amended and supplemented by supplemental indentures, including the Supplemental Indenture, dated August 1, 1944, from ComEd to Harris Trust and Savings Bank and D.G. Donovan, as trustees; *provided* that no effect shall be given to any amendment, supplement or refinancing after the date of this Agreement that would broaden the definition of "permitted liens" as defined in the ComEd Mortgage as constituted on the date of this Agreement.

"*Controlled Group*" means all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control that, together with Exelon or any Subsidiary, are treated as a single employer under Section 414(b) or 414(c) of the Code.

"*Co-Syndication Agent*" means each of Citibank, N.A. and Wachovia Bank, National Association in its capacity as a co-syndication agent hereunder.

"*Credit Extension*" means the making of an Advance or the issuance or modification of a Facility LC hereunder.

"*Debt*" means (i) indebtedness for borrowed money, (ii) obligations evidenced by bonds, debentures, notes or other similar instruments, (iii) obligations to pay the deferred purchase price of property or services (other than trade payables incurred in the ordinary course of business), (iv) obligations as lessee under leases that shall have been or are required to be, in accordance with GAAP, recorded as capital leases, (v) obligations (contingent or otherwise) under reimbursement or similar agreements with respect to the issuance of letters of credit (other than obligations in respect of documentary letters of credit opened to provide for the payment of goods or services purchased in the ordinary course of business) and (vi) obligations under direct or indirect guaranties in respect of, and obligations (contingent or otherwise) to purchase or otherwise acquire, or otherwise to assure a creditor against loss in respect of, indebtedness or obligations of others of the kinds referred to in *clauses (i)* through *(v)* above.

"*Distributions on Preferred Securities*" means, for any period, (a) in the case of Exelon, "Distributions on Preferred Securities of Subsidiaries" as shown on a consolidated statement of income of Exelon for such period; (b) in the case of ComEd, "Distributions on Company-Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trusts holding solely the Company's Subordinated Debt Securities" as shown on a consolidated statement of income of ComEd for such period; and (c) in the case of PECO, "Distributions on Company-Obligated Mandatorily Redeemable Preferred Securities of a Partnership, which holds solely Subordinated Debentures of the Company" as shown on a consolidated statement of income of PECO for such period.

"*Domestic Lending Office*" means, with respect to any Lender, the office of such Lender specified as its "Domestic Lending Office" opposite its name on *Schedule I* hereto or in the Assignment and Acceptance pursuant to which it became a Lender, or such other office of such Lender as such Lender may from time to time specify to the Borrowers and the Administrative Agent.

"*Eligible Assignee*" means (i) a commercial bank organized under the laws of the United States, or any State thereof; (ii) a commercial bank organized under the laws of any other country that is a member of the OECD or has concluded special lending arrangements with the International Monetary Fund associated with its General Arrangements to Borrow, or a political subdivision of any such country, *provided* that such bank is acting through a branch or agency located in the United States; (iii) a finance company, insurance company or other financial institution or fund (whether a corporation, partnership or other entity) engaged generally in making, purchasing or otherwise investing in commercial loans in the ordinary course of its business; or (iv) the central bank of any country that is a member of the OECD; *provided* that, unless otherwise agreed by Exelon and the Administrative Agent in their sole discretion, (A) any Person described in *clause (i)*, *(ii)* or *(iii)* above shall also (x) have outstanding unsecured long-term debt that is rated BBB- or better by S&P and Baa3 or better by Moody's (or an equivalent rating by another nationally recognized credit rating agency of similar standing if either such corporation is no longer in the business of rating unsecured indebtedness of entities engaged in such businesses) and (y) have combined capital and surplus (as established in its most recent report of condition to its primary regulator) of not less than $100,000,000 (or its equivalent in foreign currency), and (B) any Person described in *clause (ii)*, *(iii)* or *(iv)* above shall, on the date on which it is to become a Lender hereunder, be entitled to receive payments hereunder without deduction or withholding of any United States Federal income taxes (as contemplated by *Section 2.14(e)*).

"*Eligible Successor*" means a Person which (i) is a corporation, limited liability company or business trust duly incorporated or organized, validly existing and in good standing under the laws of one of the states of the United States or the District of Columbia, (ii) as a result of a contemplated acquisition, consolidation or merger, will succeed to all or substantially all of the consolidated business and assets of a Borrower and its Subsidiaries, (iii) upon giving effect to such contemplated acquisition, consolidation or merger, will have all or substantially all of its consolidated business and assets

conducted and located in the United States and (iv) is acceptable to the Majority Lenders as a credit matter.

"*ERISA*" means the Employee Retirement Income Security Act of 1974, as amended from time to time, and the regulations promulgated and rulings issued thereunder, each as amended and modified from time to time.

"*Eurocurrency Liabilities*" has the meaning assigned to that term in Regulation D of the Board of Governors of the Federal Reserve System, as in effect from time to time.

"*Eurodollar Lending Office*" means, with respect to any Lender, the office of such Lender specified as its "Eurodollar Lending Office" opposite its name on *Schedule I* hereto or in the Assignment and Acceptance pursuant to which it became a Lender (or, if no such office is specified, its Domestic Lending Office), or such other office of such Lender as such Lender may from time to time specify to the Borrowers and the Administrative Agent.

"*Eurodollar Rate*" means, for each Interest Period for each Eurodollar Rate Advance made as part of a Borrowing, an interest rate per annum equal to the average (rounded upward to the nearest whole multiple of $^{1}/_{16}$ of 1% per annum, if such average is not such a multiple) of the rates per annum at which deposits in U.S. dollars are offered by the principal office of each of the Reference Banks in London, England, to prime banks in the London interbank market at 11:00 A.M. (London time) two Business Days before the first day of such Interest Period in an amount substantially equal to such Reference Bank's Eurodollar Rate Advance made as part of such Borrowing and for a period equal to such Interest Period. The Eurodollar Rate for each Interest Period for each Eurodollar Rate Advance made as part of a Borrowing shall be determined by the Administrative Agent on the basis of applicable rates furnished to and received by the Administrative Agent from the Reference Banks two Business Days before the first day of such Interest Period, *subject*, *however*, to the provisions of *Section 2.08*.

"*Eurodollar Rate Advance*" means any Advance that bears interest as provided in *Section 2.06(b)*.

"*Eurodollar Rate Reserve Percentage*" of any Lender for any Interest Period means the reserve percentage applicable during such Interest Period (or if more than one such percentage shall be so applicable, the daily average of such percentages for those days in such Interest Period during which any such percentage shall be so applicable) under regulations issued from time to time by the Board of Governors of the Federal Reserve System (or any successor) for determining the maximum reserve requirement (including any emergency, supplemental or other marginal reserve requirement) for such Lender with respect to liabilities or assets consisting of or including Eurocurrency Liabilities having a term equal to such Interest Period.

"*Event of Default*"—see *Section 6.01*.

"*Exchange Act*" means the Securities Exchange Act of 1934, as amended and modified from time to time.

"*Exelon*" means Exelon Corporation, a Pennsylvania corporation, or any Eligible Successor thereof.

"*Exelon Sublimit*" means $900,000,000, subject to adjustment as provided in *Section 2.04(c)*.

"*Existing Agreement*" means the 364-Day Credit Agreement dated as of December 12, 2001 among the Borrowers, various financial institutions and Bank One, as Administrative Agent, as amended prior to the Closing Date.

"*Facility Fee Rate*"—see *Schedule II*.

"*Facility LC*"—see *Section 2.16.1*.

"*Facility LC Application*"—see *Section 2.16.3*.

"*Federal Funds Rate*" means, for any period, a fluctuating interest rate per annum equal for each day during such period to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published for such day (or, if such day is not a Business Day, for the next preceding Business Day) by the Federal Reserve Bank of New York, or, if such rate is not so published for any day which is a Business Day, the average of the quotations for such day on such transactions received by the Administrative Agent from three Federal funds brokers of recognized standing selected by it.

"*Final Termination Date*" means, with respect to any Borrower, the earlier of (i) the date on or after the Maturity Date for such Borrower on which all of such Borrower's obligations hereunder have been paid in full and all Facility LC's issued for the account of such Borrower have expired or been terminated and (ii) the date on which all of such Borrower's obligations hereunder have become due and payable (pursuant to *Section 6.01* or otherwise).

"*GAAP*"—see *Section 1.03*.

"*Genco*" means Exelon Generation Company, LLC, a Pennsylvania limited liability company, or any Eligible Successor thereof.

"*Genco Sublimit*" means zero, subject to adjustment as provided in *Section 2.04(c)*.

"*Granting Bank*"—see *Section 8.07(h)*.

"*Interest Coverage Ratio*" means, with respect to any Borrower for any period of four consecutive fiscal quarters, the ratio of such Borrower's Adjusted Funds From Operations for such period to such Borrower's Net Interest Expense for such period.

"*Interest Expense*" means, for any Borrower for any period, "interest expense" as shown on a consolidated statement of income of such Borrower for such period prepared in accordance with GAAP.

"*Interest Period*" means, for each Eurodollar Rate Advance, the period commencing on the date of such Eurodollar Rate Advance is made or is converted from a Base Rate Advance and ending on the last day of the period selected by the applicable Borrower pursuant to the provisions below and, thereafter, each subsequent period commencing on the last day of the immediately preceding Interest Period and ending on the last day of the period selected by such Borrower pursuant to the provisions below. The duration of each such Interest Period shall be 1, 2, 3 or 6 months, as the applicable Borrower may select in accordance with *Section 2.02* or *2.09*; *provided* that:

(i) no Borrower may select any Interest Period that ends after the scheduled Maturity Date for such Borrower;

(ii) Interest Periods commencing on the same date for Advances made as part of the same Borrowing shall be of the same duration;

(iii) whenever the last day of any Interest Period would otherwise occur on a day other than a Business Day, the last day of such Interest Period shall be extended to occur on the next succeeding Business Day, unless such extension would cause the last day of such Interest Period to occur in the next following calendar month, in which case the last day of such Interest Period shall occur on the next preceding Business Day; and

(iv) if there is no day in the appropriate calendar month at the end of such Interest Period numerically corresponding to the first day of such Interest Period, then such Interest Period shall end on the last Business Day of such appropriate calendar month.

"*LC Fee Rate*"—see *Schedule II*.

"*LC Issuer*" means Bank One in its capacity as issuer of Facility LCs hereunder.

"*LC Obligations*" means, with respect to any Borrower at any time, the sum, without duplication, of (i) the aggregate undrawn stated amount under all Facility LCs issued for the account of such Borrower outstanding at such time plus (ii) the aggregate unpaid amount at such time of all Reimbursement Obligations of such Borrower.

"*LC Payment Date*"—see *Section 2.16.5*.

"*Lead Arranger*" means Banc One Capital Markets in its capacity as Lead Arranger and Sole Book Runner.

"*Lenders*" means each of the financial institutions listed on the signature pages hereof and each Eligible Assignee that shall become a party hereto pursuant to *Section 8.07*.

"*Letter of Credit Sublimit*" means $150,000,000.

"*Lien*" means any lien (statutory or other), mortgage, pledge, security interest or other charge or encumbrance, or any other type of preferential arrangement (including the interest of a vendor or lessor under any conditional sale, capitalized lease or other title retention agreement).

"*Majority Lenders*" means Lenders having Pro Rata Shares of more than 50% (*provided* that, for purposes of this definition, no Borrower nor any Affiliate of a Borrower, if a Lender, shall be included in calculating the amount of any Lender's Pro Rata Share or the amount of the Commitment Amounts or Outstanding Credit Extensions, as applicable, required to constitute more than 50% of the Pro Rata Shares).

"*Material Adverse Change*" and "*Material Adverse Effect*" each means, relative to any occurrence, fact or circumstances of whatsoever nature (including any determination in any litigation, arbitration or governmental investigation or proceeding) with respect to any Borrower, (i) any materially adverse change in, or materially adverse effect on, the financial condition, operations, assets or business of such Borrower and its consolidated Subsidiaries, taken as a whole, or (ii) any materially adverse effect on the validity or enforceability against such Borrower of this Agreement or any applicable Note.

"*Material Subsidiary*" means, with respect to Exelon, each of ComEd, PECO and Genco and any holding company for any of the foregoing.

"*Maturity Date*" means (a) with respect to Exelon, ComEd and Genco, the date which is one year after the Commitment Termination Date for such Borrower (or, if such date is not a Business Day, the next preceding Business Day); and (b) with respect to PECO, the Commitment Termination Date for PECO; *provided* that, if PECO has delivered to the Administrative Agent evidence, reasonably satisfactory to the Administrative Agent, that the Pennsylvania Utility Commission has approved the maintenance of Advances to, and Facility LCs for the account of, PECO hereunder during the period from the Commitment Termination Date for PECO to the date which is one year after such Commitment Termination Date, then PECO may, by notice to the Administrative Agent (which shall promptly advise each Lender of its receipt of such notice), elect to extend the "Maturity Date" for PECO to the date which is one year after the Commitment Termination Date for PECO (or, if such date is not a Business Day, the next preceding Business Day).

"*Modify*" and "*Modification*"—see *Section 2.16.1*.

"*Moody's*" means Moody's Investors Service, Inc.

"*Moody's Rating*" means, at any time for any Borrower, the rating issued by Moody's and then in effect with respect to such Borrower's senior unsecured long-term public debt securities without third-party credit enhancement (it being understood that if such Borrower does not have any outstanding debt securities of the type described above but has an indicative rating from Moody's for debt securities of such type, then such indicative rating shall be used for determining the "Moody's Rating").

"*Multiemployer Plan*" means a Plan maintained pursuant to a collective bargaining agreement or any other arrangement to which Exelon or any other member of the Controlled Group is a party to which more than one employer is obligated to make contributions.

"*Net Cash Flows From Operating Activities*" means, for any Borrower for any period, "Net Cash Flows provided by Operating Activities" as shown on a consolidated statement of cash flows of such Borrower for such period prepared in accordance with GAAP, *excluding* any "working capital changes" (as shown on such statement of cash flows) taken into account in determining such Net Cash Flows provided by Operating Activities.

"*Net Interest Expense*" means, for any Borrower for any period, the total of (a) such Borrower's Interest Expense for such period *minus* (b) such Borrower's Distributions on Preferred Securities for such period *minus* (c) such Borrower's Transitional Funding Instrument Interest for such period minus (d) in the case of Exelon and Genco, interest on Sithe Project Debt for such period.

"*Nonrecourse Indebtedness*" means any Debt that finances the acquisition, development, ownership or operation of an asset in respect of which the Person to which such Debt is owed has no recourse whatsoever to any Borrower or any of their respective Affiliates other than:

(i) recourse to the named obligor with respect to such Debt (the "*Debtor*") for amounts limited to the cash flow or net cash flow (other than historic cash flow) from the asset;

(ii) recourse to the Debtor for the purpose only of enabling amounts to be claimed in respect of such Debt in an enforcement of any security interest or lien given by the Debtor over the asset or the income, cash flow or other proceeds deriving from the asset (or given by any shareholder or the like in the Debtor over its shares or like interest in the capital of the Debtor) to secure the Debt, but only if the extent of the recourse to the Debtor is limited solely to the amount of any recoveries made on any such enforcement; and

recourse to the Debtor generally or indirectly to any Affiliate of the Debtor, under any form of assurance, undertaking or support, which recourse is limited to a claim for damages (other than liquidated damages and damages required to be calculated in a specified way) for a breach of an obligation (other than a payment obligation or an obligation to comply or to procure compliance by another with any financial ratios or other tests of financial condition) by the Person against which such recourse is available.

"*Note*" means a promissory note of a Borrower payable to the order of a Lender, in substantially the form of *Exhibit A*, evidencing the aggregate indebtedness of such Borrower to such Lender resulting from the Advances made by such Lender to such Borrower.

"*Notice of Borrowing*"—see *Section 2.02(a)*.

"*OECD*" means the Organization for Economic Cooperation and Development.

"*Outstanding Credit Extensions*" means, with respect to any Borrower, the sum of the aggregate principal amount of all outstanding Advances to such Borrower plus all LC Obligations of such Borrower.

"*PBGC*" means the Pension Benefit Guaranty Corporation and any entity succeeding to any or all of its functions under ERISA.

"*PECO*" means PECO Energy Company, a Pennsylvania corporation, or any Eligible Successor thereof.

"*PECO Mortgage*" means the First and Refunding Mortgage, dated as of May 1, 1923, between The Counties Gas & Electric Company (to which PECO is successor) and Fidelity Trust Company, Trustee (to which First Union National Bank is successor), as amended, supplemented or refinanced

---

from time to time, *provided* that no effect shall be given to any amendment, supplement or refinancing after the date of this Agreement that would broaden the definition of "excepted encumbrances" as defined in the PECO Mortgage as constituted on the date of this Agreement.

"*PECO Sublimit*" means $400,000,000, subject to adjustment as provided in *Section 2.04(c)*.

"*Person*" means an individual, partnership, corporation (including a business trust), joint stock company, trust, unincorporated association, joint venture, limited liability company or other entity, or a government or any political subdivision or agency thereof.

"*Plan*" means an employee pension benefit plan that is covered by Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Code as to which Exelon or any other member of the Controlled Group may have any liability.

"*Prime Rate*" means a rate per annum equal to the prime rate of interest announced by Bank One or by its parent, BANK ONE CORPORATION (which is not necessarily the lowest rate charged to any customer), changing when and as said prime rate changes.

"*Principal Subsidiary*" means, with respect to a Borrower, (i) each Utility Subsidiary of such Borrower (other than Commonwealth Edison Company of Indiana, Inc., so long as it does not qualify as a Principal Subsidiary under the following *clause (ii)*) and (ii) each other Subsidiary of such Borrower the assets of which exceeded $150,000,000 in book value at any time during the preceding 24-month period.

"*Pro Rata Share*" means, with respect to a Lender, a portion equal to a fraction the numerator of which is such Lender's Commitment Amount (plus, after the Commitments have terminated with respect to any Borrower, the principal amount of such Lender's outstanding Advances to such Borrower plus the amount of such Lender's participation in all of such Borrower's LC Obligations) and the denominator of which is the aggregate amount of the Commitment Amounts (plus, after the Commitments have terminated with respect to any Borrower, the principal amount of all outstanding Advances to such Borrower plus all LC Obligations of such Borrower).

"*Reference Banks*" means Bank One, Citibank, N.A. and Wachovia Bank, National Association.

"*Register*"—see *Section 8.07(c)*.

"*Reimbursement Obligations*" means, with respect to any Borrower at any time, the aggregate of all obligations of such Borrower then outstanding under *Section 2.16* to reimburse the LC Issuer for amounts paid by the LC Issuer in respect of any one or more drawings under Facility LCs.

"*Reportable Event*" means a reportable event as defined in Section 4043 of ERISA and regulations issued under such section with respect to a Plan, excluding, however, such events as to which the PBGC by regulation waived the requirement of Section 4043(a) of ERISA that it be notified within 30 days of the occurrence of such event, *provided* that a failure to meet the minimum funding standard of Section 412 of the Code and Section 302 of ERISA shall be a Reportable Event regardless of the issuance of any such waivers in accordance with either Section 4043(a) of ERISA or Section 412(d) of the Code.

"*S&P*" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc.

"*S&P Rating*" means, at any time for any Borrower, the rating issued by S&P and then in effect with respect to such Borrower's senior unsecured long-term public debt securities without third-party credit enhancement (it being understood that if such Borrower does not have any outstanding debt securities of the type described above but has an indicative rating from S&P for debt securities of such type, then such indicative rating shall be used for determining the "S&P Rating").

"*Single Employer Plan*" means a Plan maintained by Exelon or any other member of the Controlled Group for employees of Exelon or any other member of the Controlled Group.

"*Sithe Holdings*" means Exelon New England Holdings LLC (formerly known as Sithe New England Holdings LLC).

"*Sithe Project Debt*" means Debt of Sithe Holdings and its Subsidiaries for which none of the Borrowers nor any of their Subsidiaries (other than Sithe Holdings and its Subsidiaries) has any liability, contingent or otherwise.

"*SPC*"—see *Section 8.07(h)*.

"*Special Purpose Subsidiary*" means a direct or indirect wholly owned corporate Subsidiary of ComEd or PECO, substantially all of the assets of which are "intangible transition property" (as defined in Section 18-102 of the Illinois Public Utilities Law, as amended, or in 66 Pa. Cons. Stat. Ann. ss.2812(g) (West Supp. 1997) or any successor provision of similar import), and proceeds thereof, formed solely for the purpose of holding such assets and issuing such

Transitional Funding Instruments, and which complies with the requirements customarily imposed on bankruptcy-remote corporations in receivables securitizations.

"*Sublimit*" means the Exelon Sublimit, the ComEd Sublimit, the PECO Sublimit or the Genco Sublimit.

"*Subsidiary*" means, with respect to any Person, any corporation or unincorporated entity of which more than 50% of the outstanding capital stock (or comparable interest) having ordinary voting power (irrespective of whether or not at the time capital stock, or comparable interests, of any other class or classes of such corporation or entity shall or might have voting power upon the occurrence of any contingency) is at the time directly or indirectly owned by such Person (whether directly or through one or more other Subsidiaries).

"*Taxes*"—see *Section 2.14*.

"*Transitional Funding Instrument*" means any instruments, pass-through certificates, notes, debentures, certificates of participation, bonds, certificates of beneficial interest or other evidences of indebtedness or instruments evidencing a beneficial interest which (i) in the case of ComEd (A) are issued pursuant to a "transitional funding order" (as such term is defined in Section 18-102 of the Illinois Public Utilities Act, as amended) issued by the Illinois Commerce Commission at the request of an electric utility and (B) are secured by or otherwise payable from non-bypassable cent per kilowatt hour charges authorized pursuant to such order to be applied and invoiced to customers of such utility and (ii) in the case of PECO, are "transition bonds" (as defined in 66 Pa. Cons. Stat. Ann. ss.2812(g) (West Supp. 1997), or any successor provision of similar import), representing a securitization of "intangible transition property" (as defined in the foregoing statute). The instrument funding charges so applied and invoiced must be deducted and stated separately from the other charges invoiced by such utility against its customers.

"*Transitional Funding Instrument Interest*" means, for any Borrower for any period, the portion of such Borrower's Interest Expense for such period which was payable in respect of Transitional Funding Instruments.

"*Transitional Funding Instrument Revenue*" means, for any Borrower for any period, the portion of such Borrower's consolidated revenue for such period attributable to charges invoiced to customers in respect of Transitional Funding Instruments.

"*Type*"—see the definition of Advance.

"*Unfunded Liabilities*" means, (i) in the case of any Single Employer Plan, the amount (if any) by which the present value of all vested nonforfeitable benefits under such Plan exceeds the fair market

---

value of all Plan assets allocable to such benefits, all determined as of the then most recent evaluation date for such Plan, and (ii) in the case of any Multiemployer Plan, the withdrawal liability that would be incurred by the Controlled Group if all members of the Controlled Group completely withdrew from such Multiemployer Plan.

"*Unmatured Event of Default*" means any event which (if it continues uncured) will, with lapse of time or notice or both, became an Event of Default.

"*Utility Subsidiary*" means, with respect to a Borrower, each Subsidiary of such Borrower that is engaged principally in the generation, transmission, or distribution of electricity or gas and is subject to rate regulation as a public utility by federal or state regulatory authorities.

"*Utilization Fee Rate*"—see *Schedule II*.

SECTION 1.02 *Other Interpretive Provisions.* In this Agreement, (a) in the computation of periods of time from a specified date to a later specified date, the word "from" means "from and including" and the words "to" and "until" each means "to but excluding"; (b) unless otherwise indicated, any reference to an *Article*, *Section*, *Exhibit* or *Schedule* means an Article or Section hereof or an Exhibit or Schedule hereto; and (c) the term "including" means "including without limitation".

SECTION 1.03 *Accounting Principles.* (a) As used in this Agreement, "GAAP" shall mean generally accepted accounting principles in the United States, applied on a basis consistent with the principles used in preparing Exelon's audited consolidated financial statements as of December 31, 2001 and for the fiscal year then ended. In this Agreement, except to the extent, if any, otherwise provided herein, all accounting and financial terms shall have the meanings ascribed to such terms by GAAP, and all computations and determinations as to accounting and financial matters shall be made in accordance with GAAP. In the event that the financial statements generally prepared by any Borrower apply accounting principles other than GAAP (including as a result of any event described in *Section 1.03(b)*), the compliance certificate delivered pursuant to *Section 5.01(b)(iv)* accompanying such financial statements shall include information in reasonable detail reconciling such financial statements to GAAP to the extent relevant to the calculations set forth in such compliance certificate.

(b) If at any time any change in GAAP would affect the computation of any financial ratio or requirement set forth herein and the applicable Borrower or the Majority Lenders shall so request, the Administrative Agent, the Lenders and such Borrower shall negotiate in good faith to amend such ratio or requirement to preserve the original intent thereof in light of such change in GAAP (subject to the approval of the Majority Lenders); *provided* that, until so amended, such ratio or requirement shall continue to be computed in accordance with GAAP prior to such change therein.

ARTICLE II

AMOUNTS AND TERMS OF THE COMMITMENTS

SECTION 2.01 *Commitments.* Each Lender severally agrees, on the terms and conditions hereinafter set forth, to (a) make Advances to any Borrower and (b) to participate in Facility LCs issued upon the request of any Borrower, in each case from time to time during the period from the date hereof to the Commitment Termination Date for such Borrower, in an aggregate amount not to exceed such Lender's Commitment Amount as in effect from time to time;

provided that (i) the aggregate principal amount of all Advances by such Lender to any Borrower shall not exceed such Lender's Pro Rata Share of the aggregate principal amount of all Advances to such Borrower; (ii) such Lender's participation in Facility LCs issued for the account of any Borrower shall not exceed such Lender's Pro Rata Share of all LC Obligations of such Borrower; (iii) the Outstanding Credit Extensions to Exelon shall not at any time exceed the Exelon Sublimit; (iv) the Outstanding Credit Extensions to ComEd shall not any time exceed the ComEd Sublimit; (v) the Outstanding Credit Extensions to PECO shall not at any time exceed the PECO Sublimit; (vi) the Outstanding Credit Extensions to Genco shall not at any time exceed the Genco Sublimit; and (vii) the LC Obligations of all Borrowers collectively shall not at any time exceed the Letter of Credit Sublimit. Within the foregoing limits, each Borrower may from time to time borrow, prepay pursuant to *Section 2.10* and reborrow hereunder prior to the Commitment Termination Date for such Borrower.

SECTION 2.02 *Procedures for Advances; Limitations on Borrowings.*

(a) Any Borrower may request Advances hereunder by giving notice (a "*Notice of Borrowing*") to the Administrative Agent (which shall promptly advise each Lender of its receipt thereof) not later than 10:00 A.M. (Chicago time) on the third Business Day prior to the date of any proposed borrowing of Eurodollar Rate Advances and on the date of any proposed borrowing of Base Rate Advances. Each Notice of Borrowing shall be sent by telecopier, confirmed immediately in writing, and shall be in substantially the form of *Exhibit B*, specifying therein the Borrower which is requesting Advances and the requested (i) date of borrowing (which shall be a Business Day), (ii) Type of Advances to be borrowed, (iii) the aggregate amount of such Advances, and (iv) in the case of a borrowing of Eurodollar Rate Advances, the initial Interest Period therefor. Each Lender shall, before 12:00 noon (Chicago time) on the date of such borrowing, make available for the account of its Applicable Lending Office to the Administrative Agent at its address referred to in *Section 8.02*, in same day funds, such Lender's ratable portion of the requested borrowing. After the Administrative Agent's receipt of such funds and upon fulfillment of the applicable conditions set forth in *Article III*, the Administrative Agent will make such funds available to the applicable Borrower at the Administrative Agent's aforesaid address.

(b) Each Notice of Borrowing shall be irrevocable and binding on the applicable Borrower. If a Notice of Borrowing requests Eurodollar Rate Advances, the applicable Borrower shall indemnify each Lender against any loss, cost or expense incurred by such Lender as a result of any failure to fulfill on or before the requested borrowing date the applicable conditions set forth in *Article III*, including any loss, cost or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by such Lender to fund the requested Advance to be made by such Lender.

(c) Unless the Administrative Agent shall have received notice from a Lender prior to the date of any requested borrowing that such Lender will not make available to the Administrative Agent such Lender's ratable portion of such borrowing, the Administrative Agent may assume that such Lender has made such portion available to the Administrative Agent on the requested borrowing date in accordance with *Section 2.02(a)* and the Administrative Agent may, in reliance upon such assumption, make available to the applicable Borrower on such date a corresponding

---

amount. If and to the extent that such Lender shall not have so made such ratable portion available to the Administrative Agent, such Lender and such Borrower severally agree to repay to the Administrative Agent forthwith on demand such corresponding amount together with interest thereon, for each day from the date such amount is made available to such Borrower until the date such amount is repaid to the Administrative Agent, at (i) in the case of such Borrower, the interest rate applicable at the time to Advances made in connection with such borrowing and (ii) in the case of such Lender, the Federal Funds Rate. If such Lender shall repay to the Administrative Agent such corresponding amount, such amount so repaid shall constitute such Lender's Advance as part of such Borrowing for purposes of this Agreement.

(d) The failure of any Lender to make the Advance to be made by it on any borrowing date shall not relieve any other Lender of its obligation, if any, hereunder to make its Advance on such date, but no Lender shall be responsible for the failure of any other Lender to make any Advance to be made by such other Lender.

(e) Each Borrowing of Base Rate Advances shall at all times be in an aggregate amount not less than $5,000,000; and each Borrowing of Eurodollar Rate Advances shall at all times be in an aggregate amount not less than $10,000,000. Notwithstanding anything to the contrary contained herein, the Borrowers collectively may not have more than 25 Borrowings of Eurodollar Rate Advances outstanding at any time.

SECTION 2.03 *Facility and Utilization Fees.*

(a) Each Borrower agrees to pay to the Administrative Agent, for the account of the Lenders according to their Pro Rata Shares, a facility fee for the period from the Closing Date to the Commitment Termination Date for such Borrower (or, if later, the date on which all Outstanding Credit Extensions to such Borrower have been paid in full) in an amount equal to the Facility Fee Rate for such Borrower multiplied by such Borrower's Sublimit (or, after the Commitment Termination Date for such Borrower, the principal amount of all Outstanding Credit Extensions to such Borrower), payable on the last day of each March, June, September and December and on the Final Termination Date for such Borrower (and, if applicable, thereafter on demand).

(b) *Utilization Fee*. Each Borrower agrees to pay to the Administrative Agent, for the account of the Lenders according to their Pro Rata Shares, a utilization fee for each day on which either (i) the Outstanding Credit Extensions to all Borrowers exceed $33^{1}/3\%$ of the aggregate amount of the Commitment Amounts or (ii) such Borrower's Outstanding Credit Extensions exceed $33^{1}/3\%$ of such Borrower's Sublimit, in each case in an amount equal to the Utilization Fee Rate for such Borrower multiplied by such Borrower's Outstanding Credit Extensions on such day, payable on the last day of each March, June, September and December and on the Commitment Termination Date for such Borrower.

SECTION 2.04 *Reduction of Commitment Amounts; Adjustment of Sublimits.* (a) Each Borrower shall have the right, upon at least two Business Days' notice to the Administrative Agent, to ratably reduce the respective Commitment Amounts of the Lenders in accordance with their Pro Rata Shares; *provided* that no Borrower may reduce the Commitment Amounts by an aggregate amount that is greater than the remainder of the amount of such Borrower's Sublimit minus the Outstanding Credit Extensions to such Borrower; and *provided*, *further*, that each partial reduction of the Commitment Amounts shall be in the aggregate amount of $10,000,000 or an integral multiple thereof. Once reduced pursuant to this *Section 2.04*, the Commitment Amounts may not be increased.

(b) Any Borrower shall have the right at any time such Borrower's Sublimit has been reduced to zero, upon at least two Business Days' notice to the Administrative Agent, to terminate the Commitment of each Lender with respect to such Borrower in its entirety (but only if such Borrower concurrently pays all of its obligations hereunder). Upon any such termination, such Borrower shall cease to be a party hereto and shall no longer have any rights or obligations hereunder (except under provisions hereof which by their terms would survive any termination hereof).

(c) The Borrowers may from time to time so long as no Event of Default or Unmatured Event of Default exists with respect to any Borrower, upon not less than five Business Days' notice to the Administrative Agent (which shall promptly notify each Lender), change their respective Sublimits; *provided* that (i) the sum of the Sublimits shall at all times be equal to the aggregate amount of the Commitment Amounts; and (ii) after giving effect to any adjustment of the Sublimits, (A) each Sublimit shall be an integral multiple of $50,000,000 (except that one Sublimit may not be such an integral multiple if the aggregate amount of the Commitment Amounts is not an integral multiple of $50,000,000); (B) Genco's Sublimit shall not exceed $800,000,000 and no other Borrower's Sublimit shall exceed $1,000,000,000; (C) the Outstanding Credit Extensions to Exelon shall not exceed the Exelon Sublimit; (D) the Outstanding Credit Extensions to ComEd shall not exceed the ComEd Sublimit; (E) the Outstanding Credit Extensions to Genco shall not exceed the Genco Sublimit and (F) the Outstanding Credit Extensions to PECO shall not exceed the PECO Sublimit.

SECTION 2.05 *Repayment of Advances.* Each Borrower shall repay the principal amount of all Advances made to it on or before the Maturity Date for such Borrower.

SECTION 2.06 *Interest on Advances.* Each Borrower shall pay interest on the unpaid principal amount of each Advance made to it from the date of such Advance until such principal amount shall be paid in full, at the following rates per annum:

(a) At all times such Advance is a Base Rate Advance, a rate per annum equal to the Base Rate in effect from time to time, payable quarterly on the last day of each March, June, September and December and on the date such Base Rate Advance is converted to a Eurodollar Rate Advance or paid in full.

(b) Subject to *Section 2.07*, at all times such Advance is a Eurodollar Rate Advance, a rate per annum equal to the sum of the Eurodollar Rate for each applicable Interest Period *plus* the Applicable Margin in effect from time to time for such Borrower, payable on the last day of each Interest Period for such Eurodollar Rate Advance (and, if any Interest Period for such Advance is six months, on the day that is three months after the first day of such Interest Period) or, if earlier, on the date such Eurodollar Rate Advance is converted to a Base Rate Advance or paid in full.

SECTION 2.07 *Additional Interest on Eurodollar Advances.* Each Borrower shall pay to each Lender, so long as such Lender shall be required under regulations of the Board of Governors of the Federal Reserve System to maintain reserves with respect to liabilities or assets consisting of or including Eurocurrency Liabilities, additional interest on the unpaid principal amount of each Eurodollar Rate Advance of such Lender made to such Borrower, from the date of such Advance until such principal amount is paid in full or converted to a Base Rate Advance, at an interest rate per annum equal to the remainder obtained by subtracting (i) the Eurodollar Rate for each Interest Period for such Advance from (ii) the rate obtained by dividing such Eurodollar Rate by a percentage equal to 100% minus the Eurodollar Rate Reserve Percentage of such Lender for such Interest Period, payable on each date on which interest is payable on such Advance; *provided* that no Lender shall be entitled to demand such additional interest more than 90 days following the last day of the Interest Period in respect of which such demand is made; *provided, further*, that the foregoing proviso shall in no way limit the right of any Lender to demand or receive such additional interest to the extent that such additional interest relates to the retroactive application of the reserve requirements described above if such demand is made within 90 days after the implementation of such retroactive reserve requirements. Such additional interest shall be determined by the applicable Lender and notified to the applicable Borrower through the Administrative Agent, and such determination shall be conclusive and binding for all purposes, absent manifest error.

SECTION 2.08 *Interest Rate Determination.* (a) Each Reference Bank agrees to furnish to the Administrative Agent timely information for the purpose of determining each Eurodollar Rate. If any one of the Reference Banks shall not furnish such timely information to the Administrative Agent for the purpose of determining any such interest rate, the Administrative Agent shall determine such interest rate on the basis of timely information furnished by the remaining Reference Banks.

(b) The Administrative Agent shall give prompt notice to the applicable Borrower and the Lenders of each applicable interest rate determined by the Administrative Agent for purposes of *Section 2.06(a)* or *(b)*, and the applicable rate, if any, furnished by each Reference Bank for the purpose of determining each applicable interest rate under *Section 2.06(b).*

(c) If all of the Reference Banks fail to furnish timely information to the Administrative Agent for determining the Eurodollar Rate for any Eurodollar Rate Advances,

(i) the Administrative Agent shall forthwith notify the applicable Borrower and the Lenders that the interest rate cannot be determined for such Eurodollar Rate Advances,

(ii) each such Advance will automatically, on the last day of the then existing Interest Period therefor, convert into a Base Rate Advance (or if such Advance is then a Base Rate Advance, will continue as a Base Rate Advance), and

(iii) the obligation of the Lenders to make, continue or convert into Eurodollar Rate Advances shall be suspended until the Administrative Agent shall notify the applicable Borrower and the Lenders that the circumstances causing such suspension no longer exist.

(d) If, with respect to any Eurodollar Rate Advances, the Majority Lenders notify the Administrative Agent that the Eurodollar Rate for any Interest Period for such Advances will not adequately reflect the cost to such Majority Lenders of making, funding or maintaining their respective Eurodollar Rate Advances for such Interest Period, the Administrative Agent shall forthwith so notify the applicable Borrower and the Lenders, whereupon

(i) each Eurodollar Rate Advance will automatically, on the last day of the then existing Interest Period therefor (unless prepaid or converted to a Base Rate Advance prior to such day), convert into a Base Rate Advance, and

(ii) the obligation of the Lenders to make, continue or convert into Eurodollar Rate Advances shall be suspended until the Administrative Agent shall notify the applicable Borrower and the Lenders that the circumstances causing such suspension no longer exist.

SECTION 2.09 *Continuation and Conversion of Advances.* (a) Any Borrower may on any Business Day, upon notice given to the Administrative Agent not later than 10:00 A.M. (Chicago time) on the third Business Day prior to the date of any proposed continuation of or conversion into Eurodollar Rate Advances, and on the date of any proposed conversion into Base Rate Advances, and subject to the provisions of *Sections 2.08* and *2.12*, continue Eurodollar Rate Advances for a new Interest Period or convert a Borrowing of Advances of one Type into Advances of the other Type; *provided* that any continuation of Eurodollar Rate Advances or conversion of Eurodollar Rate Advances into Base Rate Advances shall be made on, and only on, the last day of an Interest Period for such Eurodollar Rate Advances, unless, in the case of such a conversion, such Borrower shall also reimburse the Lenders pursuant to *Section 8.04(b)* on the date of such conversion. Each such notice of a continuation or conversion shall, within the restrictions specified above, specify (i) the date of such continuation or conversion, (ii) the Advances to be continued or converted, and (iii) in the case of continuation of or conversion into Eurodollar Rate Advances, the duration of the Interest Period for such Advances.

(b) If a Borrower shall fail to select the Type of any Advance or the duration of any Interest Period for any Borrowing of Eurodollar Rate Advances in accordance with the provisions

contained in the definition of "Interest Period" in *Section 1.01* and *Section 2.09(a)*, the Administrative Agent will forthwith so notify such Borrower and the Lenders and such Advances will automatically, on the last day of the then existing Interest Period therefor, convert into Base Rate Advances.

SECTION 2.10 *Prepayments.* Any Borrower may, upon notice to the Administrative Agent at least three Business Days prior to any prepayment of Eurodollar Rate Advances, or one Business Day's notice prior to any prepayment of Base Rate Advances, in each case stating the proposed date and aggregate principal amount of the prepayment, and if such notice is given that Borrower shall, prepay the outstanding principal amounts of the Advances made as part of the same Borrowing in whole or ratably in part, together with accrued interest to the date of such prepayment on the principal amount prepaid; *provided* that (i) each partial prepayment shall be in an aggregate principal amount not less than $10,000,000 or a higher integral multiple of $1,000,000 in the case of any prepayment of Eurodollar Rate Advances and $5,000,000 or a higher integral multiple of $1,000,000 in the case of any prepayment of Base Rate Advances, and (ii) in the case of any such prepayment of a Eurodollar Rate Advance, such Borrower shall be obligated to reimburse the Lenders pursuant to *Section 8.04(b)* on the date of such prepayment. After the Commitment Termination Date, amounts prepaid under this *Section 2.10* may not be reborrowed.

SECTION 2.11 *Increased Costs.* (a) If on or after the date of this Agreement, any Lender or the LC Issuer determines that (i) the introduction of or any change (other than, in the case of Eurodollar Rate Advances, any change by way of imposition or increase of reserve requirements, included in the Eurodollar Rate Reserve Percentage) in or in the interpretation of any law or regulation or (ii) the compliance with any guideline or request from any central bank or other governmental authority (whether or not having the force of law) shall increase the cost to such Lender or the LC Issuer, as the case may be, of agreeing to make or making, funding or maintaining Eurodollar Rate Advances or of issuing or participating in any Facility LC, then the applicable Borrower shall from time to time, upon demand by such Lender (with a copy of such demand to the Administrative Agent) or the LC Issuer, as applicable, pay to the Administrative Agent for the account of such Lender additional amounts (without duplication of any amount payable pursuant to *Section 2.14*) sufficient to compensate such Lender or the LC Issuer, as applicable, for such increased cost; *provided* that no Lender shall be entitled to demand such compensation more than 90 days following the last day of the Interest Period in respect of which such demand is made and the LC Issuer shall not be entitled to demand such compensation more than 90 days following the expiration or termination (by a drawing or otherwise) of the Facility LC in respect of which such demand is made; *provided*, *further*, that the foregoing proviso shall in no way limit the right of any Lender or the LC Issuer to demand or receive such compensation to the extent that such compensation relates to the retroactive application of any law, regulation, guideline or request described in *clause (i)* or *(ii)* above if such demand is made within 90 days after the implementation of such retroactive law, interpretation, guideline or request. A certificate as to the amount of such increased cost, submitted to the applicable Borrower and the Administrative Agent by a Lender or the LC Issuer, shall be conclusive and binding for all purposes, absent manifest error.

(b) If any Lender or the LC Issuer determines that, after the date of this Agreement, compliance with any law or regulation or any guideline or request from any central bank or other governmental authority (whether or not having the force of law) regarding capital adequacy requirements affects or would affect the amount of capital required or expected to be maintained by such Lender or the LC Issuer or any Person controlling such Lender or the LC Issuer (including, in any event, any determination after the date of this Agreement by any such governmental authority or central bank that, for purposes of capital adequacy requirements, any Lender's Commitment to a Borrower or the LC Issuer's commitment to issue Facility LCs for the account of such Borrower as the case may be does not constitute a commitment with an original

maturity of less than one year) and that the amount of such capital is increased by or based upon the existence of such Lender's Commitment to such Borrower or the LC Issuer's commitment to issue Facility LCs for the account of such Borrower, as applicable, or the Advances made by such Lender to such Borrower or Reimbursement Obligations owed to the LC Issuer by such Borrower, as the case may be, then, upon demand by such Lender (with a copy of such demand to the Administrative Agent) or the LC Issuer, as applicable, such Borrower shall immediately pay to the Administrative Agent for the account of such Lender or LC Issuer, as applicable, from time to time as specified by such Lender or the LC Issuer, as applicable, additional amounts sufficient to compensate such Lender, the LC Issuer or such controlling Person, as applicable, in the light of such circumstances, to the extent that such Lender determines such increase in capital to be allocable to the existence of such Lender's Commitment to such Borrower or the Advances made by such Lender to such Borrower or the LC Issuer determines such increase in capital to be allocable to the LC Issuer's commitment to issue Facility LCs for the account of such Borrower or the Reimbursement Obligations owed by such Borrower to the LC Issuer; *provided* that no Lender or the LC Issuer shall be entitled to demand such compensation more than one year following the payment to or for the account of such Lender of all other amounts payable hereunder by such Borrower and under any Note of such Borrower held by such Lender and the termination of such Lender's Commitment to such Borrower and the LC Issuer shall not be entitled to demand such compensation more than one year after the expiration or termination (by drawing or otherwise) of all Facility LCs issued for the account of such Borrower and the termination of the LC Issuer's commitment to issue Facility LCs for the account of such Borrower; *provided*, *further*, that the foregoing proviso shall in no way limit the right of any Lender or the LC Issuer to demand or receive such compensation to the extent that such compensation relates to the retroactive application of any law, regulation, guideline or request described above if such demand is made within one year after the implementation of such retroactive law, interpretation, guideline or request. A certificate as to such amounts submitted to the applicable Borrower and the Administrative Agent by the applicable Lender or the LC Issuer shall be conclusive and binding, for all purposes, absent manifest error.

(c) Any Lender claiming compensation pursuant to this *Section 2.11* shall use its best efforts (consistent with its internal policy and legal and regulatory restrictions) to change the jurisdiction of its Applicable Lending Office if the making of such a change would avoid the need for, or reduce the amount of, any such compensation that may thereafter accrue and would not, in the reasonable judgment of such Lender, be otherwise disadvantageous to such Lender.

SECTION 2.12 *Illegality.* Notwithstanding any other provision of this Agreement, if any Lender shall notify the Administrative Agent that the introduction of or any change in or in the interpretation of any law or regulation makes it unlawful, or any central bank or other governmental authority asserts that it is unlawful, for such Lender or its Eurodollar Lending Office to perform its obligations hereunder to make Eurodollar Rate Advances or to fund or maintain Eurodollar Rate Advances hereunder, (i) the obligation of such Lender to make, continue or convert Advances into Eurodollar Rate Advances shall be suspended (subject to the following paragraph of this *Section 2.12*) until the Administrative Agent shall notify the applicable Borrower and the Lenders that the circumstances causing such suspension no longer exist and (ii) all Eurodollar Rate Advances of such Lender then outstanding shall, on the last day of the then applicable Interest Period (or such earlier date as such Lender shall designate upon not less than five Business Days' prior written notice to the Administrative Agent), be automatically converted into Base Rate Advances.

If the obligation of any Lender to make, continue or convert into Eurodollar Rate Advances has been suspended pursuant to the preceding paragraph, then, unless and until the Administrative Agent shall notify the applicable Borrower and the Lenders that the circumstances causing such suspension no longer exist, (i) all Advances that would otherwise be made by such Lender as Eurodollar Rate

Advances shall instead be made as Base Rate Advances and (ii) to the extent that Eurodollar Rate Advances of such Lender have been converted into Base Rate Advances pursuant to the preceding paragraph or made instead as Base Rate Advances pursuant to the preceding *clause (i)*, all payments and prepayments of principal that would have otherwise been applied to such Eurodollar Rate Advances of such Lender shall be applied instead to such Base Rate Advances of such Lender.

SECTION 2.13 *Payments and Computations.* (a) Each Borrower shall make each payment hereunder and under any Note issued by such Borrower not later than 10:00 A.M. (Chicago time) on the day when due in U.S. dollars to the Administrative Agent at its address referred to in *Section 8.02* in same day funds without setoff, counterclaim or other deduction. The Administrative Agent will promptly thereafter cause to be distributed like funds relating to the payment of principal, interest, facility fees, utilization fees and letter of credit fees ratably (other than amounts payable pursuant to *Section 2.02(b)*, *2.07*, *2.11*, *2.14* or *8.04(b))* to the Lenders for the account of their respective Applicable Lending Offices, and like funds relating to the payment of any other amount payable to any Lender to such Lender for the account of its Applicable Lending Office, in each case to be applied in accordance with the terms of this Agreement. Upon its acceptance of an Assignment and Acceptance and recording of the information contained therein in the Register pursuant to *Section 8.07(d)*, from and after the effective date specified in such Assignment and Acceptance, the Administrative Agent shall make all payments hereunder and under the Notes in respect of the interest assigned thereby to the Lender assignee thereunder, and the parties to such Assignment and Acceptance shall make all appropriate adjustments in such payments for periods prior to such effective date directly between themselves.

(b) Each Borrower hereby authorizes each Lender, if and to the extent any payment owed to such Lender by such Borrower is not made when due hereunder, to charge from time to time against any or all of such Borrower's accounts with such Lender any amount so due.

(c) All computations of interest based on the Prime Rate shall be made by the Administrative Agent on the basis of a year of 365 or 366 days, as the case may be, and all computations of interest based on the Eurodollar Rate or the Federal Funds Rate and of fees shall be made by the Administrative Agent, and all computations of interest pursuant to *Section 2.07* shall be made by a Lender, on the basis of a year of 360 days, in each case for the actual number of days (including the first day but excluding the last day) occurring in the period for which such interest or fees are payable. Each determination by the Administrative Agent (or, in the case of *Section 2.07*, by a Lender) of an interest rate hereunder shall be conclusive and binding for all purposes, absent manifest error.

(d) Whenever any payment hereunder or under the Notes shall be stated to be due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day, and such extension of time shall in such case be included in the computation of any interest or fees, as the case may be; *provided* that if such extension would cause payment of interest on or principal of a Eurodollar Rate Advance to be made in the next following calendar month, such payment shall be made on the next preceding Business Day.

(e) Unless the Administrative Agent shall have received notice from a Borrower prior to the date on which any payment is due by such Borrower to the Lenders hereunder that such Borrower will not make such payment in full, the Administrative Agent may assume that such Borrower has made such payment in full to the Administrative Agent on such date and the Administrative Agent may, in reliance upon such assumption, cause to be distributed to each Lender on such due date an amount equal to the amount then due such Lender. If and to the extent that such Borrower shall not have so made such payment in full to the Administrative Agent, each Lender shall repay to the Administrative Agent forthwith on demand such amount distributed to such Lender together with interest thereon, for each day from the date such amount is distributed to such

Lender until the date such Lender repays such amount to the Administrative Agent, at the Federal Funds Rate.

(f) Notwithstanding anything to the contrary contained herein, any amount payable by a Borrower hereunder that is not paid when due (whether at stated maturity, by acceleration or otherwise) shall (to the fullest extent permitted by law) bear interest from the date when due until paid in full at a rate per annum equal at all times to the Base Rate plus 2%, payable upon demand.

SECTION 2.14 *Taxes.* (a) Any and all payments by any Borrower hereunder or under any Note issued by such Borrower shall be made, in accordance with *Section 2.13*, free and clear of and without deduction for any and all present or future taxes, levies, imposts, deductions, charges or withholdings, and all liabilities with respect thereto, *excluding*, in the case of each Lender, the LC Issuer and the Administrative Agent, taxes imposed on its income, and franchise taxes imposed on it, by the jurisdiction under the laws of which such Lender, the LC Issuer or the Administrative Agent (as the case may be) is organized or any political subdivision thereof and, in the case of each Lender, taxes imposed on its income, and franchise taxes imposed on it, by the jurisdiction of such Lender's Applicable Lending Office or any political subdivision thereof (all such non-excluded taxes, levies, imposts, deductions, charges, withholdings and liabilities being hereinafter referred to as "*Taxes*"). If a Borrower shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder or under any Note issued by such Borrower to any Lender, the LC Issuer or the Administrative Agent, (i) the sum payable shall be increased as may be necessary so that after making all required deductions (including deductions applicable to additional sums payable under this *Section 2.14*) such Lender, the LC Issuer or the

Administrative Agent (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (ii) such Borrower shall make such deductions and (iii) such Borrower shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law.

(b) In addition, each Borrower severally agrees to pay any present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies to the extent arising from the execution, delivery or registration of this Agreement or the Notes (hereinafter referred to as "*Other Taxes*"), in each case to the extent attributable to such Borrower; *it being understood* that to the extent any Other Taxes so payable are not attributable to any particular Borrower, each Borrower shall pay its proportionate share thereof according to the amounts of the Borrowers' respective Sublimits at the time such Other Taxes arose.

(c) No Lender may claim or demand payment or reimbursement in respect of any Taxes or Other Taxes pursuant to this *Section 2.14* if such Taxes or Other Taxes, as the case may be, were imposed solely as the result of a voluntary change in the location of the jurisdiction of such Lender's Applicable Lending Office.

(d) Each Borrower will indemnify each Lender, the LC Issuer and the Administrative Agent for the full amount of Taxes or Other Taxes (including any Taxes or Other Taxes imposed by any jurisdiction on amounts payable under this Section 2.14) paid by such Lender, the LC Issuer or the Administrative Agent (as the case may be) and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto, whether or not such Taxes or Other Taxes were correctly or legally asserted, in each case to the extent attributable to such Borrower; *it being understood* that to the extent any Taxes, Other Taxes or other liabilities described above are not attributable to a particular Borrower, each Borrower shall pay its proportionate share thereof according to the amounts of the Borrowers' respective Sublimits at the time such Taxes, Other Taxes or other liability arose. This indemnification shall be made within 30 days from the date such Lender, the LC Issuer or the Administrative Agent (as the case may be) makes written demand therefor.

(e) Prior to the date of an initial borrowing hereunder in the case of each Lender listed on the signature pages hereof, and on the date of the Assignment and Acceptance pursuant to which it became a Lender in the case of each other Lender, and from time to time thereafter within 30 days from the date of request if requested by any Borrower or the Administrative Agent, each Lender organized under the laws of a jurisdiction outside the United States shall provide the Administrative Agent and each Borrower with the forms prescribed by the Internal Revenue Service of the United States certifying that such Lender is exempt from United States withholding taxes with respect to all payments to be made to such Lender hereunder and under the Notes. If for any reason during the term of this Agreement, any Lender becomes unable to submit the forms referred to above or the information or representations contained therein are no longer accurate in any material respect, such Lender shall notify the Administrative Agent and the Borrowers in writing to that effect. Unless the Borrowers and the Administrative Agent have received forms or other documents satisfactory to them indicating that payments hereunder or under any Note are not subject to United States withholding tax, the Borrowers or the Administrative Agent shall withhold taxes from such payments at the applicable statutory rate in the case of payments to or for any Lender organized under the laws of a jurisdiction outside the United States and no Lender may claim or demand payment or reimbursement for such withheld taxes pursuant to this *Section 2.14*.

(f) Any Lender claiming any additional amounts payable pursuant to this *Section 2.14* shall use its best efforts (consistent with its internal policy and legal and regulatory restrictions) to change the jurisdiction of its Applicable Lending Office if the making of such a change would avoid the need for, or reduce the amount of, any such additional amounts which may thereafter accrue and would not, in the reasonable judgment of such Lender, be otherwise disadvantageous to such Lender.

(g) If a Borrower makes any additional payment to any Lender pursuant to this *Section 2.14* in respect of any Taxes or Other Taxes, and such Lender determines that it has received (i) a refund of such Taxes or Other Taxes or (ii) a credit against or relief or remission for, or a reduction in the amount of, any tax or other governmental charge attributable solely to any deduction or credit for any Taxes or Other Taxes with respect to which it has received payments under this *Section 2.14*, such Lender shall, to the extent that it can do so without prejudice to the retention of such refund, credit, relief, remission or reduction, pay to such Borrower such amount as such Lender shall have determined to be attributable to the deduction or withholding of such Taxes or Other Taxes. If, within one year after the payment of any such amount to such Borrower, such Lender determines that it was not entitled to such refund, credit, relief, remission or reduction to the full extent of any payment made pursuant to the first sentence of this *Section 2.14(g)*, such Borrower shall upon notice and demand of such Lender promptly repay the amount of such overpayment. Any determination made by a Lender pursuant to this *Section 2.14(g)* shall in the absence of bad faith or manifest error be conclusive, and nothing in this *Section 2.14(g)* shall be construed as requiring any Lender to conduct its business or to arrange or alter in any respect its tax or financial affairs (except as required by *Section 2.14(f)*) so that it is entitled to receive such a refund, credit or reduction or as allowing any Person to inspect any records, including tax returns, of such Lender.

(h) Without prejudice to the survival of any other agreement of any Borrower or any Lender hereunder, the agreements and obligations of the Borrowers and the Lenders contained in this *Section 2.14* shall survive the payment in full of principal and interest hereunder and under the Notes; *provided* that no Lender shall be entitled to demand any payment from a Borrower under this *Section 2.14* more than one year following the payment to or for the account of such Lender of all other amounts payable by such Borrower hereunder and under any Note issued by such Borrower to such Lender and the termination of such Lender's Commitment to such Borrower;

---

provided, *further*, that the foregoing proviso shall in no way limit the right of any Lender to demand or receive any payment under this *Section 2.14* to the extent that such payment relates to the retroactive application of any Taxes or Other Taxes if such demand is made within one year after the implementation of such Taxes or Other Taxes.

SECTION 2.15 *Sharing of Payments, Etc.* If any Lender shall obtain any payment (whether voluntary, involuntary, through the exercise of any right of set-off, or otherwise) on account of the Advances made by it to any Borrower or its participation interest in any Facility LC issued for the account of any Borrower (other than pursuant to *Section 2.02(b)*, *2.07*, *2.11*, *2.14* or *8.04(b)*) in excess of its ratable share of payments on account of the Advances to such Borrower and Facility LCs issued for the account of such Borrower obtained by all Lenders, such Lender shall forthwith purchase from the other Lenders such participations in the Advances made by them to such Borrower and/or LC Obligations of such Borrower as shall be necessary to cause such purchasing Lender to share the excess payment ratably with each of them, *provided* that if all or any portion of such excess payment is thereafter recovered from such purchasing Lender, such purchase from each Lender shall be rescinded and such Lender shall repay to the purchasing Lender the purchase price to the extent of such recovery together with an amount equal to such Lender's ratable share (according to the proportion of (i) the amount of such Lender's required repayment to (ii) the total amount so recovered from the purchasing Lender) of any interest or other amount paid or payable by the purchasing Lender in respect of the total amount so recovered. The Borrowers agree that any Lender so purchasing a participation from another Lender pursuant to this *Section 2.15* may, to the fullest extent permitted by law, exercise all its rights of payment (including the right of set-off) with respect to such participation as fully as if such Lender were the direct creditor of the applicable Borrower in the amount of such participation.

SECTION 2.16 *Facility LCs.*

SECTION 2.16.1 *Issuance.* The LC Issuer hereby agrees, on the terms and conditions set forth in this Agreement (including the limitations set forth in *Section 2.01*), upon the request of any Borrower, to issue standby letters of credit (each a "*Facility LC*") and to renew, extend, increase or otherwise modify Facility LCs ("*Modify*," and each such action a "*Modification*") for such Borrower, from time to time from and including the date of this Agreement and prior to the Commitment Termination Date for such Borrower. No Facility LC shall have an expiry date later than the earlier of (a) one year after the date of issuance, or of extension or renewal, thereof or (b) 360 days after the scheduled Commitment Termination Date. No Facility LC may be renewed or extended, or increased in amount, after the Commitment Termination Date (but a Facility LC may be decreased in amount or, subject to the foregoing provisions of this sentence, otherwise amended after such date).

SECTION 2.16.2 *Participations.* Upon the issuance or Modification by the LC Issuer of a Facility LC in accordance with this *Section 2.16*, the LC Issuer shall be deemed, without further action by any party hereto, to have unconditionally and irrevocably sold to each Lender, and each Lender shall be deemed, without further action by any party hereto, to have unconditionally and irrevocably purchased from the LC Issuer, a participation in such Facility LC (and each Modification thereof) and the related LC Obligations in proportion to its Pro Rata Share.

SECTION 2.16.3 *Notice.* Subject to *Section 2.16.1*, the applicable Borrower shall give the LC Issuer notice prior to 10:00 A.M. (Chicago time) at least five Business Days prior to the proposed date of issuance or Modification of each Facility LC, specifying the beneficiary, the proposed date of issuance (or Modification) and the expiry date of such Facility LC, and describing the proposed terms of such Facility LC and the nature of the transactions proposed to be supported thereby. Upon receipt of such notice, the LC Issuer shall promptly notify the Administrative Agent, and the Administrative Agent shall promptly notify each Lender, of the contents thereof and of the amount of such Lender's participation in such proposed Facility LC.

The issuance or Modification by the LC Issuer of any Facility LC shall, in addition to the applicable conditions precedent set forth in *Article III* (the satisfaction of which the LC Issuer shall have no duty to ascertain), be subject to the conditions precedent that such Facility LC shall be satisfactory to the LC Issuer and that the applicable Borrower shall have executed and delivered such application agreement and/or such other instruments and agreements relating to such Facility LC as the LC Issuer shall have reasonably requested (each a "*Facility LC Application*"). In the event of any conflict between the terms of this Agreement and the terms of any Facility LC Application, the terms of this Agreement shall control.

SECTION 2.16.4 *LC Fees.* Each Borrower shall pay to the Agent, for the account of the Lenders ratably in accordance with their respective Pro Rata Shares, with respect to each Facility LC issued for the account of such Borrower, a letter of credit fee at a per annum rate equal to the LC Fee Rate to such Borrower in effect from time to time on the average daily undrawn stated amount under such Facility LC, such fee to be payable in arrears on the last day of each March, June, September and December and on the Final Termination Date for such Borrower (and thereafter on demand). Each Borrower shall also pay to the LC Issuer for its own account (x) a fronting fee in an amount and at the times agreed upon between the LC Issuer and such Borrower and (y) documentary and processing charges in connection with the issuance or Modification of and draws under Facility LCs in accordance with the LC Issuer's standard schedule for such charges as in effect from time to time.

SECTION 2.16.5 *Administration; Reimbursement by Lenders.* Upon receipt from the beneficiary of any Facility LC of any demand for payment under such Facility LC, the LC Issuer shall notify the Administrative Agent and the Administrative Agent shall promptly notify the applicable Borrower and each Lender as to the amount to be paid by the LC Issuer as a result of such demand and the proposed payment date (the "*LC Payment Date*"). The responsibility of the LC Issuer to the applicable Borrower and each Lender shall be only to determine that the documents (including each demand for payment) delivered under each Facility LC in connection with such presentment shall be in conformity in all material respects with such Facility LC. The LC Issuer shall endeavor to exercise the same care in the issuance and administration of the Facility LCs as it does with respect to letters of credit in which no participations are granted, it being understood that in the absence of any gross negligence or willful misconduct by the LC Issuer, each Lender shall be unconditionally and irrevocably liable, without regard to the occurrence of the Commitment Termination Date or the Final Termination Date for the applicable Borrower, the occurrence of any Event of Default or Unmatured Event of Default or any condition precedent whatsoever, to reimburse the LC Issuer on demand for (i) such Lender's Pro Rata Share of the amount of each payment made by the LC Issuer under each Facility LC to the extent such amount is not reimbursed by the applicable Borrower pursuant to *Section 2.16.6*, plus (ii) interest on the foregoing amount to be reimbursed by such Lender, for each day from the date of the LC Issuer's demand for such reimbursement (or, if such demand is made after 11:00 A.M. (Chicago time) on such day, from the next succeeding Business Day) to the date on which such Lender pays the amount to be reimbursed by it, at a rate of interest per annum equal to the Federal Funds Rate for the first three days and, thereafter, at the Base Rate.

SECTION 2.16.6 *Reimbursement by Borrowers.* Each Borrower shall be irrevocably and unconditionally obligated to reimburse the LC Issuer on or before the applicable LC Payment Date for any amount to be paid by the LC Issuer upon any drawing under any Facility LC issued for the account of such Borrower, without presentment, demand, protest or other formalities of any kind; *provided* that neither the applicable Borrower nor any Lender shall hereby be precluded from asserting any claim for direct (but not consequential) damages suffered by such Borrower or such Lender to the extent, but only to the extent, caused by (i) the willful misconduct or gross negligence of the LC Issuer in determining whether a request presented under any Facility LC complied with the terms of such Facility LC or (ii) the LC Issuer's failure to pay under any Facility LC after the presentation to it of a request strictly complying with the terms and conditions of such Facility LC. All such amounts paid by the LC Issuer and remaining unpaid by the applicable Borrower shall bear interest, payable on demand, for each day until paid at a rate per annum equal to the Base Rate plus 2%. The LC Issuer will pay to each Lender ratably in accordance with its Pro Rata Share all amounts received by it from any Borrower for application in payment, in whole or in part, of the Reimbursement Obligation in respect of any Facility LC issued by the LC Issuer, but only to the extent such Lender has made payment to the LC Issuer in respect of such Facility LC pursuant to *Section 2.16.5*. So long as the Commitment Termination Date has not occurred with respect to a Borrower, but subject to the terms and conditions of this Agreement (including the submission of a Notice of Borrowing in compliance with *Section 2.02* and the satisfaction of the applicable conditions precedent set forth in *Article III*), such Borrower may request Advances hereunder for the purpose of satisfying any Reimbursement Obligation.

SECTION 2.16.7 *Obligations Absolute.* Each Borrower's obligations under this Section 2.16 shall be absolute and unconditional under any and all circumstances and irrespective of any setoff, counterclaim or defense to payment which such Borrower may have against the LC Issuer, any Lender or any beneficiary of a Facility LC. Each Borrower agrees with the LC Issuer and the Lenders that the LC Issuer and the Lenders shall not be responsible for, and such Borrower's Reimbursement Obligation in respect of any Facility LC issued for its account shall not be affected by, among other things, the validity or genuineness of documents or of any endorsements thereon, even if such documents should in fact prove to be in any or all respects invalid, fraudulent or forged, or any dispute between or among such Borrower, any of its Affiliates, the beneficiary of any Facility LC or any financing institution or other party to whom any Facility LC may be transferred or any claims or defenses whatsoever of such Borrower or of any of its Affiliates against the beneficiary of any Facility LC or any such transferee. The LC Issuer shall not be liable for any error, omission, interruption or delay in transmission, dispatch or delivery of any message or advice, however transmitted, in connection with any Facility LC. Each Borrower agrees that any action taken or omitted by the LC Issuer or any Lender under or in connection with any Facility LC issued for the account of such Borrower and the related drafts and documents, if done without gross negligence or willful misconduct, shall be binding upon such Borrower and shall not put the LC Issuer or any Lender under any liability to such Borrower. Nothing in this *Section 2.16.7* is intended to limit the right of any Borrower to make a claim against the LC Issuer for damages as contemplated by the proviso to the first sentence of *Section 2.16.6*.

SECTION 2.16.8 *Actions of LC Issuer.* The LC Issuer shall be entitled to rely, and shall be fully protected in relying, upon any Facility LC, draft, writing, resolution, notice, consent, certificate, affidavit, letter, cablegram, telegram, telecopy, telex or teletype message, statement, order or other document believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons, and upon advice and statements of legal counsel, independent accountants and other experts selected by the LC Issuer. The LC Issuer shall be fully justified in failing or refusing to take any action under this Agreement unless it shall first have received such advice or concurrence of the Majority Lenders as it reasonably deems appropriate or it shall first be indemnified to its reasonable satisfaction by the Lenders against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action. Notwithstanding any other provision of this *Section 2.16*, the LC Issuer shall in all cases be fully protected in acting, or in refraining from acting, under this Agreement in accordance with a request of the Majority Lenders, and such request and any action taken or failure to act pursuant thereto shall be binding upon the Lenders and any future holder of a participation in any Facility LC.

SECTION 2.16.9 *Indemnification.* Each Borrower hereby agrees to indemnify and hold harmless each Lender, the LC Issuer and the Agent, and their respective directors, officers, agents and employees, from and against any and all claims and damages, losses, liabilities, costs or expenses which such Lender, the LC Issuer or the Agent may incur (or which may be claimed against such Lender, the LC Issuer or the Agent by any Person whatsoever) by reason of or in connection with the issuance, execution and delivery or transfer of or payment or failure to pay under any Facility LC issued for the account of such Borrower or any actual or proposed use of any such Facility LC, including any claims, damages, losses, liabilities, costs or expenses which the LC Issuer may incur by reason of or in connection with (i) the failure of any other Lender to fulfill or comply with its obligations to the LC Issuer hereunder (but nothing herein contained shall affect any right such Borrower may have against any defaulting Lender) or (ii) by reason of or on account of the LC Issuer issuing any such Facility LC which specifies that the term "Beneficiary" included therein includes any successor by operation of law of the named Beneficiary, but which Facility LC does not require that any drawing by any such successor Beneficiary be accompanied by a copy of a legal document, satisfactory to the LC Issuer, evidencing the appointment of such successor Beneficiary; *provided* that no Borrower shall be required to indemnify any Lender, the LC Issuer or the Agent for any claims, damages, losses, liabilities, costs or expenses to the extent, but only to the extent, caused by (x) the willful misconduct or gross negligence of the LC Issuer in determining whether a request presented under any Facility LC complied with the terms of such Facility LC or (y) the LC Issuer's failure to pay under any Facility LC after the presentation to it of a request strictly complying with the terms and conditions of such Facility LC. Nothing in this *Section 2.16.9* is intended to limit the obligations of any Borrower under any other provision of this Agreement.

SECTION 2.16.10 *Lenders' Indemnification.* Each Lender shall, ratably in accordance with its Pro Rata Share, indemnify the LC Issuer, its affiliates and their respective directors, officers, agents and employees (to the extent not reimbursed by the Borrower) against any cost, expense (including reasonable counsel fees and disbursements), claim, demand, action, loss or liability (except such as result from such indemnitees' gross negligence or willful misconduct or the LC Issuer's failure to pay under any Facility LC after the presentation to it of a request strictly complying with the terms and conditions of the Facility LC) that such indemnitees may suffer or incur in connection with this *Section 2.16* or any action taken or omitted by such indemnitees hereunder.

SECTION 2.16.11 *Rights as a Lender.* In its capacity as a Lender, the LC Issuer shall have the same rights and obligations as any other Lender.

SECTION 2.17 *Extension of Commitment Termination Date.* Exelon may request an extension of the scheduled Commitment Termination Date for any or all Borrowers by submitting a request for an extension to the Administrative Agent (an "*Extension Request*") no more than 60 days prior to the scheduled Commitment Termination Date then in effect. The Extension Request must specify the new scheduled Commitment Termination Date requested by Exelon and the date (which must be at least 30 days after the Extension Request is delivered to the Administrative Agent) as of which the Lenders must respond to the Extension Request (the "*Response Date*"). The new scheduled Commitment Termination Date shall be 364 days after the scheduled Commitment Termination Date in effect at the time an Extension Request is received, including the scheduled Commitment Termination Date as one of the days in the calculation of the days elapsed. Promptly upon receipt of an Extension Request, the Administrative Agent shall notify each Lender of the contents thereof and shall request each Lender to approve such Extension Request, which approval shall be at the sole discretion of each Lender. Each Lender approving such Extension Request shall deliver its written consent no later than the Response Date. If the written consent of each of the Lenders (excluding any Person which ceases to be a Lender pursuant to *Section 8.07(g)(iii)*) is received by the Administrative Agent, the new scheduled Commitment Termination Date specified in the Extension Request shall become effective on the existing scheduled Commitment Termination Date and the Administrative Agent shall promptly notify each Borrower and each

Lender of the new scheduled Commitment Termination Date. If all Lenders (including any Person which becomes a Lender pursuant to *Section 8.07(g)*) do not consent to an Extension Request, the scheduled Commitment Termination Date shall not be extended pursuant to such Extension Request.

ARTICLE III

CONDITIONS TO CREDIT EXTENSIONS

SECTION 3.01 *Conditions Precedent to Initial Credit Extensions.* No Lender shall be obligated to make any Advance, and the LC Issuer shall not be obligated to issue any Facility LC, unless the Administrative Agent shall have received (a) evidence, satisfactory to the Administrative Agent, that the Borrowers have paid (or will pay with the proceeds of the initial Credit Extensions) all amounts then payable under the Existing Agreement and (b) each of the following documents, each dated the date of the initial Credit Extension (or an earlier date satisfactory to the Administrative Agent, in form and substance satisfactory to the Administrative Agent and each (except for the Notes) in sufficient copies to provide one for each Lender:

(i) The Notes payable to the order of each of the Lenders, respectively;

(ii) Certified copies of resolutions of the Board of Directors or equivalent managing body of each Borrower approving the transactions contemplated by this Agreement and the Notes and of all documents evidencing other necessary organizational action of such Borrower with respect to this Agreement and the documents contemplated hereby;

(iii) A certificate of the Secretary or an Assistant Secretary of each Borrower certifying (A) the names and true signatures of the officers of such Borrower authorized to sign this Agreement and the other documents to be delivered hereunder; (B) that attached thereto are true and correct copies of the articles or certificate of incorporation and by-laws, or equivalent organizational documents, of such Borrower, in each case in effect on such date; and (C) that attached thereto are true and correct copies of all governmental and regulatory authorizations and approvals required for the due execution, delivery and performance by such Borrower of this Agreement and the documents contemplated hereby;

(iv) A certificate signed by either the chief financial officer, principal accounting officer or treasurer of each Borrower stating that (A) the representations and warranties contained in *Section 4.01* are correct on and as of the date of such certificate as though made on and as of such date and (B) no Event of Default or Unmatured Event of Default has occurred and is continuing on the date of such certificate; and

(v) A favorable opinion of Ballard Spahr Andrews & Ingersoll LLC, special counsel for the Borrowers, substantially in the form of *Exhibit D-1*; and a favorable opinion of Sidley Austin Brown & Wood, special counsel to ComEd, substantially in the form of *Exhibit D-2*.

SECTION 3.02 *Conditions Precedent to All Credit Extensions.* The obligation of each Lender to make any Advance to any Borrower and of the LC Issuer to issue or modify any Facility LC for the account of any Borrower shall be subject to the further conditions precedent that on the date of such Credit Extension the following statements shall be true, and (a) the giving of the applicable Notice of Borrowing and the acceptance by the applicable Borrower of the proceeds of Advances pursuant thereto and (b) the request by a Borrower for the issuance or Modification of a Facility LC shall, in each case, constitute a representation and warranty by such Borrower that on the date of the making of such Advances or the issuance or Modification of such Facility LC such statements are true:

(A) The representations and warranties of such Borrower contained in *Section 4.01* are correct on and as of the date of such Credit Extension, before and after giving effect to such Credit Extension and, in the case of the making of Advances, the application of the proceeds therefrom, as though made on and as of such date; *provided* that this *Section 3.02(A)* shall not apply to the representations and warranties set forth in *Sections 4.01(e)(i)(B)*, *4.01(e)(ii)(B)*, *4.01(e)(iii)(B)* and *4.01(e)(iv) (B)* and the first sentence of *Section 4.01(f)* with respect to a

Borrowing if the proceeds of such Borrowing will be used exclusively to repay such Borrower's commercial paper (and, in the event of any such Borrowing, the Administrative Agent may require the applicable Borrower to deliver information sufficient to disburse the proceeds of such Borrowing directly to the holders of such commercial paper or a paying agent therefor); and

(B) No event has occurred and is continuing, or would result from such Credit Extension or, in the case of the making of Advances, from the application of the proceeds therefrom, that constitutes an Event of Default or Unmatured Event of Default with respect to such Borrower.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES

SECTION 4.01 *Representations and Warranties of the Borrowers.* Each Borrower represents and warrants as follows:

(a) Such Borrower is a corporation, limited liability company or business trust duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation or organization.

(b) The execution, delivery and performance by such Borrower of this Agreement and the Notes issued by such Borrower are within such Borrower's powers, have been duly authorized by all necessary organizational action on the part of such Borrower, and do not and will not contravene (i) the articles or certificate of incorporation, by-laws or the organizational documents of such Borrower, (ii) applicable law or (iii) any contractual or legal restriction binding on or affecting the properties of such Borrower or any of its Subsidiaries.

(c) No authorization or approval or other action by, and no notice to or filing with, any governmental authority or regulatory body is required for the due execution, delivery and performance by such Borrower of this Agreement or the applicable Notes, except an appropriate order or orders of (i) the Securities and Exchange Commission under the Public Utility Holding Company Act of 1935 and (ii) in the case of ComEd, the Illinois Commerce Commission under the Illinois Public Utilities Act, which order or orders have been duly obtained (or, in the case of the order or orders referred to in *clause (ii)*, will have been obtained prior to any Credit Extension to ComEd) and are (or, in the case of the order or orders referred to in *clause (ii)*, will be at the time of any Credit Extension to ComEd) (x) in full force and effect and (y) sufficient for the purposes hereof.

(d) This Agreement is, and the applicable Notes when delivered hereunder will be, legal, valid and binding obligations of such Borrowers, enforceable against such Borrower in accordance with their respective terms, except as the enforceability thereof may be limited by equitable principles or bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally.

(e) (i) In the case of PECO, (A) the consolidated balance sheet of PECO and its Subsidiaries as at December 31, 2001, and the related statements of income and retained earnings and of cash flows of PECO and its Subsidiaries for the fiscal year then ended, certified by Pricewaterhouse Coopers LLP, and the unaudited consolidated balance sheet of PECO and its Subsidiaries as at September 30, 2002, and the related unaudited statements of income for the nine-month period then ended, copies of which have been furnished to each Lender, fairly present in all material respects (subject, in the case of such balance sheet and statement of income for the period ended September 30, 2002, to year-end adjustments) the consolidated financial condition of PECO and its Subsidiaries as at such dates and the consolidated results of the operations of PECO and its Subsidiaries for the periods ended on such dates, all in accordance with GAAP; and (B) since December 31, 2001 there has been no Material Adverse Change with respect to PECO.

(ii) In the case of ComEd, (A) the consolidated balance sheet of ComEd and its Subsidiaries as at December 31, 2001 and the related consolidated statements of income, retained earnings and cash flows of ComEd and its Subsidiaries for the fiscal year then ended, certified by Pricewaterhouse Coopers LLP, and the unaudited consolidated balance sheet of ComEd and its Subsidiaries as of September 30, 2002 and the related unaudited statement of income for the nine-month period then ended, copies of which have been furnished to each Lender, fairly present in all material respects (subject in the case of such balance sheet and statement of income for the period ended September 30, 2002, to year-end adjustments) the consolidated financial condition of ComEd and its Subsidiaries as at such dates and the consolidated results of the operations of ComEd and its Subsidiaries for the periods ended on such dates in accordance with GAAP; and (B) since December 31, 2001 there has been no Material Adverse Change with respect to ComEd.

(iii) In the case of Exelon, (A) the consolidated balance sheet of Exelon and its Subsidiaries as at December 31, 2001 and the related consolidated statements of income, retained earnings and cash flows of Exelon for the fiscal year then ended, certified by Pricewaterhouse Coopers LLP, and the unaudited consolidated balance sheet of Exelon and its Subsidiaries as of September 30, 2002 and the related unaudited statement of income for the nine-month period then ended, copies of which have been furnished to each Lender, fairly present in all material respects (subject, in the case of such balance sheet and statement of income for the period ended September 30, 2002, to year-end adjustments) the consolidated financial condition of Exelon and its Subsidiaries as at such dates and the consolidated results of the operations of Exelon and its Subsidiaries for the periods ended on such dates in accordance with GAAP; and (B) since December 31, 2001 there has been no Material Adverse Change with respect to Exelon.

(iv) In the case of Genco, (A) the consolidated balance sheet of Genco and its Subsidiaries as at December 31, 2001 and the related consolidated statements of income, retained earnings and cash flows of Genco for the fiscal year then ended, certified by Pricewaterhouse Coopers LLP, and the unaudited consolidated balance sheet of Genco and its Subsidiaries as of September 30, 2002 and the related unaudited statement of income for the nine-month period then ended, copies of which have been furnished to each Lender, fairly present in all material respects (subject, in the case of such balance sheet and statement of income for the period ended September 30, 2002, to year-end adjustments) the consolidated financial condition of Genco and its Subsidiaries as at such dates and the consolidated results of the operations of Genco and its Subsidiaries for the periods ended on such dates in accordance with GAAP; and (B) since December 31, 2001 there has been no Material Adverse Change with respect to Genco.

(f) Except as disclosed in such Borrower's Annual, Quarterly or Current Reports, each as filed with the Securities and Exchange Commission and delivered to the Lenders prior to the later of the date of execution and delivery of this Agreement or the date of the most recent extension of the Commitment Termination Date pursuant to *Section 2.17*, there is no pending or threatened action, investigation or proceeding affecting such Borrower or any of its Subsidiaries before any court, governmental agency or arbitrator that may reasonably be anticipated to have a Material Adverse Effect with respect to such Borrower. There is no pending or threatened action or proceeding against such Borrower or any of its Subsidiaries that purports to affect the legality, validity, binding effect or enforceability against such Borrower of this Agreement or any Note issued by such Borrower.

(g) No proceeds of any Advance to such Borrower have been or will be used directly or indirectly in connection with the acquisition of in excess of 5% of any class of equity securities that is registered pursuant to Section 12 of the Exchange Act or any transaction subject to the requirements of Section 13 or 14 of the Exchange Act.

(h) Such Borrower is not engaged in the business of extending credit for the purpose of purchasing or carrying margin stock (within the meaning of Regulation U issued by the Board of

Governors of the Federal Reserve System), and no proceeds of any Advance to such Borrower will be used to purchase or carry any margin stock or to extend credit to others for the purpose of purchasing or carrying any margin stock. Not more than 25% of the value of the assets of such Borrower and its Subsidiaries is represented by margin stock.

(i) Such Borrower is not an "investment company" or a company "controlled" by an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

(j) During the twelve consecutive month period prior to the date of the execution and delivery of this Agreement and prior to the date of any borrowing of Advances by such Borrower or the issuance or modification of any Facility LC for the account of such Borrower, no steps have been taken to terminate any Plan, and no contribution failure by such Borrower or any other member of the Controlled Group has occurred with respect to any Plan. No condition exists or event or transaction has occurred with respect to any Plan (including any Multiemployer Plan) which might result in the incurrence by such Borrower or any other member of the Controlled Group of any material liability, fine or penalty.

ARTICLE V

COVENANTS OF THE BORROWERS

SECTION 5.01 *Affirmative Covenants.* Each Borrower agrees that so long as any amount payable by such Borrower hereunder remains unpaid, any Facility LC issued for the account of such Borrower remains outstanding or any Lender has any Commitment to such Borrower hereunder, such Borrower will, and, in the case of *Section 5.01(a)*, will cause its Principal Subsidiaries to, unless the Majority Lenders shall otherwise consent in writing:

(a) *Keep Books; Existence; Maintenance of Properties; Compliance with Laws; Insurance; Taxes.*

(i) keep proper books of record and account, all in accordance with generally accepted accounting principles in the United States, consistently applied;

(ii) subject to *Section 5.02(b)*, preserve and keep in full force and effect its existence;

(iii) maintain and preserve all of its properties (except such properties the failure of which to maintain or preserve would not have, individually or in the aggregate, a Material Adverse Effect on such Borrower) which are used or useful in the conduct of its business in good working order and condition, ordinary wear and tear excepted;

(iv) comply in all material respects with the requirements of all applicable laws, rules, regulations and orders (including those of any governmental authority and including with respect to environmental matters) to the extent the failure to so comply, individually or in the aggregate, would have a Material Adverse Effect on such Borrower;

(v) maintain insurance with responsible and reputable insurance companies or associations, or self-insure, as the case may be, in each case in such amounts and covering such contingencies, casualties and risks as is customarily carried by or self-insured against by companies engaged in similar businesses and owning similar properties in the same general areas in which such Borrower and its Principal Subsidiaries operate;

(vi) at any reasonable time and from time to time, pursuant to prior notice delivered to such Borrower, permit any Lender, or any agent or representative of any thereof, to examine and, at such Lender's expense, make copies of, and abstracts from the records and books of account of, and visit the properties of, such Borrower and any of its Principal Subsidiaries and to discuss the affairs, finances and accounts of such Borrower and any of its Principal Subsidiaries with any of

their respective officers; *provided* that any non-public information (which has been identified as such by such Borrower or the applicable Principal Subsidiary) obtained by any Lender or any of its agents or representatives pursuant to this *clause (vi)* shall be treated confidentially by such Person; *provided*, *further*, that such Person may disclose such information to any other party to this Agreement, its examiners, affiliates, outside auditors, counsel or other professional advisors in connection with the Agreement or if otherwise required to do so by law or regulatory process; and

(vii) use the proceeds of the Advances to it for general purposes of such corporation, limited liability company or business trust, as the case may be (including the refinancing of its commercial paper and the making of acquisitions), but in no event for any purpose which would be contrary to *Section 4.01(g)* or *4.01(h)*.

(b) *Reporting Requirements*. Furnish to the Lenders:

(i) as soon as possible, and in any event within five Business Days after the occurrence of any Event of Default or Unmatured Event of Default with respect to such Borrower continuing on the date of such statement, a statement of an authorized officer of such Borrower setting forth details of such Event of Default or Unmatured Event of Default and the action which such Borrower proposes to take with respect thereto;

(ii) as soon as available and in any event within 60 days after the end of each of the first three quarters of each fiscal year of such Borrower (commencing with the quarter ending March 31, 2002), a copy of such Borrower's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission with respect to such quarter (or, if such Borrower is not required to file a Quarterly Report on Form 10-Q, copies of an unaudited consolidated balance sheet of such Borrower as of the end of such quarter and the related consolidated statement of income of such Borrower for the portion of such Borrower's fiscal year ending on the last day of such quarter, in each case prepared in accordance with GAAP, subject to the absence of footnotes and to year-end adjustments), together with a certificate of an authorized officer of such Borrower stating that no Event of Default or Unmatured Event of Default with respect to such Borrower has occurred and is continuing or, if any such Event of Default or Unmatured Event of Default has occurred and is continuing, a statement as to the nature thereof and the action which such Borrower proposes to take with respect thereto;

(iii) as soon as available and in any event within 105 days after the end of each fiscal year of such Borrower, a copy of such Borrower's Annual Report on Form 10-K filed with the Securities and Exchange Commission with respect to such fiscal year (or, if such Borrower is not required to file an Annual Report on Form 10-K, the consolidated balance sheet of such Borrower and its subsidiaries as of the last day of such fiscal year and the related consolidated statements of income, retained earnings (if applicable) and cashflows of such Borrower for such fiscal year, certified by Pricewaterhouse Coopers LLP or other certified public accountants of recognized national standing), together with a certificate of an authorized officer of such Borrower stating that no Event of Default or Unmatured Event of Default with respect to such Borrower has occurred and is continuing or, if any such Event of Default or Unmatured Event of Default has occurred and is continuing, a statement as to the nature thereof and the action which such Borrower proposes to take with respect thereto;

(iv) concurrently with the delivery of the annual and quarterly reports referred to in *Sections 5.01(b)(ii)* and *5.01(b)(iii)*, a compliance certificate in substantially the form set forth in *Exhibit E*, duly completed and signed by the Chief Financial Officer, Treasurer or an Assistant Treasurer of such Borrower;

(v) except as otherwise provided in *clause (ii)* or *(iii)* above, promptly after the sending or filing thereof, copies of all reports that such Borrower sends to any of its security holders, and copies of all Reports on Form 10-K, 10-Q or 8-K, and registration statements and prospectuses that such Borrower or any of its Subsidiaries files with the Securities and Exchange Commission or any national securities exchange (except to the extent that any such registration statement or prospectus relates solely to the issuance of securities pursuant to employee or dividend reinvestment plans of such Borrower or such Subsidiary);

(vi) promptly upon becoming aware of the institution of any steps by such Borrower or any other Person to terminate any Plan, or the failure to make a required contribution to any Plan if such failure is sufficient to give rise to a lien under section 302(f) of ERISA, or the taking of any action with respect to a Plan which could result in the requirement that such Borrower furnish a bond or other security to the PBGC or such Plan, or the occurrence of any event with respect to any Plan, which could result in the incurrence by such Borrower or any other member of the Controlled Group of any material liability, fine or penalty, notice thereof and a statement as to the action such Borrower proposes to take with respect thereto;

(vii) promptly upon becoming aware thereof, notice of any change in the Moody's Rating or the S&P Rating for such Borrower; and

(viii) such other information respecting the condition, operations, business or prospects, financial or otherwise, of such Borrower or any of its Subsidiaries as any Lender, through the Administrative Agent, may from time to time reasonably request.

(c) *ComEd Clean Up*. During the period from the date hereof until the Commitment Termination Date, ComEd shall manage its borrowings and Facility LC's hereunder so that, for a period of at least one day during any 364-day period, the outstanding principal amount of all Borrowings by ComEd plus the amount of all unpaid reimbursement obligations under all Facility LCs issued for the account of ComEd shall be zero.

SECTION 5.02 *Negative Covenants.* Each Borrower agrees that so long as any amount payable by such Borrower hereunder remains unpaid, any Facility LC issued for the account of such Borrower remains outstanding or any Lender has any Commitment to such Borrower hereunder (except with respect to *Section 5.02(a)*, which shall be applicable only as of the date hereof and at any time any Advance to such Borrower or Facility LC issued for the account of such Borrower is outstanding or is to be made or issued, as applicable), such Borrower will not, without the written consent of the Majority Lenders:

(a) *Limitation on Liens*. Create, incur, assume or suffer to exist, or, in the case of Exelon, permit any of its Material Subsidiaries to create, incur, assume or suffer to exist, any Lien on its respective property, revenues or assets, whether now owned or hereafter acquired except (i) Liens imposed by law, such as carriers', warehousemen's and mechanics' Liens and other similar Liens arising in the ordinary course of business; (ii) Liens on the capital stock of or any other equity interest in any of its Subsidiaries (excluding, in the case of Exelon, the stock of ComEd, PECO, Genco and any holding company for any of the foregoing) or any such Subsidiary's assets to secure Nonrecourse Indebtedness; (iii) Liens upon or in any property acquired in the ordinary course of business to secure the purchase price of such property or to secure any obligation incurred solely for the purpose of financing the acquisition of such property; (iv) Liens existing on such property at the time of its acquisition (other than any such Lien created in contemplation of such acquisition unless permitted by the preceding *clause (iii))*; (v) Liens on the property, revenues and/or assets of any Person that exist at the time such Person becomes a Subsidiary and the continuation of such Liens in connection with any refinancing or restructuring of the obligations secured by such Liens; (vi) Liens granted in connection with any financing arrangement for the purchase of nuclear fuel or the financing of pollution control facilities, limited to the fuel or facilities so purchased or acquired; (vii) Liens arising in connection with sales or transfers of, or financing secured by, accounts receivable or related contracts; *provided* that any such sale, transfer or financing shall be on arms' length terms; (viii) Liens granted by a Special Purpose

Subsidiary to secure Transitional Funding Instruments of such Special Purpose Subsidiary; (ix) in the case of ComEd, Liens arising under the ComEd Mortgage and "permitted liens" as defined in the ComEd Mortgage; (x) in the case of PECO, (A) Liens granted under the PECO Mortgage and "excepted encumbrances" as defined in the PECO Mortgage, and (B) Liens securing PECO's notes collateralized solely by mortgage bonds of PECO issued under the terms of the PECO Mortgage; (xi) in the case of PECO, ComEd and Genco, Liens arising in connection with sale and leaseback transactions entered into by such Borrower or a Subsidiary thereof, but only to the extent (I) in the case of PECO or ComEd or any Subsidiary thereof, the proceeds received from such sale shall immediately be applied to retire mortgage bonds of PECO or ComEd issued under the terms of the PECO Mortgage or the ComEd Mortgage, as the case may be, or (II) the aggregate purchase price of assets sold pursuant to such sale and leaseback transactions where such proceeds are not applied as provided in *clause (I)* shall not exceed, in the aggregate for PECO, ComEd, Genco and their Subsidiaries, $1,000,000,000; and (xii) Liens, other than those described in *clauses (i)* through *(xi)* of this *Section 5.02(a)*, granted by such Borrower or, in the case of Exelon, any of its Material Subsidiaries in the ordinary course of business securing Debt of such Borrower and, if applicable, such Material Subsidiaries; *provided* that the aggregate amount of all Debt secured by such Liens shall not exceed in the aggregate at any one time outstanding (I) in the case of Exelon and its Material Subsidiaries, $100,000,000, (II) in the case of ComEd, $50,000,000, (III) in the case of Genco, $50,000,000, and (IV) in the case of PECO, $50,000,000.

(b) *Mergers and Consolidations; Disposition of Assets*. Merge with or into or consolidate with or into, or sell, assign, lease or otherwise dispose of (whether in one transaction or in a series of transactions) all or substantially all of its assets (whether now owned or hereafter acquired) to any Person or permit any Principal Subsidiary to do so, *except* that (i) any of its Principal Subsidiaries may merge with or into or consolidate with or transfer assets to any other Principal Subsidiary of such Borrower, (ii) any of its Principal Subsidiaries may merge with or into or consolidate with or transfer assets to such Borrower and (iii) such Borrower or any of its Principal Subsidiaries may merge with or into or consolidate with or transfer assets to any other Person; *provided* that, in each case, immediately before and after giving effect thereto, no Event of Default or Unmatured Event of Default with respect to such Borrower shall have occurred and be continuing and (A) in the case of any such merger, consolidation or transfer of assets to which a Borrower is a party, either (x) such Borrower shall be the surviving entity or (y) the surviving entity shall be an Eligible Successor and shall have assumed all of the obligations of such Borrower under this Agreement and the Notes issued by such Borrower and the Facility LCs issued for the account of such Borrower pursuant to a written instrument in form and substance satisfactory to the Administrative Agent, (B) subject to *clause (A)* above, in the case of any such merger, consolidation or transfer of assets to which any of its Principal Subsidiaries is a party, a Principal Subsidiary of such Borrower shall be the surviving entity and (C) subject to *clause (A)* above, in the case of any such merger, consolidation or transfer of assets to which a Material Subsidiary of Exelon is a party, a Material Subsidiary of Exelon shall be the surviving entity.

(c) *Interest Coverage Ratio*. Permit its Interest Coverage Ratio as of the last day of any fiscal quarter to be less than (i) in the case of Exelon, 2.65 to 1.0; (ii) in the case of ComEd, 2.25 to 1.0; (ii) in the case of PECO, 2.25 to 1.0; and (iv) in the case of Genco, 3.25 to 1.0.

(d) *Continuation of Businesses*. Engage in, or permit any of its Subsidiaries to engage in, any line of business which is material to Exelon and its Subsidiaries, taken as a whole, other than businesses engaged in by such Borrower and its Subsidiaries as of the date hereof and reasonable extensions thereof.

(e) *Capital Structure*. In the case of Exelon, fail at any time to own, free and clear of all Liens, at least 95% of the issued and outstanding common shares or other common ownership interests of ComEd, 100% of the issued and outstanding common shares or other common ownership interests of PECO and 100% of the issued and outstanding membership interests of Genco (or, in any such case,

of a holding company which owns, free and clear of all Liens, at least 95% of the issued and outstanding shares of common stock of ComEd, 100% of the issued and outstanding common shares or other common ownership interests of PECO or 100% of the issued and outstanding membership interests of Genco).

(f) *Restrictive Agreements*. In the case of Exelon, permit ComEd, Genco or PECO (or any holding company for any of the foregoing described in the parenthetical clause at the end of *Section 5.02(e))* to, directly or indirectly, enter into, incur or permit to exist any agreement or other arrangement that prohibits, restricts or imposes any condition upon the ability of such entity to declare or pay dividends to Exelon (or, if applicable, to its holding company), except for existing restrictions on (i) PECO relating to (A) the priority of payments on its subordinated debentures contained in the Indenture dated as of July 1, 1994 between PECO and First Union National Bank, as trustee, as amended and supplemented to the date hereof, and (B) the priority payment of quarterly dividends on its preferred stock contained in its Amended and Restated Articles of Incorporation as in effect on the date hereof; and (ii) ComEd in connection with the securities described on its consolidated balance sheet as of December 31, 2001 as "Company-Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trusts holding solely the Company's Subordinated Debt Securities".

ARTICLE VI

EVENTS OF DEFAULT

SECTION 6.01 *Events of Default.* If any of the following events shall occur and be continuing with respect to a Borrower (any such event an "Event of Default" with respect to such Borrower):

(a) Such Borrower shall fail to pay (i) any principal of any Advance to such Borrower when the same becomes due and payable, (ii) any Reimbursement Obligation of such Borrower within one Business Day after the same becomes due and payable or (iii) any interest on any Advance to such Borrower or any other amount payable by such Borrower under this Agreement or any Note issued by such Borrower within three Business Days after the same becomes due and payable; or

(b) Any representation or warranty made by such Borrower herein or by such Borrower (or any of its officers) pursuant to the terms of this Agreement shall prove to have been incorrect or misleading in any material respect when made; or

(c) Such Borrower shall fail to perform or observe (i) any term, covenant or agreement contained in *Section 5.02*, *Section 5.01(a)(vii)* or *Section 5.01(b)(i)*, in each case to the extent applicable to such Borrower, or (ii) any other term, covenant or agreement contained in this Agreement on its part to be performed or observed if the failure to perform or observe such other term, covenant or agreement shall remain unremedied for 30 days after written notice thereof shall have been given to such Borrower by the Administrative Agent (which notice shall be given by the Administrative Agent at the written request of any Lender); or

(d) Such Borrower or any Principal Subsidiary thereof shall fail to pay any principal of or premium or interest on any Debt that is outstanding in a principal amount in excess of $50,000,000 in the aggregate (but excluding Sithe Project Debt and Debt evidenced by the Notes, Nonrecourse Indebtedness and Transitional Funding Instruments) of such Borrower or such Principal Subsidiary (as the case may be) when the same becomes due and payable (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise), and such failure shall continue after the applicable grace period, if any, specified in the agreement or instrument relating to such Debt; or any other event shall occur or condition shall exist under any agreement or instrument relating to any such Debt and shall continue after the applicable grace period, if any, specified in such agreement or instrument, if the effect of such event or condition is to accelerate, or to permit the acceleration of, the maturity of such

Debt; or any such Debt shall be declared to be due and payable, or required to be prepaid (other than by a regularly scheduled required prepayment), prior to the stated maturity thereof, other than any acceleration of any Debt secured by equipment leases or fuel leases of such Borrower or a Principal Subsidiary thereof as a result of the occurrence of any event requiring a prepayment (whether or not characterized as such) thereunder, which prepayment will not result in a Material Adverse Change with respect to such Borrower; or

(e) Such Borrower or any Principal Subsidiary thereof (other than (i) a Special Purpose Subsidiary and (ii) so long as such entity has no Debt other than Sithe Project Debt, Sithe Holdings and any Subsidiary thereof) shall generally not pay its debts as such debts become due, or shall admit in writing its inability to pay its debts generally, or shall make a general assignment for the benefit of creditors; or any proceeding shall be instituted by or against such Borrower or any Principal Subsidiary thereof (other than (i) a Special Purpose Subsidiary and (ii) so long as such entity has no Debt other than Sithe Project Debt, Sithe Holdings and any Subsidiary thereof) seeking to adjudicate it as bankrupt or insolvent, or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief, or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking the entry of an order for relief or the appointment of a receiver, trustee, custodian or other similar official for it or for any substantial part of its property and, in the case of any such proceeding instituted against it (but not instituted by it), either such proceeding shall remain undismissed or unstayed for a period of 60 days, or any of the actions sought in such proceeding (including the entry of an order for relief against, or the appointment of a receiver, trustee, custodian or other similar official for, it or for any substantial part of its property,) shall occur; or such Borrower or any Principal Subsidiary thereof (other than (i) a Special Purpose Subsidiary and (ii) so long as such entity has no Debt other than Sithe Project Debt, Sithe Holdings and any Subsidiary thereof) shall take any action to authorize or to consent to any of the actions set forth above in this *Section 6.01(e)*; or

(f) One or more judgments or orders for the payment of money in an aggregate amount exceeding $50,000,000 (excluding any such judgments or orders which are fully covered by insurance, subject to any customary deductible, and under which the applicable insurance carrier has acknowledged such full coverage in writing) shall be rendered against such Borrower or any Principal Subsidiary thereof (other than, if applicable, Sithe Holdings) and either (i) enforcement proceedings shall have been commenced by any creditor upon such judgment or order or (ii) there shall be any period of 30 consecutive days during which a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, shall not be in effect; or

(g) (i) Any Reportable Event that the Majority Lenders determine in good faith might constitute grounds for the termination of any Plan or for the appointment by the appropriate United States District Court of a trustee to administer a Plan shall have occurred and be continuing 30 days after written notice to such effect shall have been given to such Borrower by the Administrative Agent or (ii) any Plan shall be terminated, or (iii) a Trustee shall be appointed by an appropriate United States District Court to administer any Plan or (iv) the PBGC shall institute proceedings to terminate any Plan or to appoint a trustee to administer any Plan; *provided* that on the date of any event described in *clauses (i)* through *(iv)* above, the Unfunded Liabilities of such Plan exceed $20,000,000; or

(h) In the case of ComEd, Exelon (or a wholly owned Subsidiary of Exelon) shall fail to own, free and clear of all Liens, at least 95% of its issued and outstanding common shares or other common ownership interests;

(i) In the case of PECO, Exelon (or a wholly owned Subsidiary of Exelon) shall fail to own, free and clear of all Liens, 100% of its issued and outstanding common shares or other common ownership interests; or

---

(j) In the case of Genco, Exelon (or a wholly owned Subsidiary of Exelon) shall fail to own, free and clear of all Liens, 100% of the membership interests of Genco;

then, and in any such event, the Administrative Agent shall at the request, or may with the consent, of the Majority Lenders, by notice to such Borrower, (i) declare the respective Commitments of the Lenders to such Borrower and the commitment of the LC Issuer to issue Facility LCs for the account of such Borrower to be terminated, whereupon the same shall forthwith terminate, and/or (ii) declare the principal amount outstanding under the Notes issued by such Borrower, all interest thereon and all other amounts payable under this Agreement by such Borrower (including all contingent LC Obligations) to be forthwith due and payable, whereupon the principal amount outstanding under such Notes, all such interest and all such other amounts shall become and be forthwith due and payable, without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by such Borrower; *provided* that in the event of an Event of Default under *Section 6.01(e)*, (A) the obligation of each Lender to make any Advance to such Borrower and the obligation of the LC Issuer to issue Facility LCs for the account of such Borrower shall automatically be terminated and (B) the principal amount outstanding under the Notes issued by such Borrower, all interest thereon and all other amounts payable by such Borrower hereunder (including all contingent LC Obligations of such Borrower) shall automatically and immediately become due and payable, without presentment, demand, protest or any notice of any kind, all of which are hereby expressly waived by such Borrower.

ARTICLE VII

THE AGENTS

SECTION 7.01 *Authorization and Action.* Each Lender hereby appoints and authorizes the Administrative Agent to take such action as administrative agent on its behalf and to exercise such powers under this Agreement as are delegated to the Administrative Agent by the terms hereof, together with such powers as are reasonably incidental thereto. As to any matters not expressly provided for by this Agreement (including enforcement or collection of the Notes), the Administrative Agent shall not be required to exercise any discretion or take any action, but shall be required to act or to refrain from acting (and shall be fully protected in so acting or refraining from acting) upon the instructions of the Majority Lenders, and such instructions shall be binding upon all Lenders and all holders of Notes; *provided* that the Administrative Agent shall not be required to take any action which exposes the Administrative Agent to personal liability or which is contrary to this Agreement or applicable law. The Administrative Agent agrees to give to each Lender prompt notice of each notice given to it by a Borrower pursuant to the terms of this Agreement.

SECTION 7.02 *Agents' Reliance, Etc.* Neither the Administrative Agent nor any of its directors, officers, agents or employees shall be liable for any action taken or omitted to be taken by it or them under or in connection with this Agreement, except for its or their respective own gross negligence or willful misconduct. Without limiting the generality of the foregoing: (i) the Administrative Agent may treat the payee of any Note as the holder thereof until the Administrative Agent receives and accepts an Assignment and Acceptance entered into by the Lender which is the payee of such Note, as assignor, and an Eligible Assignee, as assignee, as provided in *Section 8.07*; (ii) the Administrative Agent may consult with legal counsel (including counsel for a Borrower), independent public accountants and other experts selected by it and shall not be liable for any action taken or omitted to be taken in good faith by it in accordance with the advice of such counsel, accountants or experts; (iii) the Administrative Agent makes no warranty or representation to any Lender and shall not be responsible to any Lender for any statements, warranties or representations (whether written or oral) made in or in connection with this Agreement; (iv) the Administrative Agent shall not have any duty to ascertain or to inquire as to the performance or observance of any of the terms, covenants or conditions of this Agreement on the part of any Borrower or to inspect the property (including the

---

books and records) of any Borrower; (v) the Administrative Agent shall not be responsible to any Lender for the due execution, legality, validity, enforceability, genuineness, sufficiency or value of this Agreement or any other instrument or document furnished pursuant hereto; and (vi) the Administrative Agent shall not incur any liability under or in respect of this Agreement by acting upon any notice, consent, certificate or other instrument or writing (which may be by telecopier, telegram, cable or telex) believed by it to be genuine and signed or sent by the proper party or parties.

SECTION 7.03 *Agents and Affiliates.* With respect to its Commitment, Advances and Notes, Bank One shall have the same rights and powers under this Agreement as any other Lender and may exercise the same as though it were not an Agent; and the term "Lender" or "Lenders" shall, unless otherwise expressly indicated, include Bank One in its individual capacity. Bank One and its affiliates may accept deposits from, lend money to, act as trustee under indentures of, and generally engage in any kind of business with, any Borrower, any subsidiary of any Borrower and any Person who may do business with or own securities of any Borrower or any such subsidiary, all as if it were not an Agent and without any duty to account therefor to the Lenders.

SECTION 7.04 *Lender Credit Decision.* Each Lender acknowledges that it has, independently and without reliance upon the Administrative Agent or any other Lender and based on the financial statements referred to in *Section 4.01(e)* and such other documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon the Administrative Agent or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement.

SECTION 7.05 *Indemnification.* The Lenders agree to indemnify each Agent (to the extent not reimbursed by a Borrower), ratably according to their respective Pro Rata Shares, from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever which may be imposed on, incurred by, or asserted against any such Agent in any way relating to or arising out of this Agreement or any action taken or omitted by any such Agent under this Agreement, *provided* that no Lender shall be liable for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from such Agent's gross negligence or willful misconduct. Without limiting the foregoing, each Lender agrees to reimburse each such Agent promptly upon demand for its Pro Rata Share of any out-of-pocket expenses (including reasonable counsel fees) incurred by such Agent in connection with the preparation, execution, delivery, administration, modification, amendment or enforcement (whether through negotiations, legal proceedings or otherwise) of, or legal advice in respect of rights or responsibilities under, this Agreement, to the extent that such expenses are reimbursable by a Borrower but for which such Agent is not reimbursed by such Borrower.

SECTION 7.06 *Successor Administrative Agent.* The Administrative Agent may resign at any time by giving written notice thereof to the Lenders and the Borrowers and may be removed at any time with or without cause by the Majority Lenders. Upon any such resignation or removal, the Majority Lenders shall have the right to appoint a successor Administrative Agent. If no successor Administrative Agent shall have been so appointed by the Majority Lenders, and shall have accepted such appointment, within 30 days after the retiring Administrative Agent's giving of notice of resignation or the Majority Lenders' removal of the retiring Administrative Agent, then the retiring Administrative Agent may, on behalf of the Lenders, appoint a successor Administrative Agent, which shall be a commercial bank described in *clause (i)* or *(ii)* of the definition of "Eligible Assignee" and having a combined capital and surplus of at least $150,000,000. Upon the acceptance of any appointment as Administrative Agent hereunder by a successor Administrative Agent, such successor Administrative Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring Administrative Agent, and the retiring Administrative Agent shall be discharged from its duties and obligations under this Agreement. After any retiring Administrative Agent's resignation or removal hereunder as Administrative Agent, the provisions of this *Article VII* shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Administrative Agent under this Agreement. Notwithstanding the foregoing, if no Event of Default or Unmatured Event of Default shall have occurred and be continuing, then no successor Administrative Agent shall be appointed under this *Section 7.06* without the prior written consent of the Borrowers, which consent shall not be unreasonably withheld or delayed.

SECTION 7.07 *Co-Documentation Agents, Co-Syndication Agents and Lead Arranger.* The titles "Co-Documentation Agent," "Co-Syndication Agent" and "Lead Arranger and Sole Book Runner" are purely honorific, and no Person designated as a "Co-Documentation Agent," a "Co-Syndication Agent" or the "Lead Arranger and Sole Book Runner" shall have any duties or responsibilities in such capacity.

ARTICLE VIII

MISCELLANEOUS

SECTION 8.01 *Amendments, Etc.* No amendment or waiver of any provision of this Agreement or the Notes, nor consent to any departure by any Borrower therefrom, shall in any event be effective unless the same shall be in writing and signed by the Majority Lenders and, in the case of an amendment, the Borrowers, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; *provided* that no amendment, waiver or consent shall, unless in writing and signed by all the Lenders (other than any Lender that is a Borrower or an Affiliate of a Borrower), do any of the following: (a) waive any of the conditions specified in *Section 3.01* or *3.02*, (b) increase or extend the Commitments of the Lenders, increase any Borrower's Sublimit to an amount greater than the amount specified in *Section 2.04(c)(ii)(B)* or subject the Lenders to any additional obligations, (c) reduce the principal of, or interest on, the Notes or any fees or other amounts payable hereunder, (d) postpone any date fixed for any payment of principal of, or interest on, the Notes or any fees or other amounts payable hereunder, (e) change the percentage of the Commitments or of the aggregate unpaid principal amount of the Notes, or the number of Lenders, that shall be required for the Lenders or any of them to take any action hereunder, or (f) amend this *Section 8.01*; *provided*, *further*, that (i) no amendment, waiver or consent shall, unless in writing and signed by the Administrative Agent, in addition to the Lenders required above to take such action, affect the rights or duties of the Administrative Agent under this Agreement or any Note; and (ii) no amendment, waiver or consent shall, unless in writing and signed by the LC Issuer, in addition to the Lenders required above to take such action, affect the rights or duties of the LC Issuer under this Agreement.

SECTION 8.02 *Notices, Etc.* All notices and other communications provided for hereunder shall be in writing (including telecopier, telegraphic, telex or cable communication) and mailed, telecopied, telegraphed, telexed, cabled or delivered, if to any Borrower, at 10 S. Dearborn, 37th Floor, Chicago, IL 60603, Attention: J. Barry Mitchell, Telecopy: (312) 394-5440; if to any Lender listed on the signature pages hereof, at its Domestic Lending Office specified opposite its name on *Schedule I* hereto; if to any other Lender, at its Domestic Lending Office specified in the Assignment and Acceptance pursuant to which it became a Lender; and if to the Administrative Agent, at its address at 1 Bank One Plaza, Mail Suite 0634, 1FPN-10, Chicago, Illinois 60670, Attention: Mr. Ron Cromey, Telecopy: (312) 732-4840 or, as to each party, at such other address as shall be designated by such party in a written notice to the other parties. All such notices and communications shall, when mailed, telecopied, telegraphed, telexed or cabled, be effective when deposited in the mails, telecopied, delivered to the telegraph company, confirmed by telex answerback or delivered to the cable company, respectively, except that notices and communications to the Administrative Agent pursuant to *Article II* or *VII* shall not be effective until received by the Administrative Agent.

SECTION 8.03 *No Waiver; Remedies.* No failure on the part of any Lender, the LC Issuer or the Administrative Agent to exercise, and no delay in exercising, any right hereunder or under any Note shall operate as a waiver thereof; nor shall any single or partial exercise of any such right preclude any other or further exercise thereof or the exercise of any other right. The remedies herein provided are cumulative and not exclusive of any remedies provided by law.

SECTION 8.04 *Costs and Expenses; Indemnification.* (a) Each Borrower severally agrees to pay on demand all costs and expenses incurred by the Administrative Agent, the LC Issuer and the Lead Arranger in connection with the preparation, execution, delivery, administration, syndication, modification and amendment of this Agreement, the Notes and the other documents to be delivered hereunder, including the reasonable fees, internal charges and out-of-pocket expenses of counsel (including in-house counsel) for the Administrative Agent, the LC issuer and the Lead Arranger with respect thereto and with respect to advising the Administrative Agent, the LC Issuer and the Lead Arranger as to their respective rights and responsibilities under this Agreement, in each case to the extent attributable to such Borrower; *it being understood* that to the extent any such costs and expenses are not attributable to a particular Borrower, each Borrower shall pay its proportionate share thereof according to the Borrowers' respective Sublimits at the time such costs and expenses were incurred. Each Borrower further severally agrees to pay on demand all costs and expenses, if any (including counsel fees and expenses of outside counsel and of internal counsel), incurred by the Agent, the LC Issuer or any Lender in connection with the collection and enforcement (whether through negotiations, legal proceedings or otherwise) of such Borrower's obligations this Agreement, the Notes issued by such Borrower and the other documents to be delivered by such Borrower hereunder, including reasonable counsel fees and expenses in connection with the enforcement of rights under this *Section 8.04(a)*, in each case to the extent attributable to such Borrower; *it being understood* that to the extent any such costs and expenses are not attributable to a particular Borrower, each Borrower shall pay its proportionate share thereof according to the Borrowers' respective Sublimits at the time such costs and expenses were incurred.

(b) If any payment of principal of, or any conversion of, any Eurodollar Rate Advance is made other than on the last day of the Interest Period for such Advance, as a result of a payment or conversion pursuant to *Section 2.09* or *2.12* or acceleration of the maturity of the Notes pursuant to *Section 6.01* or for any other reason, the applicable Borrower shall, upon demand by any Lender (with a copy of such demand to the Administrative Agent), pay to the Administrative Agent for the account of such Lender any amount required to compensate such Lender for any additional losses, costs or expenses which it may reasonably incur as a result of such payment or conversion, including any loss, cost or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by any Lender to fund or maintain such Advance.

(c) Each Borrower hereby severally agrees to indemnify and hold each Lender, the LC Issuer, each Agent and each of their respective Affiliates, officers, directors and employees (each, an "*Indemnified Person*") harmless from and against any and all claims, damages, losses, liabilities, costs or expenses (including reasonable attorney's fees and expenses, whether or not such Indemnified Person is named as a party to any proceeding or is otherwise subjected to judicial or legal process arising from any such proceeding) that any of them may pay or incur arising out of or relating to this Agreement, the Notes or the transactions contemplated thereby, or the use by such Borrowers or any of its Subsidiaries of the proceeds of any Advance to such Borrower, in each case to the extent such claims damages, losses, liabilities, costs or expenses are attributable to such Borrower, *it being understood* that to the extent any such claims, damages, losses, liabilities, costs or expenses are not attributable to a particular Borrower, each Borrower shall pay its proportionate share thereof according to the Borrowers' respective Sublimits at the time such claims, damages, losses, liabilities, costs or expenses arose; *provided* that no Borrower shall be liable for any portion of such claims, damages, losses, liabilities, costs or expenses resulting from such Indemnified Person's gross negligence or willful misconduct. Each Borrower's obligations under this *Section 8.04(c)* shall survive the repayment of all amounts owing by such Borrower to the Lenders and the Administrative Agent under this Agreement and the Notes issued by such Borrower and the termination of the Commitments to such Borrower. If and to the extent that the obligations of a Borrower under this Section 8.04(c) are unenforceable for any reason, such Borrower agrees to make the maximum contribution to the payment and satisfaction thereof which is permissible under applicable law.

SECTION 8.05 *Right of Set-off.* Upon (i) the occurrence and during the continuance of any Event of Default with respect to a Borrower and (ii) the making of the request or the granting of the consent specified by *Section 6.01* to authorize the Administrative Agent to declare the Notes issued by such Borrower due and payable pursuant to the provisions of *Section 6.01*, each Lender is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by such Lender to or for the credit or the account of such Borrower against any and all of the obligations of such Borrower now or hereafter existing under this Agreement and any Note of such Borrower held by such Lender, whether or not such Lender shall have made any demand under this Agreement or such Note and although such obligations may be unmatured. Each Lender agrees promptly to notify the applicable Borrower after any such set-off and application made by such Lender, *provided* that the failure to give such notice shall not affect the validity of such set-off and application. The rights of each Lender under this *Section 8.05* are in addition to other rights and remedies (including other rights of set-off) that such Lender may have.

SECTION 8.06 *Binding Effect.* This Agreement shall become effective when counterparts hereof shall have been executed by the Borrowers and the Agents and when the Administrative Agent shall have been notified by each Lender that such Lender has executed a counterpart hereof and thereafter shall be binding upon and inure to the benefit of the Borrowers, the Agents and each Lender and their respective successors and assigns, *provided* that (except as permitted by *Section 5.02(b)(iii))* no Borrower shall have the right to assign rights hereunder or any interest herein without the prior written consent of all Lenders.

SECTION 8.07 *Assignments and Participations.* (a) Each Lender may, with the prior written consent of Exelon, the LC Issuer and the Administrative Agent (which consents shall not be unreasonably withheld or delayed), and if demanded by a Borrower pursuant to *Section 8.07(g)* shall to the extent required by such Section, assign to one or more banks or other entities all or a portion of its rights and obligations under this Agreement (including all or a portion of its Commitment, the Advances owing to it, its participation in Facility LCs and the Note or Notes held by it); *provided* that (i) each such assignment shall be of a constant, and not a varying, percentage of all of the assigning Lender's rights and obligations under this Agreement, (ii) the Commitment Amount of the assigning Lender being assigned pursuant to each such assignment (determined as of the date of the Assignment and Acceptance with respect to such assignment) shall in no event be less than $10,000,000 or, if less, the entire amount of such Lender's Commitment, and shall be an integral multiple of $1,000,000 or such Lender's entire Commitment, (iii) each such assignment shall be to an Eligible Assignee, (iv) the parties to each such assignment shall execute and deliver to the Administrative Agent, for its acceptance and recording in the Register, an Assignment and Acceptance, together with any Note or Notes subject to such assignment and a processing and recordation fee of $4,000 (which shall be payable by one or more of the parties to the Assignment and Acceptance, and not by any Borrower, and shall not be payable if the assignee is a Federal Reserve Bank), and (v) the consent of Exelon shall not be required after the occurrence and during the continuance of any Event of Default. Upon such execution, delivery, acceptance and recording, from and after the effective date specified in each Assignment and Acceptance, (x) the assignee thereunder shall be a party hereto and, to the extent that rights and obligations hereunder have been assigned to it pursuant to such Assignment and Acceptance, have the rights and obligations of a Lender hereunder and (y) the Lender assignor thereunder shall, to the extent that rights and obligations hereunder have been assigned by it pursuant to such Assignment and Acceptance, relinquish its rights and be released from its obligations under this Agreement and, in the case of an Assignment and Acceptance covering all or the remaining portion of an assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto (although an assigning Lender shall continue to be entitled to indemnification pursuant to *Section 8.04(c))*. Notwithstanding anything contained in this *Section 8.07(a)* to the contrary, (A) the consent of Exelon, the LC Issuer and the Administrative Agent shall not be required with respect to

any assignment by any Lender to an Affiliate of such Lender or to another Lender and (B) any Lender may at any time, without the consent of Exelon, the LC Issuer or the Administrative Agent, and without any requirement to have an Assignment and Acceptance executed, assign all or any part of its rights under this Agreement and its Notes to a Federal Reserve Bank, *provided* that no such assignment shall release the transferor Lender from any of its obligations hereunder.

(b) By executing and delivering an Assignment and Acceptance, the Lender assignor thereunder and the assignee thereunder confirm to and agree with each other and the other parties hereto as follows: (i) other than as provided in such Assignment and Acceptance, such assigning Lender makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with this Agreement or the execution, legality, validity, enforceability, genuineness, sufficiency or value of this Agreement or any other instrument or document furnished pursuant hereto; (ii) such assigning Lender makes no representation or warranty and assumes no responsibility with respect to the financial condition of any Borrower or the performance or observance by any Borrower of any of its obligations under this Agreement or any other instrument or document furnished pursuant hereto; (iii) such assignee confirms that it has received a copy of this Agreement, together with copies of the financial statements referred to in *Section 4.01(e)* and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Assignment and Acceptance; (iv) such assignee will, independently and without reliance upon the Administrative Agent, such assigning Lender or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement; (v) such assignee confirms that it is an Eligible Assignee; (vi) such assignee appoints and authorizes the Administrative Agent to take such action as agent on its behalf and to exercise such powers under this Agreement as are delegated to the Administrative Agent by the terms hereof, together with such powers as are reasonably incidental thereto; and (vii) such assignee agrees that it will perform in accordance with their terms all of the obligations which by the terms of this Agreement are required to be performed by it as a Lender.

(c) The Administrative Agent shall maintain at its address referred to in *Section 8.02* a copy of each Assignment and Acceptance delivered to and accepted by it and a register for the recordation of the names and addresses of the Lenders and the Commitment Amount of, and principal amount of the Advances owing by each Borrower to, each Lender from time to time (the "*Register*"). The entries in the Register shall be conclusive and binding for all purposes, absent manifest error, and each Borrower, the Administrative Agent and the Lenders may treat each Person whose name is recorded in the Register as a Lender hereunder for all purposes of this Agreement. The Register shall be available for inspection by any Borrower or any Lender at any reasonable time and from time to time upon reasonable prior notice.

(d) Upon its receipt of an Assignment and Acceptance executed by an assigning Lender and an assignee representing that it is an Eligible Assignee, together with all Notes subject to such assignment, the Administrative Agent shall, if such Assignment and Acceptance has been completed and is in substantially the form of *Exhibit C*, (i) accept such Assignment and Acceptance, (ii) record the information contained therein in the Register and (iii) give prompt notice thereof to the Borrowers. Within five Business Days after its receipt of such notice, each Borrower, at its own expense, shall execute and deliver to the Administrative Agent, in exchange for the surrendered Note issued by such Borrower a new Note to the order of such Eligible Assignee in an amount equal to the product of the Commitment Amount assumed by such Eligible Assignee pursuant to such Assignment and Acceptance multiplied by the percentage which such Borrower's Sublimit is of the aggregate amount of the Commitment Amounts (the "*Sublimit Percentage*") and, if the assigning Lender has retained a Commitment hereunder, a new Note to the order of the assigning Lender in an amount equal to the product of the Commitment Amount of such assigning Lender after giving effect to such assignment

multiplied by the Sublimit Percentage. Each such new Note or Notes shall be dated the effective date of such Assignment and Acceptance and shall otherwise be in substantially the form of *Exhibit A*.

(e) Each Lender may sell participations to one or more banks or other entities (each, a "*Participant*") in or to all or a portion of its rights and/or obligations under this Agreement (including all or a portion of its Commitment, the Advances owing to it, its participation in Facility LCs and the Note or Notes held by it); *provided* that (i) such Lender's obligations under this Agreement shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations, (iii) such Lender shall remain the holder of any such Note for all purposes of this Agreement, (iv) the Borrowers, the Administrative Agent and the other Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement and (v) such Lender shall retain the sole right to approve, without the consent of any Participant, any amendment, modification or waiver of any provision of this Agreement or the Note or Notes held by such Lender, other than any such amendment, modification or waiver with respect to any Advance or Commitment in which such Participant has an interest that forgives principal, interest or fees or reduces the interest rate or fees payable with respect to any such Advance or Commitment, postpones any date fixed for any regularly scheduled payment of principal of, or interest or fees on, any such Advance or Commitment, extends any Commitment, releases any guarantor of any such Advance or releases any substantial portion of collateral, if any, securing any such Advance.

(f) Any Lender may, in connection with any assignment or participation or proposed assignment or participation pursuant to this *Section 8.07*, disclose to the assignee or participant or proposed assignee or participant, any information relating to the Borrowers furnished to such Lender by or on behalf of the Borrowers; *provided* that, prior to any such disclosure, the assignee or participant or proposed assignee or participant shall agree to preserve the confidentiality of any confidential information relating to the Borrowers received by it from such Lender (subject to customary exceptions regarding regulatory requirements, compliance with legal process and other requirements of law).

(g) If (i) any Lender shall make demand for payment under *Section 2.11(a)*, *2.11(b)* or *2.14*, (ii) shall deliver any notice to the Administrative Agent pursuant to *Section 2.12* resulting in the suspension of certain obligations of the Lenders with respect to Eurodollar Rate Advances or (iii) shall fail to consent to, or shall revoke its consent to, an extension of the scheduled Commitment Termination Date pursuant to *Section 2.17*, then (in the case of clause (i)) within 60 days after such demand (if, but only if, such payment demanded under *Section 2.11(a)*, *2.11(b)* or *2.14* has been made by the applicable Borrower), or (in the case of clause (ii)) within 60 days after such notice (if such suspension is still in effect), or (in the case of clause (iii)) no later than five days prior to the then effective scheduled Commitment Termination Date, as the case may be, the Borrowers may demand that such Lender assign in accordance with this *Section 8.07* to one or more Eligible Assignees designated by the Borrowers and reasonably acceptable to the Administrative Agent all (but not less than all) of such Lender's Commitment, the Advances owing to it and its participation in the Facility LCs within the next succeeding 30 days (in the case of *clause (i)* or *clause (ii))*, or within the next succeeding five days (in the case of *clause (iii))*. If any such Eligible Assignee designated by the Borrowers shall fail to consummate such assignment on terms acceptable to such Lender, or if the Borrowers shall fail to designate any such Eligible Assignee for all of such Lender's Commitment, Advances and participation in Facility LCs, then such Lender may (but shall not be required to) assign such Commitment and Advances to any other Eligible Assignee in accordance with this *Section 8.07* during such period.

(h) Notwithstanding anything to the contrary contained herein, any Lender (a "*Granting Bank*") may grant to a special purpose funding vehicle (an "*SPC*"), identified as such in writing from time to time by the Granting Bank to the Administrative Agent and the Borrowers, the option to provide to any Borrower all or any part of any Advance that such Granting Bank would otherwise be obligated to make to such Borrower pursuant to this Agreement; *provided* that (i) nothing herein shall constitute a commitment by any SPC to make any Advance, (ii) if an SPC elects not to exercise such option or otherwise fails to provide all or any part of such Advance, the Granting Bank shall be obligated to make such Advance pursuant to the terms hereof. The making of an Advance by an SPC hereunder shall utilize the Commitment of the Granting Bank to the same extent, and as if, such Advance were made by such Granting Bank. Each party hereto hereby agrees that no SPC shall be liable for any indemnity or similar payment obligation under this Agreement (all liability for which shall remain with the Granting Bank). In furtherance of the foregoing, each party hereto hereby agrees (which agreement shall survive the termination of this Agreement) that, prior to the date that is one year and one day after the payment in full of all outstanding commercial paper or other senior indebtedness of any SPC, it will not institute against, or join any other person in instituting against, such SPC any bankruptcy, reorganization, arrangement, insolvency or liquidation proceedings under the laws of the United States or any State thereof. In addition, notwithstanding anything to the contrary contained in this *Section 8.07*, any SPC may (i) with notice to, but without the prior written consent of, the Borrower and the Administrative Agent and without paying any processing fee therefor, assign all or a portion of its interests in any Advances to the Granting Bank or to any financial institutions (consented to by such Borrower and Administrative Agent, neither of which consents shall be unreasonably withheld or delayed) providing liquidity and/or credit support to or for the account of such SPC to support the funding or maintenance of Advances and (ii) disclose on a confidential basis any non-public information relating to its Advances to any rating agency, commercial paper dealer or provider of any surety, guarantee or credit or liquidity enhancement to such SPC. This *Section 8.07(h)* may not be amended in any manner which adversely affects a Granting Bank or an SPC without the written consent of such Granting Bank or SPC.

SECTION 8.08 *Governing Law.* THIS AGREEMENT AND THE NOTES SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE COMMONWEALTH OF PENNSYLVANIA.

SECTION 8.09 *Consent to Jurisdiction; Certain Waivers.* (a) THE BORROWERS HEREBY IRREVOCABLY SUBMIT TO THE NON-EXCLUSIVE JURISDICTION OF THE COURTS OF THE COMMONWEALTH OF PENNSYLVANIA AND ANY UNITED STATES DISTRICT COURT SITTING IN THE COMMONWEALTH OF PENNSYLVANIA IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE NOTES AND THE BORROWERS HEREBY IRREVOCABLY AGREE THAT ALL CLAIMS IN RESPECT OF SUCH ACTION OR PROCEEDING MAY BE HEARD AND DETERMINED IN ANY SUCH COURT AND IRREVOCABLY WAIVE ANY OBJECTION THEY MAY NOW OR HEREAFTER HAVE AS TO THE VENUE OF ANY SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN SUCH A COURT OR THAT SUCH COURT IS AN INCONVENIENT FORUM. NOTHING HEREIN SHALL LIMIT THE RIGHT OF THE ADMINISTRATIVE AGENT OR ANY LENDER TO BRING PROCEEDINGS AGAINST ANY BORROWER IN THE COURTS OF ANY OTHER JURISDICTION.

(b) EXCEPT AS PROHIBITED BY LAW, EACH PARTY HERETO HEREBY WAIVES ANY RIGHT IT MAY HAVE TO CLAIM OR RECOVER IN ANY LITIGATION ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE NOTES ANY SPECIAL, EXEMPLARY, PUNITIVE OR CONSEQUENTIAL DAMAGES OR ANY DAMAGES OTHER THAN, OR IN ADDITION TO, ACTUAL DAMAGES.

SECTION 8.10 *Execution in Counterparts; Integration.* This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. This Agreement constitutes the entire agreement and understanding among the

parties hereto and supersedes all prior and contemporaneous agreements and understandings, oral or written, relating to the subject matter hereof.

SECTION 8.11 *Liability Several.* No Borrower shall be liable for the obligations of any other Borrower hereunder.

SECTION 8.12 *Termination of Existing Agreement; Existing Letters of Credit.* The Borrowers and the Lenders which are parties to the Existing Agreement (which Lenders constitute the "Majority Lenders" as defined in the Existing Agreement) and Bank One, as Administrative Agent under the Existing Agreement, agree that, concurrently with the making of the initial Advances hereunder, (a) the commitments under the Existing Agreement shall terminate and be of no further force or effect (without regard to any requirement in Section 2.04 of the Existing Agreement for prior notice of termination of the commitments thereunder) and (b) the "Facility LCs" issued under the Existing Agreement for the account of each Borrower (the "Existing Letters of Credit") shall be deemed to be Facility LCs hereunder.

[Remainder of the page intentionally left blank]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers thereunto duly authorized, as of the date first above written.

EXELON CORPORATION

By: ______________________________

Name:
Title:

COMMONWEALTH EDISON COMPANY

By: ______________________________

Name:
Title:

PECO ENERGY COMPANY

By:

Name:
Title:

EXELON GENERATION COMPANY LLC

By:

Name:
Title:

THE LENDERS

Commitment Amount

$122,000,000

BANK ONE, NA (Main Office Chicago), as Administrative Agent, as LC Issuer and as a Lender

By:

Name: Kenneth J. Bauer
Title: Authorized Agent

Commitment Amount

$121,000,000

CITIBANK, N.A., as Co-Syndication Agent and as a Lender

By:

Name:
Title:

Commitment Amount

$121,000,000

WACHOVIA BANK N.A., as Co-Syndication Agent and as a Lender

By:

Name:
Title:

Commitment Amount

$121,000,000

ABN AMRO BANK, N.V., as Co-Documentation Agent and as a Lender

By:

Name:
Title:

Commitment Amount

$121,000,000

DRESDNER BANK AG, NEW YORK AND GRAND CAYMAN BRANCHES, as Co-Documentation Agent and as a Lender

By:

Name:
Title:

Commitment Amount

$101,000,000

BARCLAYS BANK PLC, as a Lender

By:

Name:
Title:

Commitment Amount

$101,000,000

JPMORGAN CHASE BANK, as a Lender

By:

Name:
Title:

Commitment Amount

$101,000,000

MORGAN STANLEY BANK, as a Lender

By:

Name:
Title:

Commitment Amount

$101,000,000

BNP PARIBAS, as a Lender

By:

Name:
Title:

Commitment Amount

$80,000,000

MERRILL LYNCH CAPITAL CORP., as a Lender

By:

Name:
Title:

Commitment Amount

$80,000,000

THE BANK OF NOVA SCOTIA, as a Lender

By:

Name:
Title:

Commitment Amount

$75,000,000

THE NORTHERN TRUST COMPANY, as a Lender

By:

Name:
Title:

Commitment Amount

$75,000,000 **MELLON BANK, N.A.** as a Lender

By:

Name:
Title:

Commitment Amount

$70,000,000 **CREDIT SUISSE FIRST BOSTON,** as a Lender

By:

Name:
Title:

Commitment Amount

$60,000,000 **THE BANK OF NEW YORK,** as a Lender

By:

Name:
Title:

Commitment Amount

$50,000,000 **AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED,** as a Lender

By:

Name:
Title:

SCHEDULE I

Credit Agreement dated as of November 22, 2002, among Exelon Corporation, Commonwealth Edison Company, Exelon Generation Company, LLC and PECO Energy Company, as Borrowers, various financial institutions, as Lenders, Bank One, NA, as Administrative Agent, ABN AMRO Bank, N.V. and DRESDNER BANK AG, NEW YORK AND GRAND CAYMAN BRANCHES, as Co-Documentation Agents, and Citibank, N.A. and First Union National Bank, as Co-Syndication Agents.

Name of Lender	Domestic Lending Office	Eurodollar Lending Office
Bank One, NA	1 Bank One Plaza Mail Suite 0634, 1FNP-10 Chicago, IL 60670 Attn: Gwendolyn Watson Phone: (312) 732-4509 Fax: (312) 732-4840	Same
Citibank, N.A.	388 Greenwich St., 21st Floor New York, NY 10013 Attn: Robert Harrity 9 Phone: (212) 816-8554 Fax: (212) 816-8098	[Same]
Wachovia Bank, N.A.	301 South College Street	[Same]

	Charlotte, NC 28288 Attn: Brian D. Smith Phone: (704) 715-9941 Fax: (704) 374-2570	
ABN AMRO Bank N.V.	208 South LaSalle Street Suite 1500 Chicago, IL 60604 Attn: Credit Administration Phone: (312) 992-5110 Fax: (312) 992-5111 with a copy to: 135 South LaSalle Street Suite 710 Chicago, IL 60603 Attn: Brendan Korb Phone: (312) 904-1760 Fax: (312) 904-6387	[Same]
Dresdner Bank AG, New York and Grand Cayman Branches	75 Wall Street, 25th Floor New York, NY 10005 Attn: Fred C. Thurston, Vice President Phone: (212) 429-2029 Fax: (212)429-2192	[Same]

Barclays Bank PLC	200 Park Avenue New York, NY 10166 Attn: Sydney Dennis Phone: (212) 412-2470 Fax: (212) 412-2441	[Same]
JPMorgan Chase Bank	270 Park Avenue New York, NY 10017 Attn: Michael J. DeForge Phone: (212) 270-1656 Fax: (212) 270-1063	[Same]
Morgan Stanley Bank	750 Seventh Avenue 11th Floor New York, NY 10020 Attn: Joseph DiTomaso Phone: (212) 762-2320 Fax: (212) 762-0346	[Same]
BNP Paribas	[ ]	[ ]
Merrill Lynch	4 World Financial Center 7th Floor New York, NY 10080 Attn: Carol Feeley Phone: (212) 449-8414 Fax: (212) 738-1649 with a copy to: 15 West South Temple 3rd Floor Salt Lake City, UT 84101 Attn: Document Compliance Phone: (801) 526-8300 Fax: (801) 531-7470	[Same]
The Bank of Nova Scotia	[ ]	[ ]
The Northern Trust Company	50 South LaSalle, 11th Floor Chicago, IL 60675 Attn: Eric Dybing Phone: (312) 557-4063 Fax: (312) 444-5055	[Same]
Mellon Bank, N.A.	525 William Penn Place 153-1203	[Same]

	Pittsburgh, PA 15259 Attn: Brenda Leierzapf Phone: (412) 234-8161 Fax: (412) 209-6146	

Credit Suisse First Boston	[ ]	[ ]
The Bank of New York	One Wall Street New York, NY 10286 Attn: Kathy D'Elena Phone: (212) 635-6691 Fax: (212) 635-7923	[Same]
Australia and New Zealand Banking Group Limited	1177 Avenue of the Americas New York, NY 10036 Attn: Geoffrey Pack Phone: (212) 801-9736 Fax: (212) 556-4837	[Same]

SCHEDULE II
PRICING SCHEDULE

The "Applicable Margin," the "Facility Fee Rate" the "Utilization Fee Rate" and the "LC Fee Rate" for any day are the respective percentages set forth below in the applicable row under the column corresponding to the Status that exists on such day:

Status	Applicable Margin and LC Fee Rate prior to Commitment Termination Date	Applicable Margin and LC Fee Rate beginning on Commitment Termination Date	Facility Fee Rate	Utilization Fee Rate
Level I	0.550%	0.900%	0.100%	0.100%
Level II	0.625%	1.000%	0.125%	0.125%
Level III	0.725%	1.100%	0.150%	0.125%
Level IV	0.925%	1.425%	0.200%	0.250%
Level V	1.000%	1.500%	0.250%	0.500%

As shown in the table above, the Applicable Margin and the LC Fee Rate will increase on the Commitment Termination Date by 0.35% for Level 1 Status, 0.375% for Level 2 Status and Level 3 Status and 0.50% for Level 4 and Level 5 Status.

The Applicable Margin, the Facility Fee Rate, the Utilization Fee Rate and the LC Fee Rate shall be determined separately for each Borrower in accordance with the table above based on the Status for such Borrower. The Status in effect for any Borrower on any date for the purposes of this Pricing Schedule is based on the Moody's Rating and S&P Rating in effect at the close of business on such date.

For the purposes of the foregoing (but subject to the final paragraph of this Pricing Schedule):

"Level I Status" exists at any date for a Borrower if, on such date, such Borrower's Moody's Rating is A3 or better or such Borrower's S&P Rating is A- or better.

"Level II Status" exists at any date for a Borrower if, on such date, (i) Level I Status does not exist for such Borrower and (ii) such Borrower's Moody's Rating is Baa1 or better or such Borrower's S&P Rating is BBB+ or better.

"Level III Status" exists at any date for a Borrower if, on such date, (i) neither Level I Status nor Level II Status exists for such Borrower and (ii) such Borrower's Moody's Rating is Baa2 or better or such Borrower's S&P Rating is BBB or better.

"Level IV Status" exists at any date if, on such date, (i) none of Level I Status, Level II Status or Level III Status exists for such Borrower and (ii) such Borrower's Moody's Rating is Baa3 or better or such Borrower's S&P Rating is BBB- or better.

"Level V Status" exists at any date for a Borrower if, on such date, none of Level I Status, Level II Status, Level III Status or Level IV Status exists for such Borrower.

"Status" means Level I Status, Level II Status, Level III Status, Level IV Status or Level V Status.

If the S&P Rating and the Moody's Rating for a Borrower create a split-rated situation and the ratings differential is one level, the higher rating will apply. If the differential is two levels or more, the intermediate rating at the midpoint will apply. If there is no midpoint, the higher of the two intermediate ratings will apply. If a Borrower has no Moody's Rating or no S&P Rating, Level V Status shall exist for such Borrower.

TABLE OF CONTENTS

QuickLinks

Exhibit 4-1

QuickLinks -- Click here to rapidly navigate through this document

Exhibit 4.4.1

SUPPLEMENTAL INDENTURE

Dated as of May 20, 2002

COMMONWEALTH EDISON COMPANY

to

BNY MIDWEST TRUST COMPANY

and

D.G. DONOVAN

Trustees Under Mortgage Dated July 1, 1923,

and Certain

Indentures Supplemental Thereto

Providing for Issuance of

FIRST MORTGAGE BONDS, POLLUTION CONTROL SERIES 2002

Due April 15, 2013

THIS SUPPLEMENTAL INDENTURE, dated as of May 20, 2002, between COMMONWEALTH EDISON COMPANY, a corporation organized and existing under the laws of the State of Illinois (hereinafter called the "*Company*") having an address at 10 South Dearborn Street, 37th floor, Chicago, Illinois 60603, party of the first part, BNY MIDWEST TRUST COMPANY, a trust company organized and existing under the laws of the State of Illinois having an address at 2 North LaSalle Street, Suite 1020, Chicago, Illinois 60602, and D.G. DONOVAN, an individual having an address at 2 North LaSalle Street, Suite 1020, Chicago, Illinois 60602, as Trustee and Co-Trustee, respectively, under the Mortgage of the Company dated July 1, 1923, as amended and supplemented by Supplemental Indenture dated August 1, 1944 and the subsequent supplemental indentures hereinafter mentioned, parties of the second part (said Trustee being hereinafter called the "*Trustee*", the Trustee and said Co-Trustee being hereinafter together called the "*Trustees*", and said Mortgage dated July 1, 1923, as amended and supplemented by said Supplemental Indenture dated August 1, 1944 and subsequent supplemental indentures, being hereinafter called the "*Mortgage*"),

W I T N E S S E T H:

WHEREAS, the Company duly executed and delivered the Mortgage to provide for the issue of, and to secure, its bonds, issuable in series and without limit as to principal amount except as provided in the Mortgage; and

WHEREAS, the Company from time to time has executed and delivered supplemental indentures to the Mortgage to provide for (i) the creation of additional series of bonds secured by the Mortgage, (ii) the amendment of certain of the terms and provisions of the Mortgage and (iii) the confirmation of the lien of the Mortgage upon property of the Company, such supplemental indentures that are currently effective and the respective dates, parties thereto and purposes thereof, being as follows:

Supplemental Indenture Date	Parties	Providing For
August 1, 1944	Company to Continental Illinois National Bank and Trust Company of Chicago and Edmond B. Stofft, as Trustee and Co-Trustee	Amendment and restatement of Mortgage dated July 1, 1923
August 1, 1946	Company to Continental Illinois National Bank and Trust Company of Chicago and Edmond B. Stofft, as Trustee and Co-Trustee	Confirmation of mortgage lien
April 1, 1953	Company to Continental Illinois National Bank and Trust Company of Chicago and Edmond B. Stofft, as Trustee and Co-Trustee	Confirmation of mortgage lien
March 31, 1967	Company to Continental Illinois National Bank and Trust Company of Chicago and Edward J. Friedrich, as Trustee and Co-Trustee	Confirmation of mortgage lien
April 1, 1967	Company to Continental Illinois National Bank and Trust Company of Chicago and Edward J. Friedrich, as Trustee and Co-Trustee	Amendment of Sections 3.01, 3.02, 3.05 and 3.14 of the Mortgage and issuance of First Mortgage 5-3/8% Bonds, Series Y
February 28, 1969	Company to Continental Illinois National Bank and Trust Company of Chicago and Donald W. Alfvin, as Trustee and Co-Trustee	Confirmation of mortgage lien

May 29, 1970	Company to Continental Illinois National Bank and Trust Company of Chicago and Donald W. Alfvin, as Trustee and Co-Trustee	Confirmation of mortgage lien

June 1, 1971	Company to Continental Illinois National Bank and Trust Company of Chicago and Donald W. Alfvin, as Trustee and Co-Trustee	Confirmation of mortgage lien
April 1, 1972	Company to Continental Illinois National Bank and Trust Company of Chicago and Donald W. Alfvin, as Trustee and Co-Trustee	Confirmation of mortgage lien
May 31, 1972	Company to Continental Illinois National Bank and Trust Company of Chicago and Donald W. Alfvin, as Trustee and Co-Trustee	Confirmation of mortgage lien
June 15, 1973	Company to Continental Illinois National Bank and Trust Company of Chicago and Donald W. Alfvin, as Trustee and Co-Trustee	Confirmation of mortgage lien
May 31, 1974	Company to Continental Illinois National Bank and Trust Company of Chicago and Donald W. Alfvin, as Trustee and Co-Trustee	Confirmation of mortgage lien
June 13, 1975	Company to Continental Illinois National Bank and Trust Company of Chicago and Donald W. Alfvin, as Trustee and Co-Trustee	Confirmation of mortgage lien
May 28, 1976	Company to Continental Illinois National Bank and Trust Company of Chicago and Donald W. Alfvin, as Trustee and Co-Trustee	Confirmation of mortgage lien
June 3, 1977	Company to Continental Illinois National Bank and Trust Company of Chicago and Donald W. Alfvin, as Trustee and Co-Trustee	Confirmation of mortgage lien
May 17, 1978	Company to Continental Illinois National Bank and Trust Company of Chicago and Donald W. Alfvin, as Trustee and Co-Trustee	Confirmation of mortgage lien
August 31, 1978	Company to Continental Illinois National Bank and Trust Company of Chicago and Donald W. Alfvin, as Trustee and Co-Trustee	Confirmation of mortgage lien
June 18, 1979	Company to Continental Illinois National Bank and Trust Company of Chicago and Donald W. Alfvin, as Trustee and Co-Trustee	Confirmation of mortgage lien
June 20, 1980	Company to Continental Illinois National Bank and Trust Company of Chicago and Donald W. Alfvin, as Trustee and Co-Trustee	Confirmation of mortgage lien
April 16, 1981	Company to Continental Illinois National Bank and Trust Company of Chicago and Donald W. Alfvin, as Trustee and Co-Trustee	Confirmation of mortgage lien
April 30, 1982	Company to Continental Illinois National Bank and Trust Company of Chicago and Donald W. Alfvin, as Trustee and Co-Trustee	Confirmation of mortgage lien

April 15, 1983	Company to Continental Illinois National Bank and Trust Company of Chicago and Donald W. Alfvin, as Trustee and Co-Trustee	Confirmation of mortgage lien
April 13, 1984	Company to Continental Illinois National Bank and Trust Company of Chicago and Donald W. Alfvin, as Trustee and Co-Trustee	Confirmation of mortgage lien
April 15, 1985	Company to Continental Illinois National Bank and Trust Company of Chicago and Donald W. Alfvin, as Trustee and Co-Trustee	Confirmation of mortgage lien
April 15, 1986	Company to Continental Illinois National Bank and Trust Company of Chicago and M.J. Kruger, as Trustee and Co-Trustee	Confirmation of mortgage lien
June 15, 1990	Company to Continental Bank, National Association and M.J. Kruger, as Trustee and Co-Trustee	Issuance of First Mortgage 9-7/8% Bonds, Series 75
June 1, 1991	Company to Continental Bank, National Association and M.J. Kruger, as Trustee and Co-Trustee	Issuance of First Mortgage Bonds, Pollution Control Series 1991
October 1, 1991	Company to Continental Bank, National Association and M.J. Kruger, as Trustee and Co-Trustee	Issuance of First Mortgage 8-1/4%

		Bonds, Series 76 and First Mortgage 8-7/8% Bonds, Series 77
October 15, 1991	Company to Continental Bank, National Association and M.J. Kruger, as Trustee and Co-Trustee	Issuance of First Mortgage 8-3/8% Bonds, Series 78 and First Mortgage 9-1/8% Bonds, Series 79
February 1, 1992	Company to Continental Bank, National Association and M.J. Kruger, as Trustee and Co-Trustee	Issuance of First Mortgage 7% Bonds, Series 80 and First Mortgage 8-5/8% Bonds, Series 81
May 15, 1992	Company to Continental Bank, National Association and M.J. Kruger, as Trustee and Co-Trustee	Issuance of First Mortgage 6-1/8% Bonds, Series 82 and First Mortgage 8% Bonds, Series 83
July 15, 1992	Company to Continental Bank, National Association and M.J. Kruger, as Trustee and Co-Trustee	Issuance of First Mortgage 8-1/2% Bonds, Series 84
September 15, 1992	Company to Continental Bank, National Association and M.J. Kruger, as Trustee and Co-Trustee	Issuance of First Mortgage 7-3/8% Bonds, Series 85 and First Mortgage 8-3/8% Bonds, Series 86

February 1, 1993	Company to Continental Bank, National Association and M.J. Kruger, as Trustee and Co-Trustee	Issuance of First Mortgage 8-3/8% Bonds, Series 88
April 1, 1993	Company to Continental Bank, National Association and M.J. Kruger, as Trustee and Co-Trustee	Issuance of First Mortgage 6-1/2% Bonds, Series 90 and First Mortgage 8% Bonds, Series 91
April 15, 1993	Company to Continental Bank, National Association and M.J. Kruger, as Trustee and Co-Trustee	Issuance of First Mortgage 7-5/8% Bonds, Series 92
June 15, 1993	Company to Continental Bank, National Association and M.J. Kruger, as Trustee and Co-Trustee	Issuance of First Mortgage 7% Bonds, Series 93 and First Mortgage 7-1/2% Bonds, Series 94
July 15, 1993	Company to Continental Bank, National Association and M.J. Kruger, as Trustee and Co-Trustee	Issuance of First Mortgage 6-5/8% Bonds, Series 96 and First Mortgage 7-3/4% Bonds, Series 97
January 15, 1994	Company to Continental Bank, National Association and M.J. Kruger, as Trustee and Co-Trustee	Issuance of First Mortgage Bonds, Pollution Control Series 1994A, 1994B and 1994C
December 1, 1994	Company to Bank of America Illinois and Robert J. Donahue, as Trustee and Co-Trustee	Issuance of First Mortgage Bonds, Pollution Control Series 1994D
June 1, 1996	Company to Harris Trust and Savings Bank and D.G. Donovan, as Trustee and Co-Trustee	Issuance of First Mortgage Bonds, Pollution Control Series 1996A and 1996B
March 1, 2002	Company to BNY Midwest Trust Company and D.G. Donovan, as Trustee and Co-Trustee	Issuance of First Mortgage 6.15% Bonds, Series 98

WHEREAS, the respective designations, maturity dates and principal amounts of the bonds of each series presently outstanding under, and secured by, the Mortgage and the several supplemental indentures above referred to, are as follows:

Designation	Maturity Date	Principal Amount
First Mortgage 9-7/8% Bonds, Series 75	June 15, 2020	$ 54,171,000
First Mortgage 8-1/4% Bonds, Series 76	October 1, 2006	100,000,000
First Mortgage 8-3/8% Bonds, Series 78	October 15, 2006	125,000,000
First Mortgage 8% Bonds, Series 83	May 15, 2008	140,000,000
First Mortgage 8-1/2% Bonds, Series 84	July 15, 2022	200,000,000

First Mortgage 7-3/8% Bonds, Series 85	September 15, 2002	200,000,000
First Mortgage 8-3/8% Bonds, Series 86	September 15, 2022	200,000,000
First Mortgage 8-3/8% Bonds, Series 88	February 15, 2023	235,950,000
First Mortgage 8% Bonds, Series 91	April 15, 2023	160,000,000
First Mortgage 7-5/8% Bonds, Series 92	April 15, 2013	218,500,000
First Mortgage 7% Bonds, Series 93	July 1, 2005	225,000,000
First Mortgage 7-1/2% Bonds, Series 94	July 1, 2013	147,000,000
First Mortgage 6-5/8% Bonds, Series 96	July 15, 2003	100,000,000
First Mortgage 7-3/4% Bonds, Series 97	July 15, 2023	150,000,000
First Mortgage 7.25% Bonds, Pollution Control Series 1991	June 1, 2011	100,000,000
First Mortgage 5.3% Bonds, Pollution Control Series 1994A	January 15, 2004	26,000,000
First Mortgage 5.7% Bonds, Pollution Control Series 1994B	January 15, 2009	20,000,000
First Mortgage 5.85% Bonds, Pollution Control Series 1994C	January 15, 2014	20,000,000
First Mortgage 5.3% Bonds, Pollution Control Series 1994D	March 1, 2015	91,000,000
First Mortgage 4.4% Bonds, Pollution Control Series 1996A	December 1, 2006	110,000,000
First Mortgage 4.4% Bonds, Pollution Control Series 1996B	December 1, 2006	89,400,000
First Mortgage 6.15% Bonds, Series 98	March 15, 2012	400,000,000
	Total	$ 3,112,021,000

WHEREAS, the Mortgage provides for the issuance from time to time thereunder, in series, of bonds of the Company for the purposes and subject to the limitations therein specified; and

WHEREAS, the Company desires, by this Supplemental Indenture, to create an additional series of bonds to be issuable under the Mortgage, such bonds to be designated "First Mortgage Bonds, Pollution Control Series 2002" (hereinafter called the "*bonds of Series 2002*") and the terms and provisions to be contained in the bonds of Series 2002 or to be otherwise applicable thereto to be as set forth in this Supplemental Indenture; and

WHEREAS, the bonds of Series 2002 and the Trustee's certificate to be endorsed thereon shall be substantially in the forms included in Exhibit A hereto; and

WHEREAS, the Company is legally empowered and has been duly authorized by the necessary corporate action and by order of the Illinois Commerce Commission to make, execute and deliver this Supplemental Indenture, and to create, as an additional series of bonds of the Company, the bonds of Series 2002, and all acts and things whatsoever necessary to make this Supplemental Indenture, when executed and delivered by the Company and the Trustees, a valid, binding and legal instrument, and to make the bonds of Series 2002, when authenticated by the Trustee and issued as provided in the Mortgage and in this Supplemental Indenture, the valid, binding and legal obligations of the Company, entitled in all respects to the security of the Mortgage, as amended and supplemented, have been done and performed;

NOW, THEREFORE, in consideration of the premises and of the sum of one dollar duly paid by the Trustees to the Company, and for other good and valuable consideration, the receipt of which is hereby acknowledged, the parties hereto do hereby agree as follows:

ARTICLE I

DEFINITIONS AND RULES OF CONSTRUCTION

SECTION 1.01. *Terms of the Mortgage.* The terms used in this Supplemental Indenture which are defined in the Mortgage, unless otherwise specified herein, are used herein with the same meanings as in the Mortgage.

SECTION 1.02. *Definitions of New Terms.* The following terms shall have the following meanings in this Supplemental Indenture:

"*IDFA*" shall mean the Illinois Development Finance Authority, a political subdivision and body politic and corporate duly organized and validly existing under and by virtue of the laws of the State of Illinois.

"*IDFA Bonds*" shall mean those certain Pollution Control Revenue Refunding Bonds (Commonwealth Edison Company Project) Series 2002 issued in the original aggregate principal amount of $100,000,000 under and pursuant to the terms of the IDFA Indenture.

"*IDFA Indenture*" shall mean that certain Indenture of Trust dated as of June 1, 2002, between IDFA, as issuer, and Bank One, National Association, as trustee.

SECTION 1.03. *Rules of Construction.* All references to any agreement refer to such agreement as modified, varied, or amended from time to time by the parties thereto (including any permitted successors or assigns) in accordance with its terms.

ARTICLE II

SECTION 2.01. *Designation and Issuance of Bonds.* (a) The bonds of Series 2002 shall, as hereinbefore recited, be designated as the Company's "First Mortgage Bonds, Pollution Control Series 2002."

(b) Subject to the provisions of the Mortgage, the bonds of Series 2002 shall be issuable without limitation as to the aggregate principal amount thereof.

SECTION 2.02. *Form, Date, Maturity Date, Interest Rate and Interest Payment Dates of Bonds.* (a) The definitive bonds of Series 2002 shall be in engraved, lithographed, printed or type-written form and shall be registered bonds without coupons, and such bonds and the Trustee's certificate to be endorsed thereon shall be substantially in the forms included in Exhibit A hereto. The bonds of Series 2002 shall be dated as provided in Section 3.01 of the Mortgage, as amended by Supplemental Indenture dated April 1, 1967. All bonds of Series 2002 shall mature on April 15, 2013.

(b) The bonds of Series 2002 shall bear interest on each day that they are outstanding at a rate per annum which is equal to the weighted-average interest rate borne on the IDFA Bonds outstanding on such date; *provided*, *however*, such interest rate on the bonds of Series 2002 shall not exceed 12% per annum. The bonds of Series 2002 shall bear interest until the principal thereof shall be paid in full. Interest on the bonds of Series 2002 shall be payable to the record holder thereof on the dates that interest is payable on the IDFA Bonds.

(c) The interest on the bonds of Series 2002 so payable on any interest payment date shall, subject to the exceptions provided in Section 3.01 of the Mortgage, as amended by said Supplemental Indenture dated April 1, 1967, be paid to the person in whose name such bond is registered on such interest payment date.

SECTION 2.03. *Bonds Issued as Collateral Security.* The bonds of Series 2002 shall be issued, delivered, and pledged to, and registered in the name of, the trustee under the IDFA Indenture in order to secure and provide for, and as collateral security for, the due and punctual payment of the principal, premium, if any, and interest due from time to time on the IDFA Bonds.

SECTION 2.04. *Credit for Payments on IDFA Bonds.* (a) The Company shall receive a credit against its obligation to make any payment of interest on the bonds of Series 2002, whether on an interest payment date, at maturity, upon redemption, upon acceleration or otherwise, in an amount equal to the amount, if any, paid by or for the account of the Company in respect of any corresponding payment of interest on the IDFA Bonds. So long as all the bonds of Series 2002 are pledged as described in Section 2.03, the obligation of the Company to make any payment with respect to the principal of the bonds of Series 2002 shall be credited in full if, at the time that any such payment of principal shall be due, there shall have been paid by or for the account of the Company the then due principal of all IDFA Bonds which are outstanding.

(b) The Trustee may conclusively presume that the obligation of the Company to pay the principal of, and premium, if any, and interest on, the bonds of Series 2002 as the same shall become due and payable has been credited in accordance with this Section 2.04 unless and until it shall have received a written notice (including a telex, telegram, telecopy or other form of written telecommunication) from the trustee under the IDFA Indenture stating that payment of the principal of, or premium, if any, or interest on, the IDFA Bonds has become due and payable and has not been fully paid and specifying the amount of funds required to make such payment.

SECTION 2.05. *Execution of Bonds.* The bonds of Series 2002 shall be executed on behalf of the Company by its President or one of its Vice Presidents, manually or by facsimile signature, and shall have its corporate seal affixed thereto or a facsimile of such seal imprinted thereon, attested by its Secretary or one of its Assistant Secretaries, manually or by facsimile signature, all as may be provided by resolution of the Board of Directors of the Company. In case any officer or officers whose signature or signatures, manual or facsimile, shall appear upon any bond of Series 2002 shall cease to be such officer or officers before such bond shall have been actually authenticated and delivered, such bond nevertheless may be issued, authenticated and delivered with the same force and effect as though the person or persons whose signature or signatures, manual or facsimile, appear thereon had not ceased to be such officer or officers of the Company.

SECTION 2.06. *Medium and Places of Payment of Principal of, and Premium, If Any, and Interest on, Bonds; Transferability and Exchangeability.* The principal of, and premium, if any, and the interest on the bonds of Series 2002 shall be payable in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts, and such principal, premium, if any, and interest shall be payable at the office or agency of the Company in the City of Chicago, State of Illinois, and such bonds shall be transferable and exchangeable, in the manner provided in Sections 3.09 and 3.10 of the Mortgage, at said office or agency. No charge shall be made by the Company to the registered owner of any bond of Series 2002 for the registration of transfer of

such bond or for the exchange thereof for bonds of the same series of other authorized denominations, except, in the case of any transfer, a charge sufficient to reimburse the Company for any stamp or other tax or governmental charge required to be paid by the Company or the Trustee.

SECTION 2.07. *Denominations and Numbering of Bonds*. The bonds of Series 2002 shall be issued in the denomination of $1,000 and in such multiples of $1,000 as shall from time to time hereafter be determined and authorized by the Board of Directors of the Company or by any officer or officers of the Company authorized to make such determination, the authorization of the denomination of any bond of Series 2002 to be conclusively evidenced by the execution thereof on behalf of the Company. Bonds of Series 2002 shall each be numbered R-1 and consecutively upwards.

SECTION 2.08. *Temporary Bonds.* Until definitive bonds of Series 2002 are ready for delivery, there may be authenticated and issued in lieu of any thereof and subject to all of the provisions, limitations, and conditions set forth in Section 3.11 of the Mortgage, temporary registered bonds of Series 2002 without coupons.

SECTION 2.09. *Optional Redemption of Bonds.* Upon the notice and in the manner provided in the paragraph under the heading "OPTIONAL REDEMPTION" of the IDFA Bonds, the bonds of Series 2002 may be redeemed, at the option of the Company, on and after the date determined thereunder, in whole at any time or in part from time to time, at the redemption prices (expressed as percentages of the principal amount of each bond of Series 2002 or portion thereof to be redeemed) set forth therein, plus accrued interest to the redemption date.

SECTION 2.10. *Mandatory Redemption*. Upon the notice and in the manner provided in the paragraphs under the heading "MANDATORY REDEMPTION" of the IDFA Bonds, the bonds of Series 2002 shall be redeemed by the Company in whole, or as provided under such paragraphs in part, at 100% of the principal amount thereof plus accrued interest to the redemption date.

SECTION 2.11. *Default Mandatory Redemption.* The bonds of Series 2002 shall be redeemed promptly, without notice, by the Company in whole at 100% of the principal amount thereof plus accrued interest to the date of redemption following receipt by the Trustee of written notice from the trustee under the IDFA Indenture stating that the principal of the IDFA Bonds has been declared to be immediately due and payable as a result of an event of default under the IDFA Indenture.

ARTICLE III

CONFIRMATION OF LIEN

The Company, for the equal and proportionate benefit and security of the holders of all bonds at any time issued under the Mortgage, hereby confirms the lien of the Mortgage upon, and hereby grants, bargains, sells, transfers, assigns, pledges, mortgages, warrants and conveys unto the Trustees, all property of the Company and all property hereafter acquired by the Company, other than (in each case) property which, by virtue of any of the provisions of the Mortgage, is excluded from such lien, and hereby confirms the title of the Trustees (as set forth in the Mortgage) in and to all such property. Without in any way limiting or restricting the generality of the foregoing, there is specifically included within the confirmation of lien and title hereinabove expressed the property of the Company legally described on *Exhibit B* attached hereto and made a part hereof.

ARTICLE IV

MISCELLANEOUS

The terms and conditions of this Supplemental Indenture shall be deemed to be a part of the terms and conditions of the Mortgage for any and all purposes. The Mortgage, as supplemented by the indentures supplemental thereto dated subsequent to August 1, 1944 and referred to in the first

---

paragraph of this Supplemental Indenture, and as further supplemented by this Supplemental Indenture, is in all respects hereby ratified and confirmed.

This Supplemental Indenture shall bind and, subject to the provisions of Article XIV of the Mortgage, inure to the benefit of the respective successors and assigns of the parties hereto.

Although this Supplemental Indenture is dated as of May 20, 2002, it shall be effective only from and after the actual time of its execution and delivery by the Company and the Trustee on the date indicated by their respective acknowledgments hereto annexed.

This Supplemental Indenture may be simultaneously executed in any number of counterparts, and all such counterparts executed and delivered, each as an original, shall constitute but one and the same instrument.

IN WITNESS WHEREOF, Commonwealth Edison Company has caused this Supplemental Indenture to be executed in its name by its Senior Vice President and Treasurer, and its seal to be hereunto affixed and attested by one of its Assistant Secretaries, and BNY Midwest Trust Company, as Trustee under the Mortgage, has caused this Supplemental Indenture to be executed in its name by one of its Vice Presidents, and its seal to be hereunto affixed and attested by one of its Assistant Secretaries, and D.G. Donovan, as Co-Trustee under the Mortgage, has hereunto affixed his signature, all as of the day and year first above written.

COMMONWEALTH EDISON COMPANY

By:

J. Barry Mitchell
Senior Vice President and Treasurer

[SEAL]

ATTEST:

Scott N. Peters
Assistant Secretary

BNY MIDWEST TRUST COMPANY

By:

J. Bartolini
Vice President

[SEAL]

ATTEST:

C. Potter
Assistant Secretary

D.G. Donovan

STATE OF ILLINOIS)
)
COUNTY OF COOK)

I, MARY L. KWILOS, a Notary Public in and for said County, in the State aforesaid, DO HEREBY CERTIFY that J. BARRY MITCHELL, Senior Vice President and Treasurer of Commonwealth Edison Company, an Illinois corporation, one of the parties described in and which executed the foregoing instrument, and SCOTT N. PETERS, an Assistant Secretary of said corporation, who are both personally known to me to be the same persons whose names are subscribed to the foregoing instrument as such Senior Vice President and Treasurer and Assistant Secretary, respectively, and who are both personally known to me to be Senior Vice President and Treasurer and Assistant Secretary, respectively, of said corporation, appeared before me this day in person and severally acknowledged that they signed, sealed, executed and delivered said instrument as their free and voluntary act as such Senior Vice President and Treasurer and Assistant Secretary, respectively, of said corporation, and as the free and voluntary act of said corporation, for the uses and purposes therein set forth.

GIVEN under my hand and notarial seal this 23rd day of May, A.D. 2002.

Mary L. Kwilos
Notary Public

[SEAL]

My Commission expires October 26, 2005.

STATE OF ILLINOIS)
)
COUNTY OF COOK)

I, LINDA ELLEN GARCIA, a Notary Public in and for said County, in the State aforesaid, DO HEREBY CERTIFY that J. BARTOLINI, Vice President of BNY Midwest Trust Company, an Illinois trust company, one of the parties described in and which executed the foregoing instrument, and C. POTTER, Assistant Secretary of said trust company, who are both personally known to me to be the same persons whose names are subscribed to the foregoing instrument as such Vice President and Assistant Secretary, respectively, and who are both personally known to me to be a Vice President and an Assistant Secretary, respectively, of said trust company, appeared before me this day in person and severally acknowledged that they signed, sealed, executed and delivered said instrument as their free and voluntary act as such Vice President and Assistant Secretary, respectively, of said trust company, and as the free and voluntary act of said trust company, for the uses and purposes therein set forth.

GIVEN under my hand and notarial seal this 23rd day of May, A.D. 2002.

Linda Ellen Garcia
Notary Public

[SEAL]

My Commission expires September 23, 2002.

STATE OF ILLINOIS)
)
COUNTY OF COOK)

I, LINDA ELLEN GARCIA, a Notary Public in and for said County, in the State aforesaid, DO HEREBY CERTIFY that D.G. DONOVAN, one of the parties described in and which executed the foregoing instrument, who is personally known to me to be the same person whose name is subscribed to the foregoing instrument, appeared before me this day in person and acknowledged that he signed, sealed, executed and delivered said instrument as his free and voluntary act for the uses and purposes therein set forth.

GIVEN under my hand and notarial seal this 23rd day of May, A.D. 2002.

Linda Ellen Garcia
Notary Public

[SEAL]

My Commission expires September 23, 2002.

EXHIBIT A
to
Supplemental Indenture

COMMONWEALTH EDISON COMPANY

First Mortgage Bond, Pollution Control Series 2002

Due April 15, 2013

COMMONWEALTH EDISON COMPANY, an Illinois corporation (hereinafter called the "Company"), for value received, hereby promises to pay to , as trustee under that certain Indenture of Trust dated as of June 1, 2002 between Illinois Development Finance Authority ("*IDFA*") and said trustee, or registered assigns, on the fifteenth day of April, 2013, the sum of Dollars, and to pay interest on said sum from the date hereof until said sum shall be paid, at a rate *per annum* on each day which is equal to the weighted-average interest rate borne on the IDFA Bonds (as hereinafter defined) outstanding on such date, until the principal thereof shall be paid in full, subject to Section 2.04 of the Supplemental Indenture dated as of May 20, 2002 (the *"Supplemental Indenture"*), executed and delivered by the Company to the Trustees (as hereinafter defined), which provides for certain credits towards payment of principal of and interest on the bonds of this Series. Interest shall accrue on the bonds of this Series from the date of issuance hereof, and the payment thereof shall be credited as provided in Section 2.04(a) of the Supplemental Indenture unless and until the Trustee receives the notice contemplated by Section 2.04(b) of the Supplemental Indenture, whereupon the interest on the bonds of this Series shall become and remain due and payable until such time as the Trustee receives a further written notice (including a telex, telegram, telecopy or other form of written telecommunication) from the trustee under the IDFA Indenture (as hereinafter defined) stating that such payments need not continue. When interest is due and payable as described above, interest on the bonds of this Series shall be payable at the same time as interest on the IDFA Bonds and upon maturity, redemption, or acceleration of the bonds of this Series, subject to Section 2.04 of the Supplemental Indenture. The interest on each bond of this Series so payable on any interest payment date shall, subject to the exceptions provided in Section 3.01 of the Mortgage (as hereinafter defined), as amended by a supplemental indenture dated April 1, 1967, be paid to the person in whose name such bond is registered on the date of such payment. The principal of, and premium, if any, and the interest on, this bond shall be payable at the office or agency of the Company in the City of Chicago, State of Illinois in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts.

This bond is one of the bonds of the Company, issued and to be issued in series from time to time under and in accordance with and, irrespective of the time of issue, equally and ratably secured by the Mortgage dated July 1, 1923, and indentures supplemental thereto, under which BNY Midwest Trust Company and D.G. Donovan (collectively, the "*Trustees*") are now the Trustees, and is one of the First Mortgage Bonds, Pollution Control Series 2002 of the Company, the issuance of which is provided for by the Supplemental Indenture, executed and delivered by the Company to such Trustees, to which Mortgage and all indentures supplemental thereto reference is hereby made for a description of the property mortgaged and pledged, the nature and extent of the security, the rights of the holders and registered owners of said bonds, of the Company and of the Trustees in respect of the security, and the terms and conditions governing the issuance and security of said bonds. The term "*Mortgage*," as hereinafter used, shall mean said Mortgage dated July 1, 1923, and all indentures supplemental thereto.

With the consent of the Company and to the extent permitted by and as provided in the Mortgage, modifications or alterations of the Mortgage or of any indenture supplemental thereto and of the rights and obligations of the Company and of the holders and registered owners of the bonds may be made, and compliance with any provision of the Mortgage or any such supplemental indenture may be waived, by the affirmative vote of the holders and registered owners of not less than eighty *per centum* (80%) in

---

principal amount of the bonds then outstanding under the Mortgage, and by the affirmative vote of the holders and registered owners of not less than eighty *per centum* (80%) in principal amount of the bonds of any series then outstanding under the Mortgage and affected by such modification or alteration, in case one or more but less than all of the series of bonds then outstanding under the Mortgage are so affected, but in any case excluding bonds disqualified from voting by reason of the Company's interest therein as provided in the Mortgage; subject, however, to the condition, among other conditions stated in the Mortgage, that no such modification or alteration shall be made which will permit the extension of the time or times of payment of the principal of or the interest or the premium, if any, on this bond, or the reduction in the principal amount hereof or in the rate of interest or the amount of any premium hereon, or any other modification in the terms of payment of such principal, interest or premium, which terms of payment are unconditional, or, otherwise than as permitted by the Mortgage, the creation of any lien ranking prior to or on a parity with the lien of the Mortgage with respect to any of the mortgaged property, all as more fully provided in the Mortgage.

The bonds of this Series are subject to redemption, as provided in the Supplemental Indenture.

In case of certain completed defaults specified in the Mortgage, the principal of this bond may be declared or may become due and payable in the manner and with the effect provided in the Mortgage.

No recourse shall be had for the payment of the principal of or the interest on this bond, or for any claim based hereon, or otherwise in respect hereof or of the Mortgage, to or against any incorporator, stockholder, officer or director, past, present or future, of the Company or of any successor corporation, either directly or through the Company or such successor corporation, under any constitution or statute or rule of law, or by the enforcement of any assessment or penalty, or otherwise, all such liability of incorporators, stockholders, directors and officers being waived and released by the registered owner hereof by the acceptance of this bond and being likewise waived and released by the terms of the Mortgage, all as more fully provided therein.

This bond is transferable by the registered owner hereof, in person or by duly authorized attorney, at the office or agency of the Company in the City of Chicago, State of Illinois, upon surrender and cancellation of this bond; and thereupon a new registered bond or bonds without coupons of the same aggregate principal amount and series will, upon the payment of charges as provided in the Mortgage, be issued to the transferee in exchange herefor.

Bonds of this Series are issuable only in registered form without coupons and in the denominations of $1,000 each and any authorized multiple thereof. As provided in the Mortgage, such bonds are exchangeable for registered bonds of the same series as between authorized denominations. Any such exchange may be made by the registered owner of any such bond or bonds upon presentation thereof for that purpose at the office or agency of the Company in the City of Chicago, State of Illinois.

This bond shall not be entitled to any security or benefit under the Mortgage or be valid or become obligatory for any purpose unless and until it shall have been authenticated by the execution by the corporate Trustee, or its successor in trust under the Mortgage, of the certificate endorsed hereon.

IN WITNESS WHEREOF, Commonwealth Edison Company has caused this bond to be executed in its name by its President or one of its Vice-Presidents, and has caused its corporate seal to be hereto affixed, attested by its Secretary or one of its Assistant Secretaries, as of the day of , 20 .

COMMONWEALTH EDISON COMPANY

[SEAL]

By: ________________________

President

ATTEST:

____

Secretary

(General Form of Trustee's Certificate)

This bond is one of the bonds of the series designated herein, referred to and described in the within mentioned Supplemental Indenture dated as of May 20, 2002.

BNY MIDWEST TRUST COMPANY

By: ________________________

Authorized Officer

Illinois Commerce Commission Identification No.

ABBREVIATIONS

The following abbreviations, when used in the inscription on the face of this instrument, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM—	as tenants in common
TEN ENT—	as tenants by the entireties
JT TEN—	as joint tenants with right of survivorship and not as tenants in common

UNIF GIFT MIN ACT—......... Custodian.............
(Cust) (Minors)
under Uniform Gifts to Minors Act ....
(State)

Additional abbreviations may also be used though not in the above list.

FOR VALUE RECEIVED the undersigned hereby sell(s), assign(s), and transfer(s) unto

PLEASE INSERT SOCIAL SECURITY OR
OTHER IDENTIFYING NUMBER OF ASSIGNEE

(Please print or typewrite name and address including postal zip code of assignee)

the within Bond and all rights thereunder, hereby irrevocably constituting and appointing attorney to transfer said Bond on the books of the Company, with full power of substitution in the premises.

Dated:

NOTICE: The signature to this assignment must correspond with the name as written upon the face of the within instrument in every particular, without alteration or enlargement or any change whatever.

Exhibit 4.4.1

Supplemental Indenture

Dated as of June 1, 2002

COMMONWEALTH EDISON COMPANY

to

BNY MIDWEST TRUST COMPANY

and

D. G. DONOVAN

Trustees under Mortgage Dated July 1, 1923, and Certain
Indentures Supplemental Thereto

Giving Notice of the Issuance of Additional

FIRST MORTGAGE 6.15% BONDS, SERIES 98
DUE MARCH 15, 2012

THIS SUPPLEMENTAL INDENTURE, dated as of June 1, 2002, between COMMONWEALTH EDISON COMPANY, a corporation organized and existing under the laws of the State of Illinois (hereinafter called the *"Company"*) having an address at 10 South Dearborn Street, 37th floor, Chicago, Illinois 60603, party of the first part, and BNY MIDWEST TRUST COMPANY, a trust company organized and existing under the laws of the State of Illinois having an address at 2 North LaSalle Street, Suite 1020, Chicago, Illinois 60602, and D.G. DONOVAN, an individual having an address at 2 North LaSalle Street, Suite 1020, Chicago, Illinois 60602, as Trustee and Co-Trustee, respectively, under the Mortgage of the Company dated July 1, 1923, as amended and supplemented by Supplemental Indenture dated August 1, 1944 and the subsequent supplemental indentures hereinafter mentioned, parties of the second part (said Trustee being hereinafter called the *"Trustee"*, the Trustee and said Co-Trustee being hereinafter together called the *"Trustees"*, and said Mortgage dated July 1, 1923, as amended and supplemented by said Supplemental Indenture dated August 1, 1944 and subsequent supplemental indentures, being hereinafter called the *"Mortgage"*),

W I T N E S S E T H:

WHEREAS, the Company duly executed and delivered the Mortgage to provide for the issue of, and to secure, its bonds, issuable in series and without limit as to principal amount except as provided in the Mortgage; and

WHEREAS, the Company from time to time has executed and delivered supplemental indentures to the Mortgage to provide for (i) the creation of additional series of bonds secured by the Mortgage, (ii) the amendment of certain of the terms and provisions of the Mortgage and (iii) the confirmation of the lien of the Mortgage upon property of the Company, such supplemental indentures that are currently effective and the respective dates, parties thereto and purposes thereof, being as follows:

Supplemental Indenture Date	Parties	Providing For

August 1, 1944	Company to Continental Illinois National Bank and Trust Company of Chicago and Edmond B. Stofft, as Trustee and Co-Trustee	Amendment and restatement of Mortgage dated July 1, 1923
August 1, 1946	Company to Continental Illinois National Bank and Trust Company of Chicago and Edmond B. Stofft, as Trustee and Co-Trustee	Confirmation of mortgage lien
April 1, 1953	Company to Continental Illinois National Bank and Trust Company of Chicago and Edmond B. Stofft, as Trustee and Co-Trustee	Confirmation of mortgage lien
March 31, 1967	Company to Continental Illinois National Bank and Trust Company of Chicago and Edward J. Friedrich, as Trustee and Co-Trustee	Confirmation of mortgage lien
April 1, 1967	Company to Continental Illinois National Bank and Trust Company of Chicago and Edward J. Friedrich, as Trustee and Co-Trustee	Amendment of Sections 3.01, 3.02, 3.05 and 3.14 of the Mortgage and issuance of First Mortgage 5-3/8% Bonds, Series Y
February 28, 1969	Company to Continental Illinois National Bank and Trust Company of Chicago and Donald W. Alfvin, as Trustee and Co-Trustee	Confirmation of mortgage lien

---

May 29, 1970	Company to Continental Illinois National Bank and Trust Company of Chicago and Donald W. Alfvin, as Trustee and Co-Trustee	Confirmation of mortgage lien
June 1, 1971	Company to Continental Illinois National Bank and Trust Company of Chicago and Donald W. Alfvin, as Trustee and Co-Trustee	Confirmation of mortgage lien
April 1, 1972	Company to Continental Illinois National Bank and Trust Company of Chicago and Donald W. Alfvin, as Trustee and Co-Trustee	Confirmation of mortgage lien
May 31, 1972	Company to Continental Illinois National Bank and Trust Company of Chicago and Donald W. Alfvin, as Trustee and Co-Trustee	Confirmation of mortgage lien
June 15, 1973	Company to Continental Illinois National Bank and Trust Company of Chicago and Donald W. Alfvin, as Trustee and Co-Trustee	Confirmation of mortgage lien
May 31, 1974	Company to Continental Illinois National Bank and Trust Company of Chicago and Donald W. Alfvin, as Trustee and Co-Trustee	Confirmation of mortgage lien
June 13, 1975	Company to Continental Illinois National Bank and Trust Company of Chicago and Donald W. Alfvin, as Trustee and Co-Trustee	Confirmation of mortgage lien
May 28, 1976	Company to Continental Illinois National Bank and Trust Company of Chicago and Donald W. Alfvin, as Trustee and Co-Trustee	Confirmation of mortgage lien
June 3, 1977	Company to Continental Illinois National Bank and Trust Company of Chicago and Donald W. Alfvin, as Trustee and Co-Trustee	Confirmation of mortgage lien
May 17, 1978	Company to Continental Illinois National Bank and Trust Company of Chicago and Donald W. Alfvin, as Trustee and Co-Trustee	Confirmation of mortgage lien
August 31, 1978	Company to Continental Illinois National Bank and Trust Company of Chicago and Donald W. Alfvin, as Trustee and Co-Trustee	Confirmation of mortgage lien
June 18, 1979	Company to Continental Illinois National Bank and Trust Company of Chicago and Donald W. Alfvin, as Trustee and Co-Trustee	Confirmation of mortgage lien
June 20, 1980	Company to Continental Illinois National Bank and Trust Company of Chicago and Donald W. Alfvin, as Trustee and Co-Trustee	Confirmation of mortgage lien
April 16, 1981	Company to Continental Illinois National Bank and Trust Company of Chicago and Donald W. Alfvin, as Trustee and Co-Trustee	Confirmation of mortgage lien

---

April 30, 1982	Company to Continental Illinois National Bank and Trust Company of Chicago and Donald W. Alfvin, as Trustee and Co-Trustee	Confirmation of mortgage lien

April 15, 1983	Company to Continental Illinois National Bank and Trust Company of Chicago and Donald W. Alfvin, as Trustee and Co-Trustee	Confirmation of mortgage lien
April 13, 1984	Company to Continental Illinois National Bank and Trust Company of Chicago and Donald W. Alfvin, as Trustee and Co-Trustee	Confirmation of mortgage lien
April 15, 1985	Company to Continental Illinois National Bank and Trust Company of Chicago and Donald W. Alfvin, as Trustee and Co-Trustee	Confirmation of mortgage lien
April 15, 1986	Company to Continental Illinois National Bank and Trust Company of Chicago and M.J. Kruger, as Trustee and Co-Trustee	Confirmation of mortgage lien
June 15, 1990	Company to Continental Bank, National Association and M.J. Kruger, as Trustee and Co-Trustee	Issuance of First Mortgage 9-7/8% Bonds, Series 75
October 1, 1991	Company to Continental Bank, National Association and M.J. Kruger, as Trustee and Co-Trustee	Issuance of First Mortgage 8-1/4% Bonds, Series 76 and First Mortgage 8-7/8% Bonds, Series 77
October 15, 1991	Company to Continental Bank, National Association and M.J. Kruger, as Trustee and Co-Trustee	Issuance of First Mortgage 8-3/8% Bonds, Series 78 and First Mortgage 9-1/8% Bonds, Series 79
February 1, 1992	Company to Continental Bank, National Association and M.J. Kruger, as Trustee and Co-Trustee	Issuance of First Mortgage 7% Bonds, Series 80 and First Mortgage 8-5/8% Bonds, Series 81
May 15, 1992	Company to Continental Bank, National Association and M.J. Kruger, as Trustee and Co-Trustee	Issuance of First Mortgage 6-1/8% Bonds, Series 82 and First Mortgage 8% Bonds, Series 83
July 15, 1992	Company to Continental Bank, National Association and M.J. Kruger, as Trustee and Co-Trustee	Issuance of First Mortgage 8-1/2% Bonds, Series 84
September 15, 1992	Company to Continental Bank, National Association and M.J. Kruger, as Trustee and Co-Trustee	Issuance of First Mortgage 7-3/8% Bonds, Series 85 and First Mortgage 8-3/8% Bonds, Series 86

February 1, 1993	Company to Continental Bank, National Association and M.J. Kruger, as Trustee and Co-Trustee	Issuance of First Mortgage 8-3/8% Bonds, Series 88
April 1, 1993	Company to Continental Bank, National Association and M.J. Kruger, as Trustee and Co-Trustee	Issuance of First Mortgage 6-1/2% Bonds, Series 90 and First Mortgage 8% Bonds, Series 91
April 15, 1993	Company to Continental Bank, National Association and M.J. Kruger, as Trustee and Co-Trustee	Issuance of First Mortgage 7-5/8% Bonds, Series 92
June 15, 1993	Company to Continental Bank, National Association and M.J. Kruger, as Trustee and Co-Trustee	Issuance of First Mortgage 7% Bonds, Series 93 and First Mortgage 7-1/2% Bonds, Series 94
July 15, 1993	Company to Continental Bank, National Association and M.J. Kruger, as Trustee and Co-Trustee	Issuance of First Mortgage 6-5/8% Bonds, Series 96 and First Mortgage 7-3/4% Bonds, Series 97
January 15, 1994	Company to Continental Bank, National Association and M.J. Kruger, as Trustee and Co-Trustee	Issuance of First Mortgage Bonds, Pollution Control Series 1994A, 1994B and 1994C
December 1, 1994	Company to Bank of America Illinois and Robert J. Donahue, as Trustee and Co-Trustee	Issuance of First Mortgage Bonds, Pollution Control Series 1994D
June 1, 1996	Company to Harris Trust and Savings Bank and D.G. Donovan, as Trustee and Co-Trustee	Issuance of First Mortgage Bonds, Pollution Control Series 1996A and 1996B
March 1, 2002	Company to BNY Midwest Trust Company and	Issuance of First Mortgage 6.15% Bonds,

	D.G. Donovan, as Trustee and Co-Trustee	Series 98
May 20, 2002	Company to BNY Midwest Trust Company and D.G. Donovan, as Trustee and Co-Trustee	Issuance of First Mortgage Bonds, Pollution Control Series 2002

(the Supplemental Indenture dated as of March 1, 2002 referenced above, a copy of which (without Exhibits thereto) is attached hereto as *Exhibit A*, is referred to herein as the *"March 2002 Supplemental Indenture"*); and

WHEREAS, the respective designations, maturity dates and principal amounts of the bonds of each series presently outstanding under, and secured by, the Mortgage and the several supplemental indentures above referred to, are as follows:

Designation	Maturity Date	Principal Amount
First Mortgage 9-7/8% Bonds, Series 75	June 15, 2020	$ 54,171,000
First Mortgage 8-1/4% Bonds, Series 76	October 1, 2006	100,000,000
First Mortgage 8-3/8% Bonds, Series 78	October 15, 2006	125,000,000
First Mortgage 8% Bonds, Series 83	May 15, 2008	140,000,000
First Mortgage 8-1/2% Bonds, Series 84	July 15, 2022	200,000,000
First Mortgage 7-3/8% Bonds, Series 85	September 15, 2002	200,000,000
First Mortgage 8-3/8% Bonds, Series 86	September 15, 2022	200,000,000
First Mortgage 8-3/8% Bonds, Series 88	February 15, 2023	235,950,000
First Mortgage 8% Bonds, Series 91	April 15, 2023	160,000,000
First Mortgage 7-5/8% Bonds, Series 92	April 15, 2013	218,500,000
First Mortgage 7% Bonds, Series 93	July 1, 2005	225,000,000
First Mortgage 7-1/2% Bonds, Series 94	July 1, 2013	147,000,000
First Mortgage 6-5/8% Bonds, Series 96	July 15, 2003	100,000,000
First Mortgage 7-3/4% Bonds, Series 97	July 15, 2023	150,000,000
First Mortgage 5.3% Bonds, Pollution Control Series 1994A	January 15, 2004	26,000,000
First Mortgage 5.7% Bonds, Pollution Control Series 1994B	January 15, 2009	20,000,000
First Mortgage 5.85% Bonds, Pollution Control Series 1994C	January 15, 2014	20,000,000
First Mortgage 5.3% Bonds, Pollution Control Series 1994D	March 1, 2015	91,000,000
First Mortgage 4.4% Bonds, Pollution Control Series 1996A	December 1, 2006	110,000,000
First Mortgage 4.4% Bonds, Pollution Control Series 1996B	December 1, 2006	89,400,000
First Mortgage 6.15% Bonds, Series 98	March 15, 2012	400,000,000
First Mortgage Bonds, Pollution Control Series 2002	April 15, 2013	100,000,000
	Total	$ 3,112,021,000

WHEREAS, pursuant to the March 2002 Supplemental Indenture, the Company issued "bonds of Series 98" (as defined in the March 2002 Supplemental Indenture) under and pursuant to the Mortgage, and, pursuant to said March 2002 Supplemental Indenture, the Company has the right to issue additional bonds of Series 98; and

WHEREAS, the Company desires to issue additional bonds of Series 98 under the Mortgage (including the March 2002 Supplemental Indenture) in the aggregate principal amount of Two Hundred Million Dollars ($200,000,000.00) (the "*Additional bonds of Series 98*"), such bonds to be governed by the terms, provisions and conditions set forth in the March 2002 Supplemental Indenture; and

WHEREAS, the Company desires to execute and deliver this Supplemental Indenture for purposes of providing notice of the issuance of the Additional bonds of Series 98 under and pursuant to the

---

Mortgage and confirming that such Additional bonds of Series 98 are secured by the lien of the Mortgage, as further provided herein; and

WHEREAS, the Company is legally empowered and has been duly authorized by the necessary corporate action and by order of the Illinois Commerce Commission to make, execute and deliver this Supplemental Indenture, and to issue the Additional bonds of Series 98, and all acts and things whatsoever necessary to make this Supplemental Indenture, when executed and delivered by the Company and the Trustees, a valid, binding and legal instrument, and to make the Additional bonds of Series 98, when authenticated by the Trustee and issued as in the Mortgage and in this Supplemental Indenture provided, the valid, binding and legal obligations of the Company, entitled in all respects to the security of the Mortgage, as amended and supplemented, have been done and performed;

NOW, THEREFORE, in consideration of the premises and of the sum of one dollar duly paid by the Trustees to the Company, and for other good and valuable consideration, the receipt of which is hereby acknowledged, the parties hereto do hereby agree as follows:

SECTION 1. *Designation and Issuance of Additional Bonds of Series 98.* The Additional bonds of Series 98 shall, as provided in the March 2002 Supplemental Indenture, be designated as additional "First Mortgage 6.15% Bonds, Series 98." The Additional bonds of Series 98 shall, for all purposes, constitute "bonds of Series 98" for purposes of the Mortgage, shall be governed by each and all of the terms, provisions and conditions set forth in the March 2002 Supplemental Indenture, and shall be secured by the Mortgage. The parties confirm that, subject to the provisions of the Mortgage, the bonds of Series 98 shall be issuable without limitation as to the aggregate principal amount thereof.

SECTION 2. *Confirmation of Lien.* The Company, for the equal and proportionate benefit and security of the holders of all bonds at any time issued under the Mortgage, hereby confirms the lien of the Mortgage upon, and hereby grants, bargains, sells, transfers, assigns, pledges, mortgages, warrants and conveys unto the Trustees, all property of the Company and all property hereafter acquired by the Company, other than (in each case) property which, by virtue of any of the provisions of the Mortgage, is excluded from such lien, and hereby confirms the title of the Trustees (as set forth in the Mortgage) in and to all such property. Without in any way limiting or restricting the generality of the foregoing, there is specifically included within the confirmation of lien and title hereinabove expressed the property of the Company legally described on *Exhibit B* attached hereto and made a part hereof.

SECTION 3. *Miscellaneous.* The terms and conditions of this Supplemental Indenture shall be deemed to be a part of the terms and conditions of the Mortgage for any and all purposes. The Mortgage, as supplemented by said indentures supplemental thereto dated subsequent to August 1, 1944 and referred to in the recitals of this Supplemental Indenture, and as further supplemented by this Supplemental Indenture, is in all respects hereby ratified and confirmed.

This Supplemental Indenture shall bind and, subject to the provisions of Article XIV of the Mortgage, inure to the benefit of the respective successors and assigns of the parties hereto.

Although this Supplemental Indenture is dated as of June 1, 2002, it shall be effective only from and after the actual time of its execution and delivery by the Company and the Trustees on the date indicated by their respective acknowledgments hereto annexed.

This Supplemental Indenture may be simultaneously executed in any number of counterparts, and all such counterparts executed and delivered, each as an original, shall constitute but one and the same instrument.

IN WITNESS WHEREOF, Commonwealth Edison Company has caused this Supplemental Indenture to be executed in its name by its Vice President and Treasurer, and attested by one of its Assistant Secretaries, and BNY Midwest Trust Company, as Trustee under the Mortgage, has caused this Supplemental Indenture to be executed in its name by one of its Assistant Vice Presidents and attested by one of its Assistant Secretaries, and D. G. Donovan, as Co-Trustee under the Mortgage, has hereunto affixed his signature, all as of the day and year first above written.

COMMONWEALTH EDISON COMPANY

By

J. Barry Mitchell
Vice President and Treasurer

ATTEST:

Scott N. Peters
Assistant Secretary

BNY MIDWEST TRUST COMPANY

By

M. Callahan
Assistant Vice President

ATTEST:

C. Potter
Assistant Secretary

D. G. DONOVAN

STATE OF ILLINOIS)

) SS.

COUNTY OF COOK)

I, MARY L. KWILOS, a Notary Public in and for said County, in the State aforesaid, DO HEREBY CERTIFY that J. BARRY MITCHELL, Vice President and Treasurer of Commonwealth Edison Company, an Illinois corporation, one of the parties described in and which executed the foregoing instrument, and SCOTT N. PETERS, an Assistant Secretary of said corporation, who are both personally known to me to be the same persons whose names are subscribed to the foregoing instrument as such Vice President and Treasurer and Assistant Secretary, respectively, and who are both personally known to me to be Vice President and Treasurer and an Assistant Secretary, respectively, of said corporation, appeared before me this day in person and severally acknowledged that they signed, executed and delivered said instrument as their free and voluntary act as such Vice President and Treasurer and Assistant Secretary, respectively, of said corporation, and as the free and voluntary act of said corporation, for the uses and purposes therein set forth.

GIVEN under my hand and notarial seal this 6th day of June, A.D. 2002.

Mary L. Kwilos
Notary Public

(NOTARIAL SEAL)

My Commission expires October 26, 2005.

STATE OF ILLINOIS)

) SS.

COUNTY OF COOK)

I, LINDA ELLEN GARCIA, a Notary Public in and for said County, in the State aforesaid, DO HEREBY CERTIFY that M. CALLAHAN, an Assistant Vice President of BNY Midwest Trust Company, an Illinois trust company, one of the parties described in and which executed the foregoing instrument, and C. POTTER, an Assistant Secretary of said trust company, who are both personally known to me to be the same persons whose names are subscribed to the foregoing instrument as such Assistant Vice President and Assistant Secretary, respectively, and who are both personally known to me to be an Assistant Vice President and an Assistant Secretary, respectively, of said trust company, appeared before me this day in person and severally acknowledged that they signed, executed and delivered said instrument as their free and voluntary act as such Assistant Vice President and Assistant Secretary, respectively, of said trust company, and as the free and voluntary act of said trust company, for the uses and purposes therein set forth.

GIVEN under my hand and notarial seal this 6th day of June, A.D. 2002.

Linda Ellen Garcia
Notary Public

(NOTARIAL SEAL)

My Commission expires September 23, 2002.

STATE OF ILLINOIS)

) SS.

COUNTY OF COOK)

I, LINDA ELLEN GARCIA, a Notary Public in and for said County, in the State aforesaid, DO HEREBY CERTIFY that D. G. DONOVAN, one of the parties described in and which executed the foregoing instrument, who is personally known to me to be the same person whose name is subscribed to the foregoing instrument, appeared before me this day in person and acknowledged that he signed, executed and delivered said instrument as his free and voluntary act for the uses and purposes therein set forth.

GIVEN under my hand and notarial seal this 6th day of June, A.D. 2002.

Linda Ellen Garcia
Notary Public

(NOTARIAL SEAL)

My Commission expires September 23, 2002.

11

EXHIBIT A

MARCH 2002 SUPPLEMENTAL INDENTURE

[omitted]

12

EXHIBIT B

LEGAL DESCRIPTIONS

[omitted]

13

Exhibit 4.4.1

Supplemental Indenture

Dated as of October 7, 2002

Commonwealth Edison Company

to

BNY Midwest Trust Company

and

D. G. Donovan

Trustees under Mortgage Dated July 1, 1923, and Certain
Indentures Supplemental Thereto

Providing for Issuance of

FIRST MORTGAGE 6.15% BONDS, SERIES 98
DUE MARCH 15, 2012

This SUPPLEMENTAL INDENTURE, dated as of October 7, 2002, between Commonwealth Edison Company, a corporation organized and existing under the laws of the State of Illinois (hereinafter called the *"Company"*) having an address at 10 South Dearborn Street, 37th floor, Chicago, Illinois 60603, party of the first part, and BNY Midwest Trust Company, a trust company organized and existing under the laws of the State of Illinois having an address at 2 North LaSalle Street, Suite 1020, Chicago, Illinois 60602, and D.G. Donovan, an individual having an address at 2 North LaSalle Street, Suite 1020, Chicago, Illinois 60602, as Trustee and Co-Trustee, respectively, under the Mortgage of the Company dated July 1, 1923, as amended and supplemented by Supplemental Indenture dated August 1, 1944 and the subsequent supplemental indentures hereinafter mentioned, parties of the second part (said Trustee being hereinafter called the *"Trustee"*, the Trustee and said Co-Trustee being hereinafter together called the *"Trustees"*, and said Mortgage dated July 1, 1923, as amended and supplemented by said Supplemental Indenture dated August 1, 1944 and subsequent supplemental indentures, being hereinafter called the *"Mortgage"*),

W I T N E S S E T H:

WHEREAS, the Company duly executed and delivered the Mortgage to provide for the issue of, and to secure, its bonds, issuable in series and without limit as to principal amount except as provided in the Mortgage; and

WHEREAS, the Company from time to time has executed and delivered supplemental indentures to the Mortgage to provide for (i) the creation of additional series of bonds secured by the Mortgage, (ii) the amendment of certain of the terms and provisions of the Mortgage and (iii) the confirmation of the lien of the Mortgage upon property of the Company, such supplemental indentures that are currently effective and the respective dates, parties thereto and purposes thereof, being as follows:

Supplemental Indenture Date	Parties	Providing
August 1, 1944	Company to Continental Illinois National Bank and Trust Company of Chicago and Edmond B. Stofft, as Trustee and Co-Trustee	Amendment and restatement of Mortgage dated July 1, 1923
August 1, 1946	Company to Continental Illinois National Bank and Trust Company of Chicago and Edmond B. Stofft, as Trustee and Co-Trustee	Confirmation of mortgage lien
April 1, 1953	Company to Continental Illinois National Bank and Trust Company of Chicago and Edmond B. Stofft, as Trustee and Co-Trustee	Confirmation of mortgage lien
March 31, 1967	Company to Continental Illinois National Bank and Trust Company of Chicago and Edward J. Friedrich, as Trustee and Co-Trustee	Confirmation of mortgage lien
April 1, 1967	Company to Continental Illinois National Bank and Trust Company of Chicago and Edward J. Friedrich, as Trustee and Co-Trustee	Amendment of Sections 3.01, 3.02, 3.05 and 3.14 of the Mortgage and issuance of First Mortgage 5-3/8% Bonds, Series Y
February 28, 1969	Company to Continental Illinois National Bank and Trust Company of Chicago and Donald W. Alfvin, as Trustee and Co-Trustee	Confirmation of mortgage lien

May 29, 1970	Company to Continental Illinois National Bank and Trust Company of Chicago and Donald W. Alfvin, as Trustee and Co-Trustee	Confirmation of mortgage lien
June 1, 1971	Company to Continental Illinois National Bank and Trust Company of Chicago and Donald W. Alfvin, as Trustee and Co-Trustee	Confirmation of mortgage lien
April 1, 1972	Company to Continental Illinois National Bank and Trust Company of Chicago and Donald W. Alfvin, as Trustee and Co-Trustee	Confirmation of mortgage lien
May 31, 1972	Company to Continental Illinois National Bank and Trust Company of Chicago and Donald W. Alfvin, as Trustee and Co-Trustee	Confirmation of mortgage lien
June 15, 1973	Company to Continental Illinois National Bank and Trust Company of Chicago and Donald W. Alfvin, as Trustee and Co-Trustee	Confirmation of mortgage lien
May 31, 1974	Company to Continental Illinois National Bank and Trust Company of Chicago and Donald W. Alfvin, as Trustee and Co-Trustee	Confirmation of mortgage lien
June 13, 1975	Company to Continental Illinois National Bank and Trust Company of Chicago and Donald W. Alfvin, as Trustee and Co-Trustee	Confirmation of mortgage lien
May 28, 1976	Company to Continental Illinois National Bank and Trust Company of Chicago and Donald W. Alfvin, as Trustee and Co-Trustee	Confirmation of mortgage lien
June 3, 1977	Company to Continental Illinois National Bank and Trust Company of Chicago and Donald W. Alfvin, as Trustee and Co-Trustee	Confirmation of mortgage lien
May 17, 1978	Company to Continental Illinois National Bank and Trust Company of Chicago and Donald W. Alfvin, as Trustee and Co-Trustee	Confirmation of mortgage lien
August 31, 1978	Company to Continental Illinois National Bank and Trust Company of Chicago and Donald W. Alfvin, as Trustee and Co-Trustee	Confirmation of mortgage lien
June 18, 1979	Company to Continental Illinois National Bank and Trust Company of Chicago and Donald W. Alfvin, as Trustee and Co-Trustee	Confirmation of mortgage lien
June 20, 1980	Company to Continental Illinois National Bank and Trust Company of Chicago and Donald W. Alfvin, as Trustee and Co-Trustee	Confirmation of mortgage lien
April 16, 1981	Company to Continental Illinois National Bank and Trust Company of Chicago and Donald W. Alfvin, as Trustee and Co-Trustee	Confirmation of mortgage lien

April 30, 1982	Company to Continental Illinois National Bank and Trust Company of	Confirmation of mortgage lien

	Chicago and Donald W. Alfvin, as Trustee and Co-Trustee	
April 15, 1983	Company to Continental Illinois National Bank and Trust Company of Chicago and Donald W. Alfvin, as Trustee and Co-Trustee	Confirmation of mortgage lien
April 13, 1984	Company to Continental Illinois National Bank and Trust Company of Chicago and Donald W. Alfvin, as Trustee and Co-Trustee	Confirmation of mortgage lien
April 15, 1985	Company to Continental Illinois National Bank and Trust Company of Chicago and Donald W. Alfvin, as Trustee and Co-Trustee	Confirmation of mortgage lien
April 15, 1986	Company to Continental Illinois National Bank and Trust Company of Chicago and M.J. Kruger, as Trustee and Co-Trustee	Confirmation of mortgage lien
June 15, 1990	Company to Continental Bank, National Association and M.J. Kruger, as Trustee and Co-Trustee	Issuance of First Mortgage 9-7/8% Bonds, Series 75
October 1, 1991	Company to Continental Bank, National Association and M.J. Kruger, as Trustee and Co-Trustee	Issuance of First Mortgage 8-1/4% Bonds, Series 76 and First Mortgage 8-7/8% Bonds, Series 77
October 15, 1991	Company to Continental Bank, National Association and M.J. Kruger, as Trustee and Co-Trustee	Issuance of First Mortgage 8-3/8% Bonds, Series 78 and First Mortgage 9-1/8% Bonds, Series 79
February 1, 1992	Company to Continental Bank, National Association and M.J. Kruger, as Trustee and Co-Trustee	Issuance of First Mortgage 7% Bonds, Series 80 and First Mortgage 8-5/8% Bonds, Series 81
May 15, 1992	Company to Continental Bank, National Association and M.J. Kruger, as Trustee and Co-Trustee	Issuance of First Mortgage 6-1/8% Bonds, Series 82 and First Mortgage 8% Bonds, Series 83
July 15, 1992	Company to Continental Bank, National Association and M.J. Kruger, as Trustee and Co-Trustee	Issuance of First Mortgage 8-1/2% Bonds, Series 84
September 15, 1992	Company to Continental Bank, National Association and M.J. Kruger, as Trustee and Co-Trustee	Issuance of First Mortgage 7-3/8% Bonds, Series 85 and First Mortgage 8-3/8% Bonds, Series 86
February 1, 1993	Company to Continental Bank, National Association and M.J. Kruger, as Trustee and Co-Trustee	Issuance of First Mortgage 8-3/8% Bonds, Series 88

April 1, 1993	Company to Continental Bank, National Association and M.J. Kruger, as Trustee and Co-Trustee	Issuance of First Mortgage 6-1/2% Bonds, Series 90 and First Mortgage 8% Bonds, Series 91
April 15, 1993	Company to Continental Bank, National Association and M.J. Kruger, as Trustee and Co-Trustee	Issuance of First Mortgage 7-5/8% Bonds, Series 92
June 15, 1993	Company to Continental Bank, National Association and M.J. Kruger, as Trustee and Co-Trustee	Issuance of First Mortgage 7% Bonds, Series 93 and First Mortgage 7-1/2% Bonds, Series 94
July 15, 1993	Company to Continental Bank, National Association and M.J. Kruger, as Trustee and Co-Trustee	Issuance of First Mortgage 6-5/8% Bonds, Series 96 and First Mortgage 7-3/4% Bonds, Series 97
January 15, 1994	Company to Continental Bank, National Association and M.J. Kruger, as Trustee and Co-Trustee	Issuance of First Mortgage Bonds, Pollution Control Series 1994A, 1994B and 1994C
December 1, 1994	Company to Bank of America Illinois and Robert J. Donahue, as Trustee and Co-Trustee	Issuance of First Mortgage Bonds, Pollution Control Series 1994D
June 1, 1996	Company to Harris Trust and Savings Bank and D.G. Donovan, as Trustee and Co-Trustee	Issuance of First Mortgage Bonds,

		Pollution Control Series 1996A and 1996B
March 1, 2002	Company to BNY Midwest Trust Company and D.G. Donovan, as Trustee and Co-Trustee	Issuance of First Mortgage 6.15% Bonds, Series 98
May 20, 2002	Company to BNY Midwest Trust Company and D.G. Donovan, as Trustee and Co-Trustee	Issuance of First Mortgage Bonds, Pollution Control Series 2002
June 1, 2002	Company to BNY Midwest Trust Company and D.G. Donovan, as Trustee and Co-Trustee	Issuance of additional First Mortgage 6.15% Bonds, Series 98

WHEREAS, the respective designations, maturity dates and principal amounts of the bonds of each series presently outstanding under, and secured by, the Mortgage and the several supplemental indentures above referred to, are as follows:

Designation	Maturity Date	Principal Amount
First Mortgage 9-7/8% Bonds, Series 75	June 15, 2020	$54,171,000
First Mortgage 8-1/4% Bonds, Series 76	October 1, 2006	100,000,000
First Mortgage 8-3/8% Bonds, Series 78	October 15, 2006	125,000,000
First Mortgage 8-5/8% Bonds, Series 81	February 1, 2022	200,000,000

First Mortgage 8% Bonds, Series 83	May 15, 2008	140,000,000
First Mortgage 8-1/2% Bonds, Series 84	July 15, 2022	200,000,000
First Mortgage 7-3/8% Bonds, Series 85	September 15, 2002	200,000,000
First Mortgage 8-3/8% Bonds, Series 86	September 15, 2022	200,000,000
First Mortgage 8-3/8% Bonds, Series 88	February 15, 2023	235,950,000
First Mortgage 8% Bonds, Series 91	April 15, 2023	160,000,000
First Mortgage 7-5/8% Bonds, Series 92	April 15, 2013	220,000,000
First Mortgage 7% Bonds, Series 93	July 1, 2005	225,000,000
First Mortgage 7-1/2% Bonds, Series 94	July 1, 2013	150,000,000
First Mortgage 6-5/8% Bonds, Series 96	July 15, 2003	100,000,000
First Mortgage 7-3/4% Bonds, Series 97	July 15, 2023	150,000,000
First Mortgage 5.3% Bonds, Pollution Control Series 1994A	January 15, 2004	26,000,000
First Mortgage 5.7% Bonds, Pollution Control Series 1994B	January 15, 2009	20,000,000
First Mortgage 5.85% Bonds, Pollution Control Series 1994C	January 15, 2014	20,000,000
First Mortgage 6.75% Bonds, Pollution Control Series 1994D	March 1, 2015	91,000,000
First Mortgage 4.4% Bonds, Pollution Control Series 1996A	December 1, 2006	110,000,000
First Mortgage 4.4% Bonds, Pollution Control Series 1996B	December 1, 2006	89,400,000
First Mortgage 6.15% Bonds, Series 98	March 15, 2012	400,000,000
First Mortgage Bonds, Pollution Control Series 2002	April 15, 2013	100,000,000
First Mortgage 6.15% Bonds, Series 98	March 15, 2012	200,000,000

Total	$3,516,521,000

WHEREAS, on March 13, 2002, the Company issued $400,000,000 aggregate principal amount of its First Mortgage 6.15% Bonds, Series 98, due March 15, 2012 pursuant to the provisions of a Supplemental Indenture dated as of March 1, 2002, and on June 20, 2002, the Company issued an additional $200,000,000 aggregate principal amount of its First Mortgage 6.15% Bonds, Series 98, due March 15, 2012 pursuant to the provisions of a Supplemental Indenture dated as of June 1, 2002 (such bonds are collectively referred to herein as the "*Original Bonds*"); and

WHEREAS, in connection with the issuances of the Original Bonds, the Company entered into Registration Rights Agreements dated as of March 13, 2002 and June 20, 2002, between the Company and the representatives of the initial purchasers of the Original Bonds, pursuant to which the Company agreed (i) to register $600,000,000 aggregate principal amount of its First Mortgage 6.15% Bonds, Series 98, due March 15, 2012 (the "*Exchange Bonds*") and (ii) to exchange the Original Bonds for the Exchange Bonds in an exchange offer (the "*Exchange Offer*"); and

WHEREAS, the Exchange Offer having been completed, the Company wishes to issue the Exchange Bonds issuable in connection with said Exchange Offer; and

WHEREAS, the Company desires, by this Supplemental Indenture, to provide for the issuance of the Exchange Bonds under the Mortgage, such bonds to be designated "First Mortgage 6.15% Bonds, Series 98" and the terms and provisions to be contained in the Exchange Bonds or to be otherwise applicable thereto to be as set forth in this Supplemental Indenture; and

WHEREAS, the Exchange Bonds and the Trustee's certificate to be endorsed thereon shall be substantially in the form of the General Form of Registered Bond Without Coupons and the form of the General Form of Trustee's Certificate set forth in Section 3.05 of the Supplemental Indenture dated August 1, 1944 to the Mortgage with such appropriate insertions, omissions and variations in order to express the designation, date, maturity date, annual interest rate, record dates for, and dates of, payment of interest, denominations, terms of redemption and redemption prices, and other terms and characteristics authorized or permitted by the Mortgage or not inconsistent therewith; and

WHEREAS, the Company is legally empowered and has been duly authorized by the necessary corporate action and by order of the Illinois Commerce Commission to make, execute and deliver this Supplemental Indenture, and to provide for the issuance of the Exchange Bonds, and all acts and things whatsoever necessary to make this Supplemental Indenture, when executed and delivered by the Company and the Trustees, a valid, binding and legal instrument, and to make the Exchange Bonds, when authenticated by the Trustee and issued as in the Mortgage and in this Supplemental Indenture provided, the valid, binding and legal obligations of the Company, entitled in all respects to the security of the Mortgage, as amended and supplemented, have been done and performed;

NOW, THEREFORE, in consideration of the premises and of the sum of one dollar duly paid by the Trustees to the Company, and for other good and valuable consideration, the receipt of which is hereby acknowledged, the parties hereto do hereby agree as follows:

SECTION 1. *Designation and Issuance of Exchange Bonds.* The Exchange Bonds shall, as hereinbefore recited, be designated as the Company's "First Mortgage 6.15% Bonds, Series 98." Subject to the provisions of the Mortgage, the Exchange Bonds shall be issuable without limitation as to the aggregate principal amount thereof. The Exchange Bonds are identical in all material respects to the Original Bonds (except that the interest rate step-up provisions of the Original Bonds do not apply to the Exchange Bonds, such provisions having been eliminated, and the transfer restrictions of the Original Bonds do not apply to the Exchange Bonds, such provisions having been modified as herein provided) and shall constitute a single series of bonds under the Mortgage.

SECTION 2. *Form, Date, Maturity Date, Interest Rate and Interest Payment Dates of Exchange Bonds.* (a) The definitive Exchange Bonds shall be in engraved, lithographed, printed or typewritten form and shall be registered bonds without coupons; and such bonds and the Trustee's certificate to be endorsed thereon shall be substantially in the forms hereinbefore recited, respectively. The initial issue of Exchange Bonds shall be dated September 15, 2002 (the last interest payment date to which interest has been paid on the Original Bonds), and Exchange Bonds issued after the initial issue thereof shall be dated as provided in Section 3.01 of the Mortgage, as amended by Supplemental Indenture dated April 1, 1967.

(b) The Exchange Bonds shall mature on March 15, 2012.

(c) The Exchange Bonds shall bear interest at the rate of 6.15% per annum until the principal thereof shall be paid.

(d) Interest on the Exchange Bonds shall be payable semi-annually on the fifteenth day of March and the fifteenth day of September in each year. March 1 and September 1 in each year are hereby established as record dates for the payment of interest payable on the next succeeding

interest payment dates, respectively. The interest on each Exchange Bond so payable on any interest payment date shall, subject to the exceptions provided in Section 3.01 of the Mortgage, as amended by said Supplemental Indenture dated April 1, 1967, be paid to the person in whose name such bond is registered at the close of business on the March 1 or September 1, as the case may be, next preceding such interest payment date.

SECTION 3. *Execution of Exchange Bonds.* The Exchange Bonds shall be executed on behalf of the Company by its President or one of its Vice Presidents, manually or by facsimile signature, and shall have its corporate seal affixed thereto or a facsimile of such seal imprinted thereon, attested by its Secretary or one of its Assistant Secretaries, manually or by facsimile signature, all as may be provided by resolution of the Board of Directors of the Company. In case any officer or officers whose signature or signatures, manual or facsimile, shall appear upon any Exchange Bond shall cease to be such officer or officers before such bond shall have been actually authenticated and delivered, such bond nevertheless may be issued, authenticated and delivered with the same force and effect as though the person or persons whose signature or signatures, manual or facsimile, appear thereon had not ceased to be such officer or officers of the Company.

SECTION 4. *Medium and Places of Payment of Principal of and Interest on Exchange Bonds; Transferability and Exchangeability.* Both the principal of and interest on the Exchange Bonds shall be payable in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts, and both such principal and interest shall be payable at the office or agency of the Company in the City of Chicago, State of Illinois, or, at the option of the registered owner, at the office or agency of the Company in the Borough of Manhattan, The City of New York, State of New York, and such bonds shall be transferable and exchangeable, in the manner provided in Sections 3.09 and 3.10 of the Mortgage, at said office or agency. No charge shall be made by the Company to the registered owner of any Exchange Bond for the transfer of such bond or for the exchange thereof for bonds of other authorized denominations, except, in the case of transfer, a charge sufficient to reimburse the Company for any stamp or other tax or governmental charge required to be paid by the Company or the Trustee.

SECTION 5. *Denominations and Numbering of Exchange Bonds.* The Exchange Bonds shall be issued in the denomination of $1,000 and in such multiples of $1,000 as shall from time to time hereafter be determined and authorized by the Board of Directors of the Company or by any officer or officers of the Company authorized to make such determination, the authorization of the denomination of any Exchange Bond to be conclusively evidenced by the execution thereof on behalf of the Company. Exchange Bonds shall be numbered R-1 and consecutively upwards.

SECTION 6. *Temporary Exchange Bonds.* Until definitive Exchange Bonds are ready for delivery, there may be authenticated and issued in lieu of any thereof and subject to all of the provisions, limitations and conditions set forth in Section 3.11 of the Mortgage, temporary registered bonds without coupons.

SECTION 7. *Redemption of Exchange Bonds.* (a) The Exchange Bonds shall be redeemable, at the option of the Company, as a whole or in part, at any time upon notice sent by the Company through the mail, postage prepaid, at least thirty (30) days and not more than forty-five (45) days prior to the date fixed for redemption, to the registered holder of each bond to be redeemed in whole or in part, addressed to such holder at his address appearing upon the registration books, at a redemption price equal to the greater of

(1) 100% of the principal amount of the Exchange Bonds to be redeemed, plus accrued interest to the redemption date, or

(2) as determined by the Quotation Agent (as hereinafter defined), the sum of the present values of the remaining scheduled payments of principal and interest on the Exchange Bonds to be

redeemed (not including any portion of payments of interest accrued as of the redemption date) discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Adjusted Treasury Rate (as hereinafter defined) plus twenty-five (25) basis points, plus accrued interest to the redemption date.

Unless the Company defaults in payment of the redemption price, on and after the redemption date, interest will cease to accrue on the Exchange Bonds or portions of the Exchange Bonds called for redemption.

For purposes of the foregoing, the following terms shall have the respective meanings set forth below:

"*Adjusted Treasury Rate*" means, with respect to any redemption date, the rate per year equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for the redemption date.

"*Business Day*" means any day that is not a day on which banking institutions in New York City are authorized or required by law or regulation to close.

"*Comparable Treasury Issue*" means the United States Treasury security selected by the Quotation Agent as having a maturity comparable to the remaining term of the Exchange Bonds that would be used, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the Exchange Bonds.

"*Comparable Treasury Price*" means, with respect to any redemption date:

(i) the average of the Reference Treasury Dealer Quotations for that redemption date, after excluding the highest and lowest of the Reference Treasury Dealer Quotations; or

(ii) if the Trustee obtains fewer than three Reference Treasury Dealer Quotations, the average of all Reference Treasury Dealer Quotations so received.

"*Quotation Agent*" means the Reference Treasury Dealer appointed by the Company.

"*Reference Treasury Dealer*" means (1) each of J.P. Morgan Securities Inc. and Salomon Smith Barney Inc. and their respective successors, unless any of them ceases to be a primary U.S. Government securities dealer in New York City (a "*Primary Treasury Dealer*"), in which case the Company shall substitute another Primary Treasury Dealer; and (2) any other Primary Treasury Dealer selected by the Company.

"*Reference Treasury Dealer Quotations*" means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Trustee by that Reference Treasury Dealer at 5:00 p.m., New York City time, on the third Business Day preceding that redemption date.

(b) In case the Company shall desire to exercise such right to redeem and pay off all or any part of such Exchange Bonds as hereinbefore provided, it shall comply with all the terms and provisions of Article V of the Mortgage applicable thereto, and such redemption shall be made under and subject to the terms and provisions of Article V and in the manner and with the effect therein provided, but at the time or times and upon mailing of notice, all as hereinbefore set forth in this Section 7. No publication of notice of any redemption of any Exchange Bonds shall be required under Section 5.03(a) of the Mortgage.

SECTION 8. *Book-Entry Only System.* It is intended that the Exchange Bonds be registered so as to participate in the securities depository system (the "*DTC System*") with The Depository Trust Company ("*DTC*"), as set forth herein. The Exchange Bonds shall be initially issued in the form of a fully registered bond or bonds in the name of Cede & Co., or any successor thereto, as nominee for DTC. The Company and the Trustees are authorized to execute and deliver such letters to or agreements with DTC as shall be necessary to effectuate the DTC System, including the Letter of Representations from the Company and the Trustees to DTC relating to the Exchange Bonds (the "*Representation Letter*"). In the event of any conflict between the terms of the Representation Letter and the Mortgage, the terms of the Mortgage shall control. DTC may exercise the rights of a bondholder only in accordance with the terms hereof applicable to the exercise of such rights.

With respect to Exchange Bonds registered in the name of DTC or its nominee, the Company and the Trustees shall have no responsibility or obligation to any broker-dealer, bank or other financial institution for which DTC holds such bonds from time to time as securities depository (each such broker-dealer, bank or other financial institution being referred to herein as a "*Depository Participant*") or to any person on behalf of whom such a Depository Participant holds an interest in such bonds (each such person being herein referred to as an "*Indirect Participant*"). Without limiting the immediately preceding sentence, the Company and the Trustees shall have no responsibility or obligation with respect to:

(i) the accuracy of the records of DTC, its nominee or any Depository Participant with respect to any ownership interest in the Exchange Bonds,

(ii) the delivery to any Depository Participant or any Indirect Participant or any other person, other than a registered owner of an Exchange Bond, of any notice with respect to the Exchange Bonds, including any notice of redemption,

(iii) the payment to any Depository Participant or Indirect Participant or any other person, other than a registered owner of an Exchange Bond, of any amount with respect to principal of, redemption premium, if any, on, or interest on, the Exchange Bonds, or

(iv) any consent given by DTC as registered owner.

So long as certificates for the Exchange Bonds are not issued as hereinafter provided, the Company and the Trustees may treat DTC or any successor securities depository as, and deem DTC or any successor securities depository to be, the absolute owner of such bonds for all purposes whatsoever, including, without limitation, (1) the payment of principal and interest on such bonds, (2) giving notice of matters (including redemption) with respect to such bonds and (3) registering transfers with respect to such bonds. While an Exchange Bond is in the DTC System, no person other than DTC or its nominee shall receive a certificate with respect to such bond.

In the event that:

(a) DTC notifies the Company that it is unwilling or unable to continue as depositary or if DTC ceases to be a clearing agency registered under applicable law and a successor depositary is not appointed by the Company within 90 days,

(b) the Company determines that the beneficial owners of the Exchange Bonds should be able to obtain certificated bonds and so notifies the Trustees in writing or

(c) there shall have occurred and be continuing a completed default or any event which after notice or lapse of time or both would be a completed default with respect to the Exchange Bonds,

the Exchange Bonds shall no longer be restricted to being registered in the name of DTC or its nominee. In the case of clause (a) of the preceding sentence, the Company may determine that the

Exchange Bonds shall be registered in the name of and deposited with a successor depository operating a securities depository system, as may be acceptable to the Company and the Trustees, or such depository's agent or designee, and if the Company does not appoint a successor securities depository system within 90 days, then the bonds may be registered in whatever name or names registered owners of bonds transferring or exchanging such bonds shall designate, in accordance with the provisions hereof.

Notwithstanding any other provision of the Mortgage to the contrary, so long as any Exchange Bond is registered in the name of DTC or its nominee, all payments with respect to principal of and interest on such bond and all notices with respect to such bond shall be made and given, respectively, in the manner provided in the Representation Letter.

SECTION 9. *Legends.* So long as the Exchange Bonds are held by The Depository Trust Company, such Exchange Bonds shall bear the following legend:

Unless this bond is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC"), to the Company or its agent for registration of transfer, exchange or payment, and any bond issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), any transfer, pledge or other use hereof for value or otherwise by a person is wrongful inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

SECTION 10. *Confirmation of Lien.* The Company, for the equal and proportionate benefit and security of the holders of all bonds at any time issued under the Mortgage, hereby confirms the lien of the Mortgage upon, and hereby grants, bargains, sells, transfers, assigns, pledges, mortgages, warrants and conveys unto the Trustees, all property of the Company and all property hereafter acquired by the Company, other than (in each case) property which, by virtue of any of the provisions of the Mortgage, is excluded from such lien, and hereby confirms the title of the Trustees (as set forth in the Mortgage) in and to all such property. Without in any way limiting or restricting the generality of the foregoing, there is specifically included within the confirmation of lien and title hereinabove expressed the property of the Company legally described on *Exhibit A* attached hereto and made a part hereof.

SECTION 11. *Miscellaneous.* The terms and conditions of this Supplemental Indenture shall be deemed to be a part of the terms and conditions of the Mortgage for any and all purposes. The Mortgage, as supplemented by said indentures supplemental thereto dated subsequent to August 1, 1944 and referred to in the recitals of this Supplemental Indenture, and as further supplemented by this Supplemental Indenture, is in all respects hereby ratified and confirmed.

This Supplemental Indenture shall bind and, subject to the provisions of Article XIV of the Mortgage, inure to the benefit of the respective successors and assigns of the parties hereto.

Although this Supplemental Indenture is dated as of October 7, 2002, it shall be effective only from and after the actual time of its execution and delivery by the Company and the Trustees on the date indicated by their respective acknowledgments hereto annexed.

This Supplemental Indenture may be simultaneously executed in any number of counterparts, and all such counterparts executed and delivered, each as an original, shall constitute but one and the same instrument.

IN WITNESS WHEREOF, Commonwealth Edison Company has caused this Supplemental Indenture to be executed in its name by its Vice President and Treasurer, and attested by one of its Assistant Secretaries, and BNY Midwest Trust Company, as Trustee under the Mortgage, has caused this Supplemental Indenture to be executed in its name by one of its Vice Presidents, and attested by one of its Assistant Secretaries, and D. G. Donovan, as Co-Trustee under the Mortgage, has hereunto affixed his signature, all as of the day and year first above written.

COMMONWEALTH EDISON COMPANY

By J. Barry Mitchell
Vice President and Treasurer

ATTEST:

Scott N. Peters
Assistant Secretary

BNY MIDWEST TRUST COMPANY

By J. Bartolini
Vice President

ATTEST:

C. Potter
Assistant Secretary

D. G. DONOVAN

STATE OF ILLINOIS)
) SS.
COUNTY OF COOK)

I, MARY L. KWILOS, a Notary Public in and for said County, in the State aforesaid, DO HEREBY CERTIFY that J. BARRY MITCHELL, Vice President and Treasurer of Commonwealth Edison Company, an Illinois corporation, one of the parties described in and which executed the foregoing instrument, and SCOTT N. PETERS, an Assistant Secretary of said corporation, who are both personally known to me to be the same persons whose names are subscribed to the foregoing instrument as such Vice President and Treasurer and Assistant Secretary, respectively, and who are both personally known to me to be Vice President and Treasurer and an Assistant Secretary, respectively, of said corporation, appeared before me this day in person and severally acknowledged that they signed, executed and delivered said instrument as their free and voluntary act as such Vice President and Treasurer and Assistant Secretary, respectively, of said corporation, and as the free and voluntary act of said corporation, for the uses and purposes therein set forth.

GIVEN under my hand and notarial seal this 7th day of October, A.D. 2002.

Mary L. Kwilos
Notary Public

(NOTARIAL SEAL)

My Commission expires October 26, 2005.

STATE OF ILLINOIS)
) SS.

COUNTY OF COOK)

I, L. GARCIA, a Notary Public in and for said County, in the State aforesaid, DO HEREBY CERTIFY that J. BARTOLINI, a Vice President of BNY Midwest Trust Company, an Illinois trust company, one of the parties described in and which executed the foregoing instrument, and C. POTTER, an Assistant Secretary of said trust company, who are both personally known to me to be the same persons whose names are subscribed to the foregoing instrument as such Vice President and Assistant Secretary, respectively, and who are both personally known to me to be a Vice President and an Assistant Secretary, respectively, of said trust company, appeared before me this day in person and severally acknowledged that they signed, executed and delivered said instrument as their free and voluntary act as such Vice President and Assistant Secretary, respectively, of said trust company, and as the free and voluntary act of said trust company, for the uses and purposes therein set forth.

GIVEN under my hand and notarial seal this 7th day of October, A.D. 2002.

L. Garcia
Notary Public

(NOTARIAL SEAL)

My Commission expires July 8, 2006.

STATE OF ILLINOIS)
) SS.
COUNTY OF COOK)

I, L. GARCIA, a Notary Public in and for said County, in the State aforesaid, DO HEREBY CERTIFY that D. G. DONOVAN, one of the parties described in and which executed the foregoing instrument, who is personally known to me to be the same person whose name is subscribed to the foregoing instrument, appeared before me this day in person and acknowledged that he signed, executed and delivered said instrument as his free and voluntary act for the uses and purposes therein set forth.

GIVEN under my hand and notarial seal this 7th day of October, A.D. 2002.

L. Garcia
Notary Public

(NOTARIAL SEAL)

My Commission expires July 8, 2006.

EXHIBIT A

LEGAL DESCRIPTIONS

[omitted]

Exhibit 4.4.1

EXHIBIT A
LEGAL DESCRIPTIONS

Exhibit 10-2

CREDIT AND REIMBURSEMENT AGREEMENT

This CREDIT AND REIMBURSEMENT AGREEMENT dated as of January 31, 2001 (this "*Agreement*") is made by and among (a) SITHE BOSTON GENERATING, LLC, a Delaware limited liability company (the "*Borrower*"), (b) the financial institutions listed on the signature pages hereof under the heading "The Lenders" and the other financial institutions from time to time party hereto (each, a "*Lender*" and collectively, the "*Lenders*"), (c) BNP PARIBAS, as administrative agent for the Lenders (the "*Administrative Agent*"), and (d) BAYERISCHE LANDESBANK GIROZENTRALE, in its capacity as issuer of the DSR Letter of Credit (the "*DSR LC Issuer*") and BNP PARIBAS, in its capacity as the issuer of the Project Letters of Credit (the "*Project LC Issuer*" and together with the DSR LC Issuer, the "*LC Issuers*").

PRELIMINARY STATEMENT

Each of Sithe Mystic LLC, Sithe Mystic Development LLC and Sithe Fore River Development, LLC (collectively, the "*Project Companies*") are wholly-owned subsidiaries of the Borrower. The Borrower is a wholly-owned indirect subsidiary of Sithe Energies, Inc. ("*Sithe*").

Sithe Mystic LLC owns a 1,005 MW electric generating facility in operation in Boston and Everett, Massachusetts (the "*Sithe Mystic Project*"). Sithe Mystic Development LLC owns a 2 × 800 MW combined-cycle electric generating facility under construction which is adjacent to the Mystic Station Project in Everett, Massachusetts (the "*Mystic 8&9 Project*"). Sithe Fore River Development, LLC owns an 800 MW combined-cycle electric generating facility under construction in Weymouth and Quincy, Massachusetts (the "*Fore River Project*", and together with the Sithe Mystic Project and the Mystic 8&9 Project, the "*Projects*").

In connection with the development, construction and operation of the Projects, the Borrower has requested that the Lenders provide senior secured credit facilities in an aggregate amount of $1,250,000,000. The Lenders have agreed to provide such financing on the terms and subject to the conditions set forth in this Agreement.

The Borrower will contribute a portion of the proceeds of such facilities to each of Sithe Mystic Development and Sithe Fore River for the payment of Project Costs.

The Borrower will use a portion of the proceeds of such facilities to repay the $116,561,970.91 (together with accrued interest from February 1, 2001 until the date repaid) of outstanding indebtedness incurred in connection with the acquisition by Sithe New England Holdings, LLC of certain assets of Boston Edison Company.

In addition, on the Closing Date, the Borrower may make a reimbursement to Sithe (or any Affiliate thereof) in respect of certain Pre-Closing Project Costs in an amount equal to $317,298,521.59.

The Borrower's Obligations hereunder will be guaranteed by each Project Company pursuant to the terms and conditions of that certain Project Company Guarantee dated as of the date hereof in favor of the Collateral Agent, on behalf of all Secured Parties (the "*Project Company Guarantee*"). Each of the Project Companies will also execute and deliver the Mortgage and the Security Agreement granting Liens on the assets owned by it to secure its obligations under the Project Company Guarantee. The Borrower's Obligations will also be secured by the Borrower Pledge Agreement, pursuant to which the Borrower's membership interests in the Project Companies shall be pledged to the Collateral Agent for the benefit of the Secured Parties.

Accordingly, in consideration of the mutual promises herein contained, the parties hereby agree as follows:

DEFINITIONS AND ACCOUNTING TERMS

Certain Defined Terms. Except as otherwise expressly provided herein, capitalized terms used herein are defined in Annex A hereto.

Computation of Time Periods. In this Agreement, in the computation of periods of time from a specified date to a later specified date, the word "from" means "from and including" and words "to" and "until" each means "to but excluding".

Accounting Principles and Terms. Except as otherwise provided in this Agreement, (a) all computations and determinations as to financial matters, and all financial statements to be delivered under this Agreement, shall be made or prepared in accordance with GAAP (including principles of consolidation where appropriate but excluding footnote disclosure on interim financial statements) and on a consistent basis and (b) all accounting terms used in this Agreement shall have the meaning respectively ascribed to such terms by such principles.

Rules of Construction. When used in this Agreement: (a) "or" is not exclusive solely in the sense that where a series of items is connected with "or," the applicability of more than one of such items shall not cancel the applicability of the series and "include" and "including" are not limiting; (b) a reference to a law includes any amendment or modification to such law and any rules or regulations issued thereunder or any law enacted in substitution or replacement therefor; (c) a reference to a Person includes its permitted successors and permitted assigns; (d) a reference to an agreement, instrument or document shall include such agreement, instrument or document as the same may be amended, modified or supplemented from time to time in accordance with its terms and as permitted by the Loan Documents; (e) the singular includes the plural and the plural includes the singular; (f) "hereby", "herein", "hereof", "hereunder" or other like words refer to this Agreement; (g) a reference herein to an Article, Section, Exhibit or Schedule without further reference is to the relevant Article, Section, Exhibit or Schedule to this Agreement; (h) time shall be of the essence with respect to the performance of all obligations; (i) all obligations are continuing obligations; and (j) the headings of the Articles, Sections and subsections are for convenience only and shall not affect the meaning of this Agreement.

THE LOAN FACILITIES

Project Advances.

Project Commitments.

Subject to the terms and conditions of this Agreement, each Lender severally shall make Project Advances to the Borrower on any Business Day on or prior to earlier of (A) the 60th day following the Second Completion Date and (B) the Date Certain. Any Project Advance or portion thereof which is prepaid cannot be reborrowed. At no time shall the aggregate principal amount of all outstanding Project Advances exceed the Aggregate Project Commitment.

Each Lender's obligation to make Project Advances shall not in any event exceed the amount set forth next to such Lender's name as its "*Project Commitment*" on *Schedule 1*.

Each Borrowing shall be in an aggregate amount not less than $1,000,000 or an integral multiple of $100,000 in excess thereof (or such lesser amount as shall be equal to the total amount of the unused Project Commitments available on such date). Each Lender's Project Commitment shall be reduced by the amount and on the date of such Lender's Project Advance. The Project Commitments shall terminate in their entirety at the earliest of (i) full utilization of the Aggregate Project

Commitment and (ii) the earlier of (x) the Date Certain and (y) the 60th day following the Second Completion Date, unless earlier terminated by the Administrative Agent pursuant to Section 8.01 following the occurrence and during the continuation of a Borrower Event of Default.

Use of Proceeds of Project Advances. The proceeds of Project Advances shall be applied by the Borrower exclusively as follows: (i) to be contributed to Sithe Mystic Development and to be applied by Sithe Mystic Development as payment of, or reimbursement for, Project Costs for the Mystic 8&9 Project pursuant to the terms and conditions of the Project Company Guarantee; (ii) to be contributed to Sithe Fore River and to be applied by Sithe Fore River as payment of, or reimbursement for, Project Costs for the Fore River Project pursuant to the terms and conditions of the Project Company Guarantee; (iii) to the payment of, or reimbursement for, the Borrower's and each Development Project Company's Financing Costs; (iv) at Closing, for payment (by way of distribution, reimbursement or otherwise) of Debt of Sithe New England in an amount equal to $116,561,970.91 (together with accrued interest from February 1, 2001 until the date repaid) and (v) at Closing, to the reimbursement of Sithe (or any Affiliate thereof) of certain Pre-Closing Project Costs, in an aggregate amount equal to $317,298,521.59. The proceeds of Project Advances used for the purposes described in clause (i), (ii) and (iii) above, shall be applied in accordance with the applicable Project Budget, *provided, however,* that the Borrower may re-allocate a portion of the Project Commitments from a completed line item in a Project Budget to the contingency for the Development Projects upon submission of a completed Reallocation Certificate in the form of *Exhibit 2.01(b)* signed by an Authorized Officer of the Borrower and confirmed by the Independent Engineer, *provided, further,* that on September 30, 2001, and not more than once each Calendar Quarter thereafter, the Borrower may re-allocate a portion of the Project Commitments from an incomplete line item in a Project Budget (other than the line item entitled "IDC"), so long as savings with respect to such line item have been demonstrated to the satisfaction of the Administrative Agent and the Independent Engineer, to the contingency for the Development Projects upon submission of a completed Reallocation Certificate in the form of *Exhibit 2.01(b)* signed by an Authorized Officer of the Borrower and confirmed by the Independent Engineer and the Administrative Agent, *provided, further,* in the event that it is determined that National Grid USA does not require the issuance of an Interconnection Security Letter of Credit, then the Borrower may re-characterize up to $2,000,000 of the Aggregate LC Commitment as Project Commitment to be used as contingency for the Development Projects upon (x) submission of a completed Reallocation Certificate in the form of *Exhibit 2.01(b)* signed by an Authorized Officer of the Borrower and confirmed by the Administrative Agent and (y) execution and delivery of additional Project Notes payable to each Lender for the account of its Lending Office in an aggregate principal amount equal to such Lender's Percentage of such recharacterized commitment and otherwise duly completed.

Notice of Borrowing. The Borrower shall request Project Advances by delivering to the Administrative Agent a written notice in the form of *Exhibit 2.01(c)*, appropriately completed (a "*Notice of Borrowing*"), which specifies, among other things:

the amounts of requested Project Advances;

the requested date of such Borrowing;

the requested Type of Advances comprising such Borrowing; and

with respect to LIBOR Rate Advances, the requested Interest Period for each such Advance.

Borrower shall so deliver each such Notice of Borrowing so as to provide the Minimum Notice Period applicable to Advances of the Type requested. Such Notice of Borrowing shall be accompanied by a Certificate of the Independent Engineer in the form of *Exhibit 5.03(d)* hereto.

Interest on Project Advances. The Borrower shall pay interest on the unpaid principal amount of each Project Advance owing to each Lender from the date of such Project Advance until such principal amount shall be paid in full, at the following rates per annum:

Base Rate Advances. If such Project Advance is a Base Rate Advance, a rate per annum equal at all times to the sum of the Base Rate in effect from time to time plus the Applicable Margin for such Base Rate Advance in effect from time to time, payable quarterly in arrears on each Payment Date and on the date such Base Rate Advance shall be paid in full.

LIBOR Rate Advances. If such Advance is a LIBOR Rate Advance, a rate per annum equal, at all times during the Interest Period then applicable to such Advance, to the sum of the LIBOR Rate for such Interest Period plus the Applicable Margin for such LIBOR Rate Advance in effect from time to time, payable on the last day of such Interest Period and, if such Interest Period has a duration of more than three months, on each Payment Date which occurs during such Interest Period.

Repayment of Project Advances. Borrower shall repay to the Administrative Agent, for the account of each Lender, the aggregate unpaid principal amount of all Project Advances made by such Lender in installments payable on each Payment Date in accordance with the repayment schedule set forth on *Schedule 2.01(e)*, with any remaining principal, interest, fees and costs due in respect of the Project Advances due and payable on the Maturity Date.

Notes. The Project Advances made by each Lender shall be evidenced by a Project Note of the Borrower in the form of *Exhibit 2.01(f)* dated the Closing Date, payable to such Lender for the account of its Lending Office in an aggregate principal amount equal to its Project Commitment and otherwise duly completed.

Termination of Project Commitment. The Borrower shall have the right, exercisable upon at least ten (10) Business Days' irrevocable notice to the Administrative Agent, to terminate in whole or permanently reduce the unused portion of the Project Commitment, *provided*, that (i) each partial reduction shall be in the aggregate principal amount of $1,000,000 or an integral multiple of $100,000 in excess thereof and (ii) no such termination or reduction shall be permitted if the Borrower has failed to provide evidence to the Administrative Agent of sufficient funds available to each of the Development Projects for each such Project to achieve Project Completion.

Working Capital Advances.

Working Capital Commitments. Subject to the satisfaction or waiver of each of the conditions set forth in Section 5.03, each Lender severally shall make Working Capital Advances to the Borrower commencing on the Closing Date, in an aggregate amount not to exceed the amount set forth next to such Lender's name as its "*Working Capital Commitment*" on *Schedule 2* (the foregoing obligation to make a Working Capital Advance being hereinafter referred to as each Lender's "*Working Capital Commitment*"). At no time shall the aggregate principal amount of all outstanding Working Capital Advances exceed the Aggregate Working Capital Commitment. Notwithstanding the foregoing, Working Capital Advances made prior to the First Distrigas Payment Date shall be limited to $10,000,000. The Working Capital Commitment shall terminate at the close of business on the Maturity Date unless earlier terminated by the Administrative Agent pursuant to Section 8.01 following the occurrence and continuation of a Borrower Event of Default. Any Working Capital Advance or portion thereof which is prepaid or repaid may, until the date that is 15 days prior to the Maturity Date, be reborrowed.

Use of Proceeds of Working Capital Advances. The proceeds of Working Capital Advances may be used by the Borrower, or shall be contributed by the Borrower to the Project Companies, for payment of their respective Operating Expenses; *provided, however,* that prior to the Second Completion Date, Working Capital Advances used (i) in respect of Sithe Mystic, shall be limited to $10,000,000 and (ii) in

respect of the Development Project Companies, shall be limited to the lesser of (A) $30,000,000 and (B) Pre-Completion Operating Expenses.

Termination of Working Capital Commitment. The Borrower shall have the right, exercisable upon at least ten (10) Business Days' irrevocable notice to the Administrative Agent, to terminate in whole or permanently reduce the unused portion of the Working Capital Commitment, *provided*, that (i) each partial reduction shall be in the aggregate principal amount of $1,000,000 or an integral multiple of $100,000 in excess thereof and (ii) no such termination or reduction shall be permitted if, after giving effect thereto, the aggregate principal amount of Working Capital Advances then outstanding would exceed the Working Capital Commitment then in effect.

Notice of Working Capital Borrowing. The Borrower shall request Working Capital Advances by delivering to the Administrative Agent a written notice in the form of *Exhibit 2.02(d)*, appropriately completed (a "*Notice of Working Capital Borrowing*"), which specifies, among other things:

the amount of the requested Working Capital Advance, which shall be integral multiples of $500,000, but not less than $2,000,000;

the requested date of such Borrowing;

the requested Type of Advances comprising such Borrowing; and

with respect to LIBOR Rate Advances, the requested Interest Period for each such Advance.

Borrower shall so deliver each such Notice of Borrowing so as to provide the Minimum Notice Period applicable to Advances of the Type requested.

Interest on Working Capital Advances. The Borrower shall pay interest on the unpaid principal amount of each Working Capital Advance owing to each Lender from the date of such Working Capital Advance until such principal amount shall be paid in full, at the same rates per annum payable with respect to the Project Advances.

Repayment of Working Capital Advances. To the extent that Working Capital Advances are applied prior to the Second Completion Date to the payment of Operating Expenses associated with either Development Project, Pre-Completion Revenues received by such Development Project shall be used to repay, to the extent of such Pre-Completion Revenues received, any outstanding Working Capital Advances pursuant to Sections 4.01(d) and 4.02 of the Depositary Agreement. Commencing with the Second Completion Date, during each twelve month period, the Borrower shall repay to the Collateral Agent, for the account of each Lender, in full the unpaid principal amount of all Working Capital Advances, and the Borrower shall not thereafter reborrow the same, for a period of at least thirty (30) consecutive days selected by the Borrower (the "*Clean Up Requirement*"). Any remaining principal, interest, fees and costs due in respect of the Working Capital Advances shall be due and payable on the Maturity Date.

Notes. The Working Capital Advances made by each Lender shall be evidenced by a Working Capital Note of the Borrower in the form of *Exhibit 2.02(g)*, dated the Closing Date, payable to such Lender for the account of its Lending Office in an aggregate principal amount equal to its Working Capital Commitment and otherwise duly completed.

Provisions Relating to All Advances.

Borrowings. (i) Each Borrowing shall be made on the same day by all of the Lenders, ratably according to their respective Percentages. All Advances to be made as part of each Borrowing shall consist of Advances of the same Type and Interest Period. The Borrower shall only be entitled to request a Project Borrowing once during any calendar month.

(ii) The Administrative Agent shall give each Lender prompt notice of each applicable Notice of Borrowing or Notice of Working Capital Borrowing, as the case may be. In the case of a proposed Borrowing comprised of LIBOR Rate Advances, the Administrative Agent shall promptly notify each Lender of the applicable interest rate promptly after determination thereof. So long as a Swap Agreement is in effect, the Borrower shall use commercially reasonable efforts to make each Borrowing on a day which constitutes a payment date under such Swap Agreement.

(iii) Each Lender shall, before 12:00 noon (New York City time) on the date of any Borrowing, deposit with the Collateral Agent, in same day funds, such Lender's ratable portion of such Borrowing. After the Administrative Agent's receipt of a confirmation by the Collateral Agent of its receipt of such funds and upon fulfillment of the applicable conditions set forth in Article V, the Administrative Agent will instruct the Collateral Agent to apply such funds in accordance with the terms of the Depositary Agreement.

(iv) Unless the Administrative Agent shall have received notice from a Lender or the Borrower (the "*Payor*") prior to the scheduled date on which the Payor is to make payment to the Administrative Agent that, (x) in the case of a Lender, such Lender will not make available to the Administrative Agent such Lender's ratable portion of a Borrowing or, (y) in the case of the Borrower, the Borrower will not make a payment for the account of one or more Lenders to be made hereunder, the Administrative Agent may assume that such Payor has made such portion available to the Administrative Agent on the required date and the Administrative Agent may, in reliance upon such assumption (but shall not be required to), make available to the recipient of such amounts on such date a corresponding amount. If and to the extent that any Lender (a "*Non-performing Lender*") shall not have so made such ratable portion available to the Administrative Agent, or the Borrower shall have not made such payment for the account of the Lenders, the Non-performing Lender or the Borrower, as applicable, severally agree to repay to the Administrative Agent forthwith on demand such corresponding amount, together with interest thereon for each day from the date such amount is made available to the Borrower until the date such amount is repaid to the Administrative Agent, at (A) in the case of the Borrower, the interest rate applicable at the time to Advances comprising such Borrowing and (B) in the case of such Non-performing Lender, the Federal Funds Rate; *provided*, that if the Borrower repays such corresponding amount to the Administrative Agent and such Non-performing Lender subsequently makes available its ratable portion of the Borrowing to the Administrative Agent, the Administrative Agent shall promptly make such loan proceeds available to the Borrower. The Administrative Agent shall provide written notice to the Borrower of any Non-performing Lender, *provided, however,* that provision of such notification shall not be a condition to the Borrower's obligations under this Section 2.03(iv).

If a Non-performing Lender shall repay to the Administrative Agent such corresponding amount in full (with interest as above provided), then (x) the Administrative Agent shall apply such corresponding amount and interest to the repayment of the Administrative Agent and (y) such amount so repaid shall be deemed to constitute such Non-performing Lender's Advance, made as part of such Borrowing for purposes of this Agreement as if funded concurrently with the other Advances comprising part of such Borrowing and such Non-performing Lender shall forthwith cease to be deemed a Non-performing Lender.

(v) The failure of any Lender to make the Advance to be made by it as part of any Borrowing shall not relieve any other Lender of its obligation, if any, hereunder to make its Advance on the date of such Borrowing, and the Borrower reserves all rights with respect to such Lender for its failure to make such Advance, but no Lender shall be responsible for the failure of any other Lender to make the Advance to be made by such other Lender on the date of any Borrowing.

Conversion. The Borrower may from time to time elect to Convert any Advance (or portion thereof) of any Type to one or more Advances of the same or any other Type on the following terms and subject to the following conditions:

Each such Conversion shall be made as to all Advances comprising a single Borrowing, on notice given not later than 11:00 A.M. (New York City time) on the third Business Day prior to the date of the proposed Conversion, in the case of any such Conversion into LIBOR Rate Advances, or on the Business Day of the proposed Conversion, in the case of any such Conversion into Base Rate Advances, by the Borrower to the Administrative Agent, who shall give each Lender prompt notice thereof. Each such notice of Conversion (a "*Notice of Conversion*") shall be in substantially the form of *Exhibit 2.03(b)(i)*, specifying therein the requested (1) date of such Conversion, (2) Type of, and, with respect to LIBOR Rate Advances, Interest Period applicable to, the Advances (or portions thereof) proposed to be Converted, (3) except in the case of a Conversion described in subsection (iv), below, Type of Advances to which such Advances (or portions thereof) are proposed to be Converted, (4) in the case of a Conversion to LIBOR Rate Advances, initial Interest Period to be applicable to the Advances resulting from such Conversion and (5) aggregate amount of Advances (or portions thereof) proposed to be Converted. In the case of a proposed Conversion into LIBOR Rate Advances, the Administrative Agent shall promptly notify each Lender of the interest rate to be applicable to the Advances resulting from such Conversion pursuant to Section 2.03(b)(ii) promptly after determination thereof.

LIBOR Rate Advances may not be Converted on a date other than the last day of the Interest Period then applicable thereto, unless (i) the corresponding amounts, if any, payable to the Lenders pursuant to Section 4.07 are paid contemporaneously with such Conversion and (ii) such corresponding amounts, if any, required to be so paid, are paid only from cash contributions to the equity of the Borrower made for such purpose at such time.

No Conversion may be requested by the Borrower hereunder unless made in compliance with this Section 2.03.

Any selection by the Borrower of a longer or shorter Interest Period to be applicable to any LIBOR Rate Advance shall be deemed a Conversion pursuant to this Section 2.03, shall be governed by the terms and conditions hereof and shall be notified to the Administrative Agent as herein provided. If no Notice of Conversion in respect of an Advance is received by the Administrative Agent prior to the end of any Interest Period as provided in subsection (a)(i), above, such Advance shall be Converted to a Base Rate Advance.

No Conversion to a LIBOR Rate Advance shall be made (i) so long as an Borrower Event of Default has occurred and is continuing and the Administrative Agent has determined that such Conversion is not appropriate or (ii) after the date that is one month prior to the Maturity Date.

Other Terms Relating to the Making and Conversion of Advances.

Anything in Section 2.01 or 2.02 to the contrary notwithstanding:

at no time shall more than four different Interest Periods be in effect as to outstanding Borrowings hereunder;

each Borrowing hereunder (whether from the making or Conversion of Advances hereunder, or both) which is to be comprised of LIBOR Rate Advances shall be in a minimum aggregate principal amount no less than $1,000,000; and

no Lender having a Working Capital Commitment shall be obligated to make a Working Capital Advance if, on and after the first anniversary of the Second Completion Date, on the date of any such requested Advance, there shall not have been, during the immediately preceding twelve month period,

---

at least one thirty (30) consecutive day period during which no Working Capital Advances were outstanding.

Each Notice of Borrowing and Notice of Conversion shall be irrevocable and binding on the Borrower after delivery thereof. In the case of any Borrowing which the related Notice of Borrowing or Notice of Conversion specifies is to be comprised of LIBOR Rate Advances, the Borrower shall indemnify each Lender against any loss, cost or expense incurred by such Lender as a result of any failure to fulfill on or before the date specified in such Notice of Borrowing or Notice of Conversion for such Borrowing the applicable conditions (if any) set forth in this Article II (other than failure pursuant to the provisions of Section 2.03(b) or (c)) or in Article V, including any such loss (including loss of anticipated profits where such failure shall not have been beyond the reasonable control of the Borrower), cost or expense incurred by reason of the liquidation or re-employment of deposits or other funds acquired by such Lender to fund the Advance to be made by such Lender as part of such Borrowing when such Advance, as a result of such failure, is not made on such date.

So long as any Swap Agreement is in effect with respect to any Advances, the Borrower shall maintain as LIBOR Rate Advances having Interest Periods corresponding to the payment dates under such Swap Agreement an aggregate amount of Advances at least equal to the notional amount then in effect under such Swap Agreement, except to the extent that the Borrower would be prevented from complying with this Section 2.03(c)(iii) by operation of Section 2.01, subsections (i) or (ii) of this Section 2.03(c) or Section 4.02(b).

Default Interest. Any principal amounts payable hereunder that are not paid when due shall (to the fullest extent permitted by law) bear interest, from the date when due until paid in full, at a rate per annum equal at all times to the Default Rate.

THE LETTERS OF CREDIT

Commitments. Each Lender irrevocably agrees severally, on the terms and conditions contained in this Agreement, to participate in each Letter of Credit and each Drawing thereunder in an aggregate amount not to exceed the product of (x) such Lender's Percentage and (y) the Aggregate LC Commitment (the foregoing obligations being hereinafter referred to as each Lender's "*LC Commitment*"). Simultaneously with the issuance of each Letter of Credit, the applicable LC Issuer shall be deemed to have sold and transferred to each Lender, and each Lender shall be deemed to have purchased and received from the applicable LC Issuer, in each case irrevocably and without any further action by any party, an undivided interest and participation in each Letter of Credit and each Drawing in an amount equal to such Lender's LC Commitment. The Administrative Agent shall promptly advise each Lender of any change in the Outstanding Amount, the Stated Amount or the Expiration Date in respect of each Letter of Credit, the cancellation or other termination of a Letter of Credit and any Drawing; *provided, however,* that failure to provide such notice shall not limit or impair the rights of the applicable LC Issuer hereunder or under the Loan Documents.

Amount and Term of Letters of Credit. (a) On the terms and subject to the conditions set forth herein (i) the Project LC Issuer hereby agrees to issue the Project Letters of Credit to support the Development Projects' security and payment obligations under the Interconnection Agreements and Sithe Fore River's security obligations under the Related Facilities Agreement, and (ii) the DSR LC Issuer hereby agrees to issue the DSR Letter of Credit to support the Borrower's obligation to provide to the Collateral Agent, for the benefit of the Lenders, with the Debt Service Reserve Requirement upon the Second Completion Date, in each case in the applicable Stated Amount. The Letters of Credit shall be effective on the date issued and, unless terminated or early expiring in accordance with their terms, shall expire on the Expiration Date, as the same may be extended. The amount available under each Letter of Credit shall be (i) reduced by the amount of any Drawing thereunder, (ii) reduced by the amount stated in any Reduction Certificate submitted by the Borrower as permitted pursuant to such Letter of Credit and (ii) reinstated, in the case of the DSR Letter of Credit or, prior to issuance of the DSR Letter of Credit, under any Interconnection Security Letter of Credit, in connection with any repayment of a LC Loan advanced as a result of a Drawing thereunder, *provided* that LC Loans remain available, pursuant to the terms of this Agreement, at the time of such reinstatement.

Each Letter of Credit shall be issued on not less than three Business Days' prior written notice thereof to the Administrative Agent (which shall promptly distribute copies of such notice to the Lenders) and the applicable LC Issuer. Each such notice (a "*Request for Issuance*") shall specify (i) the date of issuance and the Expiration Date thereof and (ii) such other information as shall demonstrate compliance of the Letter of Credit with the requirements specified therefor in this Agreement. Such Request for Issuance shall be irrevocable unless modified or rescinded by the Borrower by written notice to the Administrative Agent and the applicable LC Issuer at least two Business Days prior to the proposed date of issuance specified therein. Not later than 11:00 A.M. (New York City time) on the proposed date of issuance specified in such Request for Issuance, and upon fulfillment of the applicable conditions precedent and other requirements set forth herein, the applicable LC Issuer shall issue such Letter of Credit and provide notice and a copy thereof to the Administrative Agent.

Reimbursement of LC Issuer. (a) Subject to Section 3.03(b), the Borrower hereby agrees to pay or cause to be paid to the DSR LC Issuer or the Project LC Issuer, as the case may be, not later than 5:00 P.M. (New York City time) on the Business Day following each date on which such LC Issuer shall pay any amount under any Letter of Credit (the "*LC Payment Date*") issued by such LC Issuer (but in no event prior to the time of any such payment by such LC Issuer) without requirement for presentation or demand of any kind whatsoever, a sum equal to the amount so paid plus interest at the Base Rate until such amount is reimbursed (including by using the proceeds of an LC Loan); *provided*, that such LC Issuer shall, promptly inform the Borrower in writing of the amount so paid. The

---

Borrower's obligation to make payments under this subsection (a), and the right of such LC Issuer to receive the same, are absolute and unconditional as provided in Section 3.03, and the Borrower agrees that each such payment shall be made without any offset, abatement, withholding or reduction whatsoever; *provided*, that no delay in making any payment shall constitute a default hereunder so long as the Borrower uses the LC Loans to make such payments immediately upon becoming available.

If the DSR LC Issuer or the Project LC Issuer, as the case may be, shall not have been reimbursed in full for any payment made by such LC Issuer under any Letter of Credit on any LC Payment Date, the Administrative Agent shall promptly notify each other Lender. Each such Lender shall, on the day of such notification, make a loan to the Borrower, by depositing with the Collateral Agent for the account of such LC Issuer, in immediately available funds, an amount equal to the amount of such Lender's participation in such Drawing plus any interest accrued in accordance with clause (a) above. In the event that any Lender fails to make available to the Collateral Agent for the account of such LC Issuer the amount of such loan, such LC Issuer shall be entitled to recover such amount on demand from such Lender together with interest thereon at (i) for the first three (3) days of nonpayment, the Federal Funds Rate and (ii) thereafter, the Federal Funds Rate plus 2.00%. Each loan by a Lender pursuant to this Section 3.03(b) shall be deemed a "*LC Loan*" under this Agreement. LC Loans which may be made by each Lender shall be evidenced by a LC Loan Note of the Borrower in the form of *Exhibit 3.03(b),* dated the Closing Date, payable to such Lender for the account of its Lending Office in an aggregate principal amount equal to its LC Commitment and otherwise duly completed. At no time shall the aggregate principal amount of all outstanding LC Loans exceed the Aggregate LC Commitment. The Borrower shall pay interest pursuant to Section 4.05 of the Depositary Agreement on the unpaid principal amount of each LC Loan resulting from a Drawing, from the date of such LC Loan until such principal amount has been repaid in full. Such interest shall be paid at a rate per annum, at the Borrower's option, either, (1) the rate then applicable to Base Rate Project Advances plus 0.125% or (2) the rate then applicable to LIBOR Rate Project Advances plus 0.125%, *provided, however,* that interest with respect to LC Loans resulting from drawings under either Interconnection Payment Letter of Credit, shall be paid at a rate per annum, at the Borrower's option, either (1) the rate then applicable to Base Rate Project Advances or (2) the rate then applicable to LIBOR Rate Project Advances. The Borrower shall repay the principal amount of each LC Loan as, when and to the extent monies are available for such purpose pursuant to Section 4.05 of the Depositary Agreement, *provided, however,* that principal owed in connection with LC Loans resulting from drawings under either Interconnection Payment Letter of Credit, shall be payable in installments payable on each Payment Date in accordance with the repayment schedule set forth on Schedule 2.01(e), with any remaining principal, interest, fees and costs due in respect of such LC Loans due and payable on the Maturity Date. All LC Loans shall mature on the Maturity Date.

In the event that any LC Loan described in Section 3.03(b) cannot for any reason be made on the date otherwise required above (including as a result of the occurrence of an Event of Bankruptcy with respect to the Borrower or any Project Company), then each Lender shall forthwith purchase (as of the date such LC Loan would otherwise have been made) from the applicable LC Issuer a participation in the unreimbursed portion of the Drawing in an amount equal to the product of such Lender's Percentage of the Aggregate LC Commitment multiplied by the amount of the unreimbursed portion of such Drawing. Each Lender's obligation to make each such payment to the applicable LC Issuer shall be absolute, unconditional and irrevocable and shall not be affected by any circumstance whatsoever, including the occurrence or continuance of any Borrower Default, Borrower Event of Default, Project Default or Project Event of Default, or the failure of any other Lender to make any payment under this 3.03(c), and each Lender further agrees that each such payment shall be made without any offset, abatement, withholding, or reduction whatsoever.

Obligations Absolute. (a) The payment obligations of the Borrower under this Agreement in respect of any payment under each Letter of Credit and any LC Loans made under Section 3.03(b),

---

and the right of the LC Issuers to receive the same, shall be unconditional and irrevocable, and shall be paid strictly in accordance with the terms of this Agreement under all circumstances, including the following circumstances:

any lack of validity or enforceability of any Transaction Document, or any other agreement or instrument relating thereto, or any allegation of invalidity or unenforceability or any contest to the validity or enforceability thereof;

any amendment or waiver of, or any consent to departure from, any of the Transaction Documents;

the existence of any claim, set-off, defense or other right which the Borrower may have at any time against BECO, or any other beneficiary, or any transferee, of any Letter of Credit (or any Persons or entities for whom any such beneficiary or any such transferee may be acting), either LC Issuer, any advising bank with respect to any Letter of Credit or any other Person or entity, whether in connection with this Agreement or the transactions contemplated herein, as the case may be, any of the Transaction Documents or any unrelated transaction;

any statement or any other document presented under any Letter of Credit proving to be forged, fraudulent or invalid in any respect or any statement therein being untrue or inaccurate in any respect;

payment by either LC Issuer under any Letter of Credit against presentation of a draft or certificate which does not comply with the terms of such Letter of Credit;

the compromise, settlement, release, modification, amendment (whether material or otherwise) or termination of any or all of the obligations, conditions, covenants or agreements of any Person in respect of any of the Transaction Documents;

the occurrence, or the failure by any Person to give notice to the Borrower of the occurrence, of any Borrower Default, Borrower Event of Default, Project Default or Project Event of Default or any default under any of the Transaction Documents;

the assignment or pledging or the purported assignment or pledging of all or any part of the interest of the Borrower of any Collateral or any failure of title with respect to the interest in the Project in any Collateral;

the waiver of the payment, performance or observance of any of the obligations, conditions, covenants or agreements of any Person contained in any of the Transaction Documents;

the extension of the time for payment of the principal of or interest on any of the Advances or any of the other obligations or of the time for performance of any other obligations, covenants or agreements of any Person under or arising out of any of the Transaction Documents;

the taking or the omission of any of the actions referred to in any of the Transaction Documents;

the exchange, surrender, substitution or modification of any security for any of the obligations under the Transaction Documents;

any failure, omission or delay on the part of any Lender, the Borrower, or any other Person to enforce, assert or exercise any right, power or remedy conferred by this Agreement or any other Transaction Document, or any other act or acts on the part of any Lender, the Borrower or any other Person;

the voluntary or involuntary liquidation, dissolution, sale or other disposition of all or substantially all the assets of, the marshalling of assets and liabilities, receivership, insolvency, bankruptcy, assignment for the benefit of creditors, reorganization, arrangement, composition with creditors or readjustment of, or other similar proceedings that affect, the Borrower, any Project Company or any other party to any of the Transaction Documents;

the release or discharge by operation of law of the Borrower from the performance or observance of any obligation, covenant or agreement contained in any of the Transaction Documents; and

any other circumstance or happening whatsoever, whether or not similar to any of the foregoing.

Without limiting the effect of subsection (a), above, or any provision hereof, the Borrower agrees with the LC Issuers that:

each LC Issuer is authorized to make payments under each Letter of Credit issued thereby upon the presentation of the documents provided for therein and, subject to Section 3.04(a)(v), conforming to the requirements thereof, without regard to whether (1) the Borrower has failed to fulfill any of its obligations with respect to any Transaction Document or (2) any Borrower Default, Borrower Event of Default or other default has occurred thereunder or hereunder;

each LC Issuer shall be entitled to rely upon any certificate, notice, demand or other communication (whether by cable, telegram, telex or other written communication) including any thereof from or purporting to be from any beneficiary of any Letter of Credit, believed by it in good faith to be genuine and to have been signed or sent by the proper Person or Persons (and no such reliance or failure shall place either LC Issuer under any liability to the Borrower or any Lender or limit or otherwise affect the Borrower or any Lender's obligations under this Agreement); and

any action, inaction or omission on the part of either LC Issuer under or in connection with any Letter of Credit issued thereby or the related instruments or documents, if taken in good faith and in conformity with such laws, regulations or customs as each such LC Issuer may reasonably deem to be applicable, shall be binding upon the Borrower and each Lender (and shall not place either LC Issuer under any liability to the Borrower or any Lender or limit or otherwise affect the Borrower's or any Lender's obligations under this Agreement).

None of the foregoing provisions of this Section 3.04 and Section 3.05 shall be deemed a waiver of, and the Borrower expressly reserves the right to bring suit against either LC Issuer for, damages arising out of such LC Issuer's gross negligence or willful misconduct as determined by a court of competent jurisdiction.

Liability of LC Issuers and the Lenders. The Borrower assumes all risks of the acts or omissions of any beneficiary or transferee of any of the Letters of Credit. None of the LC Issuers, the Lenders, the Administrative Agent nor any of their respective officers or directors shall be liable or responsible for (a) the use which may be made of any of the Letters of Credit or any acts or omissions of any beneficiary or transferee thereof in connection therewith; (b) the validity, sufficiency or genuineness of documents, or of any endorsement thereon, even if such documents should prove to be in any or all respects invalid, insufficient, fraudulent or forged or any statement therein proves to be untrue or inaccurate in any respect whatsoever; (c) payment by either LC Issuer against presentation of documents which do not comply with the terms of any of the Letters of Credit issued thereby, including failure of any documents to bear any reference or adequate reference to such Letter of Credit; or (d) any other circumstances whatsoever in making or failing to make payment under any of the Letters of Credit, except that the Borrower and any Lender shall have a claim against a LC Issuer, and such LC Issuer shall be liable to the Borrower and any Lender, to the extent, and only to the extent, of any direct, as opposed to consequential, damages suffered by the Borrower or such Lender as a result of such LC Issuer's willful misconduct or gross negligence as determined by a court of competent jurisdiction (*provided*, that such LC Issuer's willful failure to pay under any of the Letters of Credit issued thereby shall not constitute gross negligence or willful misconduct if such LC Issuer reasonably and in good faith believed itself to be prohibited by law or legal authority from making such payment). In furtherance and not in limitation of the foregoing, each LC Issuer may accept sight drafts and accompanying certificates presented under any of the Letters of Credit issued thereby that appear on

their face to be in order, without responsibility for further investigation, regardless of any notice or information to the contrary.

Extension of the Stated Expiration Date. Thirty (30) days prior to the Stated Expiration Date of any Standby Letter of Credit, such Stated Expiration Date shall be extended for a period of one year from such Stated Expiration Date and shall thereafter be automatically extended in the same manner for additional one-year periods until the Maturity Date. Each Standby Letter of Credit shall terminate upon the earliest to occur of (a) the Stated Expiration Date, as such date may have been extended pursuant to the foregoing sentence, (b) a drawing or drawings under a Standby Letter of Credit by the beneficiary thereof equal to, in the aggregate, the then applicable maximum Stated Amount thereof, which Stated Amount, or any portion thereof, has not been reinstated in accordance with the provisions of Section 3.02(a), and (c) the delivery of a notice of termination of such Standby Letter of Credit to each of the Borrower and the beneficiary of such Standby Letter of Credit by the applicable LC Issuer. Following receipt by each of the Borrower and the beneficiary of the notice described in clause (c) of the preceding sentence, such Standby Letter of Credit shall be terminated on the date specified in such notice.

PAYMENTS

Payments and Computations.

The Borrower shall make, or shall direct the Depositary to make, each payment required to be made by the Borrower hereunder and under the other Loan Documents without setoff, deduction or counterclaim not later than 12:00 noon (New York City time) on the day when due in Dollars to the Administrative Agent in immediately available funds. Funds received by the Administrative Agent after such time shall be deemed to have been received on the next Business Day.

All computations of interest based on the Base Rate and of Fees payable pursuant to Section 4.09 shall be made by the Administrative Agent on the basis of a year of 365 or 366 days, as the case may be. All other computations of interest and Fees hereunder (including computations of interest based on the LIBOR Rate) shall be made by the Administrative Agent on the basis of a year of 360 days. In each such case, such computation shall be made for the actual number of days (including the first day but excluding the last day) occurring in the period for which such interest or Fees are payable. Each such determination by the Administrative Agent shall be conclusive and binding for all purposes, absent manifest error.

Whenever any payment hereunder or under any other Loan Document shall be stated to be due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day, and such extension of time shall in such case be included in the computation of payment of interest and Fees hereunder; *provided, however*, that if such extension would cause payment of interest on or principal of LIBOR Rate Advances to be made in the next following calendar month, such payment shall be made on the next preceding Business Day and such reduction of time shall in such case be included in the computation of payment of interest hereunder.

Prepayments.

Optional Prepayments. The Borrower may, at any time upon at least one (1) Business Days' notice to the Administrative Agent stating the proposed date and aggregate principal amount of the prepayment, and if such notice is given the Borrower shall, prepay the outstanding principal amount of Advances comprising part of the same Borrowing, in whole or ratably in part, together with (A) accrued interest to the date of such prepayment on the principal amount prepaid and (B) the amounts, if any, payable to each Swap Bank as a result of such prepayment pursuant to any Swap Agreement; *provided, however*, that (1) each partial prepayment shall be in an aggregate principal amount, in the case of LIBOR Rate Advances, not less than $1,000,000 or whole number multiple

thereof and, in the case of Base Rate Advances, not less than $100,000 or whole number multiple thereof, (2) no partial payment of LIBOR Rate Advances shall be permitted unless the remaining principal amount of such Advances having the same Interest Period shall aggregate at least $10,000,000 or shall have been concurrently Converted in accordance with Sections 2.03(b) and (c) and (3) no such prepayment of Advances other than Base Rate Advances shall be permitted unless the corresponding amounts, if any, payable pursuant to Section 4.07 are paid contemporaneously with such prepayment.

Mandatory Prepayment.

Concurrently with receipt by the Borrower from any Project Company of amounts constituting a mandatory payment under Section 3.02(a) of the Project Company Guarantee, the same shall be forthwith applied as prepayments in accordance with clause (iii), below.

If required pursuant to Section 4.09 of the Depositary Agreement to apply all or a portion of amounts on deposit in the Distribution Account, such amounts shall be forthwith applied as prepayments in accordance with clause (iii) below.

The proceeds of each prepayment required to be made pursuant to clauses (i) and (ii) above, shall be applied to prepay Advances in an aggregate principal amount which, when added to any Swap Claims due in connection with such prepayment, would equal the amount of such proceeds. Swap Claims, if any, shall be payable on each such date of prepayment.

All prepayments of Advances shall be prepaid in inverse order of maturity of such Advances, *provided*, however, that any Performance Liquidated Damages (as defined in the EPC Agreements) applied in accordance with Section 4.02(b)(i) shall be applied to reduce outstanding Advances pro rata in accordance with *Schedule 2.01(e)* attached hereto. The Administrative Agent shall give prompt notice to each Lender of the amount of each prepayment made by the Borrower under this Section 4.02.

Increased Cost and Reduced Return; Additional Interest; Capital Adequacy.

Increased Cost and Reduced Return. If the adoption of any Requirement of Law or any change therein, or any change in the interpretation or administration thereof by any Governmental Authority charged with the interpretation or administration thereof, or compliance by any Lender (or its Lending Office) with any request or directive applicable to such Lender (whether or not having the force of law) of any such Governmental Authority:

shall subject any Lender (or its Lending Office) to any tax, duty or other charge with respect to its LIBOR Rate Advances, Notes, Commitments or its obligation to make LIBOR Rate Advances, or shall cause the withdrawal or termination of any previously granted exemption with respect to any taxes or shall change the basis of taxation of, or increase the taxes on, payments to any Lender (or its Lending Office) of the principal of or interest on its LIBOR Rate Advances or any other amounts due under this Agreement in respect of its LIBOR Rate Advances or its obligation to make LIBOR Rate Advances (except for any net income taxes imposed on the overall net income of any Lender or its Lending Office by a Governmental Authority in a jurisdiction with which such Lender has a present or former connection unrelated to the transactions contemplated by the Transaction Documents) or imposes taxes or reserves in respect of the unutilized portion of any Lender's Commitment, which in each case occurred as a result of the execution and delivery of this Agreement by such Lender; or

shall impose, modify or deem applicable any reserve, liquidity, cash margin, special deposit, deposit insurance or assessment or other regulatory or similar requirement (including, without limitation, any such requirement imposed by the Board of Governors, but excluding, with respect to any LIBOR Rate Advance, any such requirement included in an applicable LIBOR Reserve Percentage) against assets of, deposits with or for the account of, or credit extended by, any Lender (or its Lending Office) or shall impose on any Lender (or its Lending Office) or on the London interbank market any other condition affecting its LIBOR Rate Advances, Notes, Commitments or its obligation to make LIBOR Rate

Advances, which in each case would not have occurred but for execution and delivery of this Agreement by such Lender;

and the result of any of the foregoing is to increase the cost to any Lender (or its Lending Office) of making or maintaining any LIBOR Rate Advance or to reduce the amount of any sum received or receivable by any Lender (or its Lending Office) under this Agreement or under its Notes, with respect thereto or to cause that Lender to make any payment or forego any interest, fees or other return on, or calculated by reference to any sum received or receivable by that Lender under this Agreement or Note, as the case may be, by an amount deemed by any Lender, acting reasonably, to be material, such Lender shall promptly notify the

Borrower and the Administrative Agent of such event and promptly deliver to the Borrower and the Administrative Agent a certificate setting forth in reasonable detail the amount of that increased cost actually imposed or assessed or that reduction, payment or foregone interest, fees or other return and the basis for the determination of that amount. The determinations of that Lender in such certificate shall be conclusive and binding for all purposes, absent manifest error. Within ten (10) days after demand by that Lender (with a copy to the Borrower and the Administrative Agent), the Borrower shall pay to that Lender the amount shown as due on any such certificate.

Additional Interest. In the event that any Lender shall determine (which determination shall be conclusive and binding for all purposes, absent manifest error) at any time that it is required to maintain reserves in respect of LIBOR Rate Advances during any period during which the principal amount of any LIBOR Rate Advance is outstanding (each such period, for such Lender, a "*LIBOR Reserve Period*"), but only in respect of any period during which any reserve shall actually be maintained by such Lender for its LIBOR Rate Advances as a result of a reserve requirement applicable to it pursuant to regulations of the Board of Governors of the Federal Reserve System in connection with LIBOR Rate Advances, then such Lender shall promptly give notice to the Borrower and the Administrative Agent of such determination, and the Borrower shall directly pay to such Lender additional interest on the unpaid principal amount of such LIBOR Rate Advance during such LIBOR Reserve Period at a rate per annum which shall, during each monthly period applicable to such LIBOR Rate Advance, be the amount by which (x) the LIBOR Rate for such monthly period divided (and rounded upward, if necessary, to the next whole multiple of $^{1}/_{100}$ of 1%) by a percentage equal to 100% minus the then stated maximum rate of all reserve requirements (including, without limitation, any marginal, emergency, supplemental, special or other reserves) applicable to such Lender in respect of LIBOR Rate Advances exceed (y) the LIBOR Rate for such monthly period. Any Lender so requesting compensation shall furnish along with such notice a certificate setting forth in reasonable detail the cost actually incurred (or, if such calculation is impractical, reasonable estimate of such cost) to maintain such reserves and the basis for the determination of that compensation. The determinations of the Lender in such certificate shall be binding and conclusive for all purposes, absent manifest error. Additional interest payable pursuant to the immediately preceding sentence shall be paid by the Borrower at the time that it is otherwise required to pay interest in respect of such LIBOR Rate Advance or, if later demanded by any Lender, within ten (10) days after such demand. Each Lender agrees that, if it gives notice to the Borrower and the Administrative Agent of the existence of a LIBOR Reserve Period, it shall promptly notify the Borrower and the Administrative Agent of any termination thereof, at which time the Borrower shall cease to be obligated to pay additional interest to such Lender pursuant to the first sentence of this paragraph until such time, if any, as a subsequent LIBOR Reserve Period shall occur.

Capital Adequacy. If (i) the adoption after the date hereof of any generally applicable Law regarding capital adequacy (including, without limitation, a requirement which affects a Lender's (or any Person controlling such Lender) allocation of capital resources to its obligation in respect of that Lender's obligations hereunder), (ii) any change after the date hereof in any such existing law or in the interpretation or administration thereof by any applicable Governmental Authority charged with the interpretation or administration thereof or (iii) compliance by any Lender (or any Person controlling

such Lender) with any generally applicable request or directive regarding capital adequacy (whether or not having the force of law) of any such Governmental Authority has or would have the effect of reducing the rate of return on any Lender's (or any Person controlling such Lender) capital as a consequence of any Advance to a level below that which such Lender (or any Person controlling such Lender) could have achieved but for such adoption, change or compliance by an amount deemed by such Lender (or any Person controlling such Lender), acting reasonably, to be material, then within ten (10) days after delivery by such Lender to the Borrower and the Administrative Agent of a certificate setting forth in reasonable detail the amount of such reduced return and the basis for the determination of such amount (which certificate shall be binding and conclusive for all purposes, absent manifest error), the Borrower shall pay to such Lender such additional amount or amounts as will compensate such Lender (or any Person controlling such Lender) for that amount of reduced return.

Claims. Each Lender will promptly notify the Borrower and the Administrative Agent of any event of which it has knowledge, occurring after the date hereof, which will entitle any Lender to compensation pursuant to this Section 4.03 and will designate a different Lending Office if such designation will avoid the need for, or reduce the amount of, such compensation and will not, in the sole judgment of such Lender, be otherwise disadvantageous to such Lender; *provided, however,* that the Borrower shall not be obligated to compensate any Lender pursuant to this Section 4.03 for any costs incurred by such Lender more than 90 days before the date such Lender notifies the Borrower of such event.

Illegality. If any Requirement of Law, or any change therein, or any change in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Lender (or its Lending Office) with any request, directive or assertion, applicable to such Lender (whether or not having the force of law) of any such Governmental Authority, central bank or comparable agency shall make it unlawful or impossible for any Lender (or its Lending Office) to make, maintain or fund LIBOR Rate Advances and such Lender shall so notify the Administrative Agent, the Administrative Agent shall forthwith give notice thereof to the other Lenders and the Borrower whereupon until such Lender notifies the Borrower and the Administrative Agent that the circumstances giving rise to such suspension no longer exist, the obligation of such Lender to make LIBOR Rate Advances, or to convert outstanding Advances into LIBOR Rate Advances, shall be suspended; *provided*, that such Lender will designate a different Lending Office if such designation will permit the making of LIBOR Rate Advances and will not, in the sole judgment of such Lender, be otherwise disadvantageous to such Lender. In the event that the making of LIBOR Rate Advances is suspended, as a result of the circumstances described in this Section 4.04, the affected Lender agrees to accept, in lieu thereof, the conversion of the interest rate on such LIBOR Rate Advance to the Base Rate.

Basis for Determining Interest Rate Inadequate or Unfair. If on or prior to the first day of the Interest Period for any LIBOR Rate Advance:

the Administrative Agent determines, in its reasonable judgment, that deposits in Dollars (in the applicable amounts) are not being offered for any reason to the Administrative Agent in the London Interbank market for such Interest Period, or

any Lender, in its reasonable judgment, shall advise the Administrative Agent that the LIBOR Rate as determined by the Administrative Agent will not adequately and fairly reflect the cost to such Lender of making, funding or maintaining its LIBOR Rate Advance for such Interest Period,

the Administrative Agent shall forthwith give notice thereof (which notice shall describe in reasonable detail the basis for such determination) to the Borrower and each Lender, whereupon until the Administrative Agent notifies the Borrower and the Lenders that the circumstances giving rise to such suspension no longer exist, (i) the obligations of the Lenders to make LIBOR Rate Advances, or to convert outstanding Advances into LIBOR Rate Advances, shall be suspended and (ii) each outstanding LIBOR Rate Advance shall be converted into a Base Rate Advance on the last day of the Interest Period applicable thereto; *provided*, that any Lender making a claim pursuant to clause (b) above will designate a different Lending Office if such designation will permit the making of LIBOR Rate Advances and will not, in the sole judgment of such Lender, be otherwise disadvantageous to such Lender.

Assignment. If the Borrower so requests from and after notice to the Borrower of any compensation due to any Lender under Section 4.03 or 4.10 or the suspension of any Lender from the making of LIBOR Rate Advances under Section 4.04 or 4.05, the Administrative Agent shall arrange an assignment of such Lender's proportionate share of the Total Commitments to an assignee selected by the Borrower (and reasonably acceptable to the Administrative Agent) subject to the provisions below, and such assigning Lender hereby consents to any such assignment. Any assignment or transfer made by a Lender pursuant to this Section 4.06 shall satisfy the following conditions: (i) the Borrower shall promptly pay when due all reasonable fees and expenses of such Lender incurred or to be incurred in connection with such transfer or assignment and (ii) any assignment of all or part of the Total Commitments shall be made without recourse, representation or warranty (other than the representation or warranty that the assignor is the legal and beneficial owner of the interest being assigned, free and clear of any adverse claim), and the Assignee shall pay to the Administrative Agent for the account of the assigning Lender in immediately available funds all amounts outstanding or payable under this Agreement and any other Loan Document to each Lender assigning its interest in the Total Commitments; *provided, however,* that assignment documentation in form and substance as set forth in *Exhibit 10.07(a)* hereto shall be deemed acceptable.

Breakage Costs. If the Borrower for any reason, including without limitation any prepayment pursuant to Section 4.02 or an acceleration of maturity of the Advances pursuant to Section 8.01, makes any payment of principal with respect to any LIBOR Rate Advance on any day other than the last day of an Interest Period applicable thereto, fails to borrow, prepay or convert any LIBOR Rate Advance after notice has been given to the Lenders in accordance with the terms hereof, or fails to make a payment or a prepayment in the manner and at the time specified in this Agreement, the Borrower shall promptly reimburse any Lender upon demand for any resulting loss, cost or expense incurred by it, including, without limitation, any loss, cost or expense actually incurred in obtaining, liquidating or employing deposits from third parties. Without limiting the foregoing, the Borrower shall indemnify each Lender against any direct loss, cost or expense that any Lender may sustain or incur as a consequence of any event described in the preceding sentence, including, but not limited to, any interest, premium or penalty paid by any Lender to lenders of funds borrowed by it or deposited with it for the purpose of making or maintaining such LIBOR Rate Advance. A certificate as to the amount of any such loss, cost or expense in reasonable detail (specifying the basis of such loss or expense) shall be promptly submitted by such Lender to the Borrower (with copies to the Administrative Agent) and shall be binding and conclusive for all purposes, absent manifest error.

Sharing of Payments, etc. If any Lender shall obtain any payment (whether voluntary, involuntary, through the exercise of any right of set-off, or otherwise) on account of the Advances owing to it in excess of its ratable share of payments on account of the Advances obtained by all the Lenders, such Lender shall transfer such portions of such excess amount to the Administrative Agent for the account of the other Lenders as shall be necessary to cause all Lenders to share ratably in such excess amount. As used herein, the terms ratable and nonratable shall be determined by reference to the respective Percentages of the Lenders.

Fees.

The Borrower agrees to pay to the Administrative Agent for the account of each Lender a commitment fee on the average daily unused amount of such Lender's Project Commitment, Working Capital Commitment and LC Commitment from the Closing Date, in the case of each Lender initially a party hereto, and from the effective date specified in the Lender Assignment pursuant to which it became a Lender, in the case of each assignee of such Lender which becomes a Lender in accordance with the terms of this Agreement, until the Maturity Date or until such time as the commitment is cancelled at the rate of 0.375% per annum, payable quarterly in arrears on each Payment Date, commencing on the first such date to occur following the Closing.

The Borrower further agrees to pay to the Administrative Agent for the account of the LC Issuers a letter of credit fee on the aggregate Stated Amount of all outstanding Letters of Credit (as reduced by drawings thereunder and scheduled reductions in the amount thereof) from the date of issuance of each Letter of Credit, until the Expiration Dates thereof at the rate equal to the then Applicable Margin for LIBOR Rate Advances payable quarterly in arrears on each Payment Date, commencing on the first such date to occur following the initial issuance of any Letter of Credit, with final payment on the final Expiration Date of any Letter of Credit.

The Borrower further agrees to pay (i) the Lead Arrangers, an arrangement fee, (ii) the Administrative Agent, an annual administration fee and (iii) each LC Issuer, a fronting fee, in the amounts and at the times specified in the Fee Letter.

The Borrower further agrees to pay for the account of each LC Issuer, such additional nominal administrative fees and charges (including cable charges) as are generally associated with letters of credit, in accordance with such LC Issuer's standard internal charge guidelines.

Taxes.

Any and all payments to any Lender, each LC Issuer, the Administrative Agent or the Collateral Agent (each such Lender, LC Issuer, Administrative Agent or Collateral Agent, a "*Payee*") by or on behalf of the Borrower hereunder or under any other Transaction Document shall be made free and clear of and without reduction or withholding for any and all present or future taxes, duties, levies, imposts, deductions, charges or withholdings, and any and all interest, penalties, and other liabilities imposed with respect thereto, imposed by or on behalf of any Governmental Authority, excluding (x) any net income taxes (or franchise or similar taxes imposed in lieu of net income taxes) imposed on a Payee's overall net income, or (y) other taxes imposed by a jurisdiction on such Payee to the extent such taxes would not have been imposed but for a present or former connection between such Payee and such jurisdiction unrelated to the transactions contemplated by the Transaction Documents (all such taxes, duties, levies, imposts, deductions, charges, fees, withholdings, interest, penalties and other liabilities, collectively or individually, howsoever imposed and not excluded under clause (x) or (y) above being hereinafter referred to as "*Covered Taxes*"). If the Borrower shall be required by law to withhold or deduct any Covered Taxes from or in respect of any sum payable hereunder or under any other Transaction Document to any Payee, (i) the sum payable shall be increased by an amount as may be necessary so that after making all required withholdings (including withholdings applicable to additional sums payable under this Section 4.10), such Payee receives an amount equal to the sum it would have received had no such reduction or withholding been made, (ii) the Borrower shall make such reduction or withholding and (iii) the Borrower shall pay the full amount withheld to the relevant Governmental Authority or other authority in accordance with Requirement of Law. In addition, the Borrower agrees to pay to the relevant Governmental Authority or other authority in accordance with Requirement of Law any present or future stamp, recording or documentary taxes, or any other excise or property taxes, charges or similar levies that arise under the laws of any jurisdiction from any payment made hereunder or under any other Transaction Document or from the execution, delivery, registration, performance or otherwise with respect to this Agreement or any other Transaction Document. Each Lender that is not a United States person (within the meaning of Section 7701(a)(30) of the Code) (a "*Foreign Lender*") shall make reasonable effort to notify the Borrower of any such taxes referred to in the preceding sentence that are imposed in the jurisdiction in which such Foreign Lender is organized and, if its lending office (relating to transactions contemplated by the Transaction Documents) is located outside the United States, in the jurisdiction in which such lending office is located, to the extent such Foreign Lender is aware of such taxes.

The Borrower shall indemnify each relevant Payee, on an after-tax basis, for the full amount of Covered Taxes paid by such Payee or any liability arising therefrom or with respect thereto (including, without limitation, reasonable attorneys' fees and expenses and other fees and expenses), whether or not such Covered Taxes were correctly or legally asserted by the relevant Governmental Authority. Each Payee shall give notice to the relevant Borrower of the assertion of any claim against such Payee relating to such Payee's Covered Taxes as promptly as is practicable after being notified of such assertion; *provided*, that any failure to notify the Borrower promptly of such assertion shall not relieve the Borrower of its obligation under this Section 4.10, *provided*, *however*, that the Borrower shall not be obligated to make an indemnity payment to a Payee in respect of penalties, interest and other similar liabilities attributable to any Covered Taxes (but shall not be relieved of the obligation to make an indemnity payment for the relevant Covered Taxes) if (i) written demand therefor has not been made by such Payee within ninety (90) days from the date on which such Payee received written notice of the imposition of Covered Taxes by the relevant taxing or Governmental Authority (except in the case where the ultimate amount of the Covered Taxes could not be determined within such 90-day period), but only to the extent such penalties, interest and other similar liabilities are attributable to such failure or delay by the Payee in making such written demand or (ii) such penalties, interest and other liabilities are solely attributable to the gross negligence or willful misconduct of the Payee or its Affiliates as determined by a court of competent jurisdiction. Payments by the Borrower pursuant to this indemnification shall be made within twenty (20) days after the date the Payee makes written demand therefor (submitted through the Administrative Agent), which demand shall be accompanied by a certificate describing in reasonable detail the basis thereof. A certificate as to the amount of such payment or liability prepared by such Payee, absent manifest error, shall be final, conclusive and binding for all purposes.

As soon as practicable after the date of any payment of Covered Taxes by the Borrower to the relevant Governmental Authority, the Borrower shall furnish to the Administrative Agent, who will then forward it to each affected Payee, the original or a certified copy of a receipt or other certificate issued by such Governmental Authority (or, if such copy or certificate is not available, any other evidence of payment reasonably satisfactory to the Agent and such affected Payee or Payees) evidencing payment thereof and identifying the Covered Taxes paid. The Borrower shall compensate each Payee for all reasonable losses and expenses sustained by such Payee as a result of any failure by the Borrower to so furnish such original or copy of such receipt or certificate.

Each Payee shall, (i) on the date such Payee becomes a party to this Agreement and (ii) before expiration of a previously delivered form, certification or document, from time to time within 30 days after the reasonable written request of the relevant Borrower, provide to the Borrower two (2) copies, appropriately completed, of any form, document or other certification necessary for such Payee to be exempt from, or entitled to a reduced rate of, Covered Taxes on payments pursuant to this Agreement or any other Transaction Document (including, in the case of each Foreign Lender, an IRS Form W-8BEN or W-8ECI, as applicable, plus, in the case of a Foreign Lender claiming a portfolio interest exemption, a certificate as to its non-bank status (in the form attached hereto as *Exhibit 4.10(d)*)) and such additional statements and forms as may be reasonably requested by the Borrower from time to time; *provided*, *however*, that no Payee shall have any obligation to provide any form, document or other certification if (i) the Payee is not entitled under Requirement of Law to provide such form, document or other certification or (ii) the provision of such form, document or other certification would prejudice the interests of such Payee or its Affiliates (as reasonably determined by such Payee in its reasonable judgment).

Notwithstanding anything to the contrary in this Section 4.10 or any other provision of this Agreement, the Borrower shall not be required to pay any Covered Taxes to or on behalf of any Payee to the extent that such Payee shall fail to comply with the requirements of Section 4.10(d) and, as a result of such failure, the Borrower is required by law to withhold Covered Taxes from any payment to be made to or for the benefit of such Payee.

If a Payee receives a refund of any Covered Tax from the jurisdiction imposing such tax, for which Covered Tax a payment has been made by the Borrower pursuant to this Section 4.10 which refund in the reasonable judgment of such Payee is allocable to such payment by the Borrower made under this Section 4.10, the amount of such refund, net of all out-of-pocket or other expenses (including any taxes on a refund or on interest received or credited) such Payee reasonably determines to have been incurred in connection with obtaining such refund, shall be paid over to the Borrower; *provided*, *however*, that the Borrower, upon the request of such Payee, agrees to repay the amount paid over to the Borrower (plus penalties, interest and other charges) to such Payee in the event such Payee is required to repay such refund with respect to which a payment was made by such Payee to the Borrower. Notwithstanding anything to the contrary in this Section 4.10, such Payee shall have no obligation to cooperate with respect to any contest (or continue to cooperate with respect to any contest), or seek or claim any refund, if such Payee reasonably determines that its interests would be adversely affected by so cooperating (or continuing to cooperate) or by seeking or claiming any such refund.

If the Borrower is required to pay additional amounts to or for the account of any Payee pursuant to this Section 4.10, then such Payee shall, at the request of the Borrower, change the jurisdiction of its applicable lending office if such change (i) will eliminate or reduce any such Covered Taxes which may thereafter accrue, and (ii) in such Payee's sole discretion, is determined not to be otherwise disadvantageous to such Payee, *provided*, that the fees, charges, costs and expenses that are related to such change shall be borne by the Borrower (and the mere existence of such expenses, fees or costs shall not be deemed to be disadvantageous to the Payee). Further, each Lender will consider in good faith any reasonable requests by the Borrower to take actions to reduce or eliminate any Covered Taxes that are indemnifiable hereunder, but no Lender shall be obligated to take any such action that it determines in its sole discretion to cause it to bear unindemnified risk or exposure or that is contrary to the commercial interest of such Lender.

Nothing contained in this Section 4.10 shall require any Payee to make available any of its tax or information returns (or any other information that it deems to be confidential or proprietary).

The obligations of the Borrower under this Section 4.10 shall survive the termination of this Agreement and the repayment of the Obligations and all amounts due under or in connection with this Agreement or any other Transaction Document.

CONDITIONS PRECEDENT

Conditions Precedent to the Closing Date. The Closing Date is subject to the satisfaction (or waiver by the Lenders) of each of the conditions listed below. The satisfaction of the conditions set forth in this Section 5.01, including any documents required to be delivered hereunder, must be in form and substance satisfactory to the Lead Arrangers, the Administrative Agent and the LC Issuers. The Administrative Agent and, in the case of the Notes, each Lender shall have received, on or before the Closing Date, the following, each dated such day (except where specified otherwise below), in form and substance satisfactory to the Lead Arrangers:

The Notes, to the order of the Lenders, respectively, duly executed by the Borrower.

Copies, certified by a Representative of the Borrower, Sithe, Sithe New England or the relevant Project Company, as the case may be, of each Loan Document, duly executed by each of the parties thereto.

Copies, certified by a Representative of the Borrower of each Material Project Document (together with all amendments, supplements, change orders, exhibits, annexes and schedules thereto) (other than the Mystic Development Interconnection Agreement and the Related Facilities Agreement), each of which (i) shall be in form and substance reasonably satisfactory to the Lead Arrangers, (ii) shall have been duly authorized, executed and delivered by each Material Project Participant party thereto and (iii) is in full force and effect and no default or event of default thereunder shall have occurred and be continuing.

Favorable opinions of counsel (set forth on *Exhibit 5.01(d)*) to the Borrower, the Project Companies, Sithe, Sithe New England and the Material Project Participants (other than Exxon Company, U.S.A. and Boston Gas Company) as to such matters as the Lead Arrangers shall reasonably request.

Copies, certified by a Representative of the Borrower, of (i) the resolutions of the Management Committee of the Borrower approving or authorizing the execution, delivery and performance of this Agreement, the other Transaction Documents, and all other documents to be delivered hereunder and thereunder to which the Borrower is a party, (ii) the Borrower's Certificate of Formation and the LLC Agreement, and all amendments thereto as in effect on such date, and (iii) all documents evidencing other necessary corporate action, if any, with respect to the execution, delivery and performance by the Borrower of this Agreement and the other Transaction Documents.

Copies, certified by a Representative of Sithe, of (i) the resolutions of the Board of Directors of Sithe approving or authorizing the execution, delivery and performance of the Sithe Equity Guarantee and the Sithe Undertaking, (ii) Sithe's Certificate of Incorporation and bylaws, and all amendments thereto as in effect on such date, and (iii) all documents evidencing other necessary corporate action, if any, with respect to the execution, delivery and performance by Sithe of the Sithe Equity Guarantee and the Sithe Undertaking.

Copies, certified by a Representative of Sithe New England, of (i) the resolutions of the Management Committee of Sithe New England approving or authorizing the execution, delivery and performance of the Equity Contribution Agreement and the Distrigas Guaranty, (ii) Sithe New England's Certificate of Formation and the LLC Agreement, and all amendments thereto as in effect on such date, and (iii) all documents evidencing other necessary corporate action, if any, with respect to the execution, delivery and performance by Sithe New England of the Equity Contribution Agreement and the Distrigas Guaranty.

(i) With respect to Sithe and Sithe New England, audited annual financial statements for 1999 and quarterly financial statements for the third quarter of 2000, (ii) with respect to each Project Company and the Borrower, a pro forma balance sheet of the Borrower as of the Closing Date (consolidating the pro forma balance sheets for each of the Project Companies), and (iii) with respect to each of Algonquin, Distrigas, WGI, MHI, Raytheon, Cabot LNG and NSTAR (if its audited annual financial statements are publicly available) the most recent audited annual financial statement for such Person. In the case of each of clauses (i), (ii) and (iii), the financial statements shall be provided together with a certificate of an Authorized Officer of each such Person in the form of *Exhibit 5.01(h)* hereto. The audited financial statements provided by Sithe and its Affiliates shall have been audited by the Auditor or another nationally recognized accounting firm satisfactory to the Lead Arrangers. The financial condition and creditworthiness of each such Person shall be satisfactory to the Lead Arrangers.

Copies, certified by the relevant Secretary of State or similar authority, of the Certificate of Formation of the Borrower, Sithe, Sithe New England, each Project Company, Sithe Boston Power Services, Sithe New England Power Services and Sithe Power Marketing.

Copies of certificates of public officials as to the good standing, qualification to do business and tax status of (i) the Borrower (in Delaware and Massachusetts), (ii) Sithe (in Delaware), (iii) Sithe New England (in Delaware and Massachusetts), (iv) each Project Company (in Delaware and Massachusetts) and (v) each Material Project Participant (in its jurisdiction of organization and Massachusetts); but with respect to any of the Material Project Participants (other than any Sithe Affiliate), its failure to be in good standing, to be qualified to do business or to have paid all taxes, shall not impair the satisfaction of this condition precedent.

Incumbency certificates from a certificate of a Representative of each of the Borrower, Sithe, Sithe New England and each Project Company.

The absence of any Material Adverse Effect or Project Material Adverse Effect (other than as disclosed to and waived by the Lenders) since December 7, 2000 together with a certificate from a Representative of the Borrower dated the Closing Date to that effect.

A report of the Independent Engineer with respect to each of the Projects, as to the following matters:

Government Approvals;

technical feasibility of the Projects, including their capability to conform with all air permit limits;

reasonableness of construction costs, construction schedules, major maintenance budgets and payment schedules;

appropriateness of the Contractors' performance tests and completion undertakings;

appropriateness of the Project Budgets for the Mystic 8&9 Project and the Fore River Project;

compliance by the Projects with Environmental Laws, including the status of Governmental Approvals required under Environmental Laws; and

any Environmental Discharge discovered through reasonable investigation relating to any Project;

the reasonableness of the technical and operating and maintenance assumptions in the Closing Base Case;

A report regarding the Projects from the Power Market Consultant;

A report regarding the fuel arrangements for the Projects from the Fuel Consultant;

Evidence of payment of all expenses payable by the Borrower pursuant to Section 10.04 and all Fees payable hereunder or under the Fee Letter.

Copies, certified by a Representative of the Borrower and the applicable Project Company, of each Development Project's Project Budget and Construction Schedule.

(i) A report from the Insurance Consultant stating that all insurance policies required under this Agreement and the Project Company Guarantee have been obtained (or, with respect to insurance policies that are to become effective after the Closing Date, will be obtained when so required), are adequate for the Borrower and each of the Projects and contain the respective provisions specified herein or the applicable provisions of the Project Company Guarantee to be contained therein, together with copies or detailed summaries of all such policies.

(ii) A certificate of each insurer or its authorized representative certifying to the insurance in effect and that all premium payments on such insurance are current; and

(iii) The insurance certificates required to be delivered pursuant to each EPC Agreement and each Interconnection Agreement, which certificates shall, among other things, (x) describe the insurance required to be maintained pursuant to Article 25 of such EPC Agreement or Section 25 of such Interconnection Agreement and (y) state that such required insurance has been obtained and is in full force and effect.

An American Land Title Association survey map of the Property for each Project prepared and certified as of a date within forty-five (45) days prior to the Closing by a professional land surveyor, on which survey there shall be indicated (i) as to the Mystic Station Project, all buildings, structures and other improvements located on or over the Property for such Project, (ii) as to the Mystic 8&9 Project and the Fore River Project which are currently under construction, the location of all major structures (including any foundations for any to-be-constructed structures) and improvements located on the property for each such Project, (iii) all easements, rights of way, roadways, paths and driveways running across the Property for each Project, (iv) by location and by reference to deed book and page number, all easements appurtenant to the Property for each Project necessary to utilize the Property for each Project in the manner contemplated by the Project Documents, including rights of ingress and egress and (v) that no part of any of the Projects is located within a designated Special Flood Hazard Area as identified by the Secretary of the Department of Housing and Urban Development on the latest available Flood Insurance Rate Maps published by the Federal Emergency Management Agency.

A search, made reasonably near the Closing Date, of the Uniform Commercial Code filing offices or other registers in each jurisdiction in which the Borrower or any Project Company has an office or in which assets of the Borrower or any Project Company are located, as certified by an Authorized Officer of the Borrower, shall have revealed no filings or recordings with respect to any of the Collateral in favor of any Person other than the Collateral Agent, except (i) Permitted Liens or (ii) Liens which are released (or with respect to which release documentation has been executed and is being held in escrow by counsel to the Arranger for filing pending funding of the Initial Advance). The Administrative Agent shall have received a copy of the search reports received as a result of such search.

Satisfactory releases from the BECO Acquisition Lenders and the Interim Lenders of their liens on the assets of the Borrower and/or each Project Company to be held in escrow by counsel to the Lead Arrangers pending funding of the Initial Advance;

Evidence that each Project Company has delivered the "*Notice to Proceed*" to the Contractor pursuant to and in accordance with its EPC Agreement on or prior to the Closing Date.

Certificates from a Representative of the Borrower and each of the Project Companies to the effect that (i) there is no injunction, writ, preliminary restraining order or any order of any nature issued by any arbitrator, court or other Governmental Authority applicable to Sithe, Sithe New England, the Borrower or the Project Company, as the case may be, or, to the knowledge of the Borrower or the Project Company, as the case may be, any other Material Project Participant, directing that the transactions provided for herein or in the other Transaction Documents or any of them not be consummated as herein or therein provided, (ii) except as set forth in *Schedule 6.01(k)*, there is no litigation, investigation or proceedings of or before any arbitrator, court or other Governmental Authority pending against the Borrower, Sithe, Sithe New England, the Project Companies, any of the Projects, or, to the Borrower's or the Project Company's, as the case may be, knowledge, pending or threatened against any party to any Transaction Document, in each case with respect to this Agreement or the Transaction Documents or any of the transactions contemplated hereby or thereby, and (iii) with respect to the Borrower, that the operating and technical assumptions included in the Closing Base Case are reasonable and complete in all material respects.

Copies, certified by a Representative of the Borrower, of any Swap Agreement then in effect, duly executed by each of the parties thereto.

Evidence of establishment of all Accounts under the Depositary Agreement.

Delivery of the Risk Management Policy, which shall be in form and substance satisfactory to the Lead Arrangers.

Delivery of a Closing Base Case that is in form and substance satisfactory to the Lenders.

Evidence that (i) each Project Company has been determined by FERC to be, or is deemed to be, an "*EWG*", (ii) each Project is an Eligible Facility, (iii) each Project Company is not a "holding company" or a "public utility company" within the meaning of PUHCA and (iv) each Project Company has obtained from FERC authority to sell power and ancillary services at market-based rates and all waivers of regulations and blanket authorizations customarily granted by FERC to a public utility that sells wholesale power and ancillary services at market-based rates.

Copies, certified by a Representative of the Borrower, of all material Governmental Approvals which under Requirement of Law is then required to be obtained by or on behalf of the Borrower, each Project Company or its Project in connection with the development, construction, financing, operation or maintenance of such Project, all of which are in full force and effect. All such material Governmental Approvals shall not contain any conditions that, in the reasonable opinion of the Lead Arrangers, are not capable of being satisfied by the Borrower or the Project Companies, as applicable, and no violation shall have occurred thereunder which could reasonably be expected to have a Material Adverse Effect or a Project Material Adverse Effect, as applicable. The Lenders shall be reasonably satisfied with the status of all other material Governmental Approvals relating to the Borrower or any Project, including without limitation, material Governmental Approvals then required under Requirement of Law to be obtained by Material Project Participants in connection with the execution, delivery and performance of their respective obligations under the Material Project Agreements.

Sithe shall have contributed, or caused to be contributed, at least $929.5 million of equity to the Borrower.

Copies, certified by a Representative of Sithe Power Marketing, of (i) the resolutions of the General Partner of Sithe Power Marketing approving or authorizing the execution, delivery and performance of the Power Marketing Agreement, the SPM Security Agreement and the SPM Depositary Agreement and all other documents to be delivered hereunder and thereunder to which Sithe Power Marketing is a party, (ii) Sithe Power Marketing's Certificate of Limited Partnership and charter documents, and all amendments thereto as in effect on such date, and (iii) all documents evidencing other necessary partnership action, if any, with respect to the execution, delivery and

---

performance by Sithe Power Marketing of the Power Marketing Agreement, the SPM Security Agreement and the SPM Depositary Agreement.

Conditions Precedent to the Initial Advance and Issuance of the Letters of Credit. The obligation of each Lender to make an Initial Advance and the Project LC Issuer to issue an initial Letter of Credit shall be subject to the satisfaction (or waiver by the Lenders) of the conditions precedent set forth below with respect to the Borrower and the applicable Project Company. The satisfaction of the conditions set forth in this Section 5.02, including any documents required to be delivered hereunder, must be in form and substance reasonably satisfactory to the Lenders. The Administrative Agent shall have received, on or before the date of such Initial Advance and issuance of such initial Letter of Credit, the following, each dated such day (except where specified otherwise below), in form and substance satisfactory to the Lenders:

acknowledgment copies (or facsimile transmissions thereof), dated on or before the date of such initial funding, of Financing Statements (Form UCC-1) satisfactory to the Administrative Agent duly filed under the Uniform Commercial Code of all jurisdictions as may be necessary or, in the opinion of the Administrative Agent, desirable to perfect the Liens relating to the Borrower, Sithe Power Marketing and each Project Company created by the Security Documents;

all certificates (together with stock powers executed in blank) representing all of the outstanding membership interests in each of the Project Companies to be pledged to the Collateral Agent pursuant to the terms of the Borrower Pledge Agreement;

evidence of the completion of all recordings and filings of the Mortgage and all other actions, as may be necessary or, in the opinion of the Administrative Agent, desirable to perfect the Liens relating to the Borrower, Sithe Power Marketing and each Project Company created by the Security Documents. All taxes (including without limitation mortgage recording taxes and recording fees), fees and other charges payable in connection with the foregoing shall have been paid in full by the Borrower.

One or more paid title insurance policies issued by companies acceptable to the Administrative Agent (with such reinsurance arrangements as are acceptable to the Administrative Agent) in an aggregate amount equal to 60% of the Total Commitment insuring in favor of the Collateral Agent, as agent for the Secured Parties, that each Project Company is the fee owner of the Property for its respective Project, and is vested with good and marketable title on and to its respective Project, and that the Mortgage is a first priority mortgage with respect to such interest, subject only to Permitted Liens and other defects and exceptions acceptable to the Lenders ("*Permitted Exceptions*"), and which, with respect to each Project:

shall describe the Property in accordance with the survey delivered in accordance with Section 5.01(s) above;

shall have attached thereto copies of all instruments that appear as exceptions therein; and

shall insure, in a manner acceptable to the Lead Arrangers, against loss due to any title defect or encumbrance, condition, restriction, covenant, reservation, easement, interest or claim affecting the relevant Project Company's fee interest in the Property or its ownership interest in the Project, other than the Permitted Exceptions;

shall contain such endorsements as the Administrative Agent shall reasonably request;

shall contain no exceptions for filed or unfiled mechanics' or materialmen's liens and shall provide for affirmative coverage over any such liens subsequently filed; and

shall contain no limitations of coverage (beyond those contained in a standard American Land Title Association mortgagee title policy) unacceptable to the Lenders.

A certificate from a Representative of the Borrower that:

The representations and warranties contained in Section 6.01 (other than clause (k) thereof) are true and correct on and as of the date of such Advance or issuance of any Letter of Credit, before and after giving effect to such Advance or issuance of such Letter of Credit and to the application of the proceeds, if any, therefrom, as though made on and as of such date;

No (A) Borrower Default or (B) Borrower Event of Default has occurred and is continuing, or would result from the making of such Advance or from the application of the proceeds thereof; and

Except as set forth in *Schedule 6.01(k)*, there is no litigation, investigation or proceedings of or before any arbitrator, court or other Governmental Authority pending against the Borrower or, to the Borrower's knowledge, pending or threatened against the Borrower, Sithe, Sithe New England or any Project Company in connection with the transactions contemplated by the Loan Documents except where such litigation, investigation or proceedings could not reasonably be expected to have a Material Adverse Effect.

A certificate from a Representative of each Project Company that:

The representations and warranties contained in Section 3.01 of the Project Company Guarantee (other than clause (i) thereof) with respect to such Project Company are true and correct on and as of the date of such Advance, before and after giving effect to such Advance and to the application of the proceeds, if any, therefrom, as though made on and as of such date;

No (A) Project Default or Project Event of Default shall have occurred and be continuing or (B) material default or event of default under any Material Project Document with respect to such Project Company has occurred and is continuing, or could result from the making of such Advance or from the application of the proceeds thereof; and

Except as set forth in *Schedule 3.01(i)* of the Project Company Guarantee, there is no litigation, investigation or proceedings of or before any arbitrator, court or other Governmental Authority pending against such Project Company or, to such Project Company's knowledge, pending or threatened against any party to any Transaction Document with respect to the Project Company Guarantee or any other Transaction Document with respect to such Project except where such litigation, investigation or proceedings could not reasonably be expected to have a Project Material Adverse Effect.

Since the Closing Date, no Material Adverse Effect or Project Material Adverse Effect with respect to the Benefiting Project Company shall have occurred and be continuing.

Copies of releases (with respect to work performed as to which payment has been made or is due and is being paid on the date of such Advance) of mechanics' or materialmen's liens (in substantially the form of *Exhibit 5.02(h)*) from (and certified by) the Contractor and from all other mechanics and materialmen in privity with any of the Project Companies and which have performed work or supplied material to any of the Projects for an aggregate contract price or invoice price greater than $500,000 during the term of any of the Project Company's leasehold interest in each of their respective Properties, together with copies of all receipts for such work and material.

Copies of all material Governmental Approvals, that were not required to be obtained by the Project Companies prior to the Closing Date but that are required to be obtained prior to the date of such Initial Advance, and such material Governmental Approvals shall have been duly obtained or made and shall be in full force and effect, and there shall be no challenge of any existing material Governmental Approval by any Governmental Authority or any other person. In addition, the Lenders shall be satisfied in their reasonable discretion, with respect to the status of all material Governmental Approvals relating to the Projects other than those described in the immediately preceding sentence,

including without limitation, material Governmental Approvals then required under Requirement of Law to be obtained by Material Project Participants in connection with the execution, delivery and performance of their respective obligations under the Material Project Agreements.

A Notice of Borrowing in accordance with the terms of this Agreement.

A certificate from the Independent Engineer in the form of *Exhibit 5.03(d)*.

Conditions Precedent to Each Subsequent Advance. The obligation of each Lender or the DSR LC Issuer, as the case may be, to make Advances subsequent to the Initial Advance or to issue the DSR Letter of Credit (such advances or issuance, "*Subsequent Advances*") shall be subject to the conditions precedent (or waiver by the Required Lenders) with respect to the Borrower and any Benefiting Project Company that (i) since the date of the financial statements of the Borrower and the other Persons delivered pursuant to Section 5.01(h), no Material Adverse Effect shall have occurred, *provided*, *however*, that for purposes of this clause (i) only, events resulting from changes or developments in the gas, oil or NEPOOL power markets generally (including changes in market prices) shall not be deemed to have a Material Adverse Effect, (ii) all equity contributions required to be made on or prior to the making of such Advance pursuant to the Equity Contribution Agreement shall have been contributed to the Borrower and (iii) the Administrative Agent shall have received, on or before the day of the making of such Advance or the issuance of the DSR Letter of Credit, the following, each dated such day, in form and substance satisfactory to the Administrative Agent (except that the Notice of Borrowing shall not be required for the issuance of the DSR Letter of Credit) (for purposes of this provision the issuance of the DSR Letter of Credit shall be deemed to benefit all Project Companies):

A Notice of Borrowing in accordance with the terms of this Agreement.

Certificates from a Representative of the Borrower and a Representative of the Benefiting Project Company (the statements contained in which shall be true and, to the extent the matter to which the certification is made relates to unaffiliated third parties, may be based on knowledge of the Representative) that:

The representations and warranties contained in Section 6.01 of this Agreement (other than in clause (k) thereof) are correct on and as of the date of such Advance or issuance of the DSR Letter of Credit, before and after giving effect to such Advance or issuance of such Letter of Credit and to the application of the proceeds, if any, therefrom, as though made on and as of such date (except where failure of such representation or warranty to be true and correct could not reasonably be expected to have a Material Adverse Effect);

The representations and warranties contained in Section 3.01 of the Project Company Guarantee (other than in clause (i) thereof) with respect to the Benefiting Project Company are correct on and as of the date of such Advance or issuance of the DSR Letter of Credit, before and after giving effect to such Advance or issuance of such Letter of Credit and to the application of the proceeds, if any, therefrom, as though made on and as of such date (except where failure of such representation or warranty to be true and correct could not reasonably be expected to have a Project Material Adverse Effect);

No Project Event of Default with respect to the Benefiting Project Company, Borrower Event of Default, Material Borrower Default or material default or event of default under any Material Project Document to which the Benefiting Project Company is party has occurred and is continuing, or would result from the making of such Advance or the issuance of the DSR Letter of Credit or from the application of the proceeds thereof;

There is no litigation, investigation or proceeding of or before any arbitrator, court or other Governmental Authority pending against the Borrower, or, to the Borrower's knowledge, pending

or threatened against any party to any Transaction Document or with respect to this Agreement or any of the transactions contemplated therein or herein except where the failure of such representation or warranty to be true and correct could not reasonably be expected to have a Material Adverse Effect;

There is no litigation, investigation or proceeding of or before any arbitrator, court or other Governmental Authority pending against the Benefiting Project Company, or any Member of any Benefiting Project Company, or, to the Borrower's or the Benefiting Project Company's knowledge, pending or threatened against any party to any Transaction Document or with respect to this Agreement or any of the transactions contemplated therein or herein except where such litigation, investigation or proceeding could not reasonably be expected to have a Project Material Adverse Effect with respect to such Benefiting Project Company; and

Copies of all material Governmental Approvals that were not required to be obtained by the Project Companies or the Borrower prior to the Closing Date or the Initial Advance or prior Subsequent Advances but that are required to be obtained prior to the date of such Subsequent Advance, and such material Governmental Approvals shall have been duly obtained or made and shall be in full force and effect and there shall be no challenge of any existing material Governmental Approval by any Governmental Authority or any other person.

A certificate from the Independent Engineer in the form of *Exhibit 5.03(d)* delivered at the same time as the Notice of Borrowing.

The Administrative Agent and the Independent Engineer have received, not later three (3) Business Days before the date of the requested Borrowing, a notice of title continuation or an endorsement to the title insurance policy from the title company insuring the Borrower's interest in the Benefiting Project Company's Property updating the title insurance policy to the date of disbursement of the requested Borrowing, showing no intervening liens or encumbrances on the Benefiting Project Company's Property and showing that there has been no change in the state of title and no survey exceptions not theretofore approved by the Lenders or otherwise permitted pursuant to this Agreement which endorsement shall have the effect of increasing the coverage of the title insurance policy by an amount equal to 60% of such loan if the title insurance policy does not by its terms automatically provide for such coverage.

The Administrative Agent has received, with respect to the Benefiting Project Company's Project, sworn statements, affidavits and assurances of payment by all contractors and materialmen, which shall cover all work, labor and materials, including without limitation, equipment and fixtures of all kinds, in the case of the Contractor's subcontractors, each for a value in excess of $500,000, done, performed or furnished at, for or to the Benefiting Project Company's Project to the date of the last Project Advance and with respect to which Borrower has requested Advances.

The Administrative Agent has received copies of executed Additional Project Documents.

Each Additional Project Document is in full force and effect, all representations and warranties contained therein are true and correct in all material respects and no default or event of default has occurred and is continuing thereunder which could reasonably be expected to have a Project Material Adverse Effect.

The Technical Committee shall have received a monthly report from the Borrower regarding the status of the Gas Lateral and any Alternative Plans, which report shall include a specific representation of the Borrower that it is in compliance with its obligations under Section 7.01(j).

REPRESENTATIONS AND WARRANTIES

Representations and Warranties of the Borrower. The Borrower represents and warrants to each Lender, the LC Issuers and the Administrative Agent as follows (such representations and warranties being made as of the Closing Date and, to the extent provided herein, on each subsequent date on which such representations and warranties are made or deemed to be made hereunder):

The Borrower is duly organized, validly existing, and in good standing under the laws of its jurisdiction of formation.

The Borrower (i) has the power and authority to own its property and assets and to transact the business in which it is engaged or presently proposes to engage and (ii) is authorized to do business as a foreign corporation and is in good standing in each jurisdiction in which it is required to be authorized to do business.

The Borrower has full power, authority and legal right to execute and deliver this Agreement and the other Transaction Documents to which it is a party and to perform its obligations hereunder and thereunder.

The Borrower has taken all necessary action to authorize the execution, delivery, and performance by the Borrower of the Transaction Documents to which it is a party.

This Agreement and each other Transaction Document to which the Borrower is a party has been duly executed and delivered by the Borrower.

For Federal income tax purposes, the Borrower is not an association taxable as a corporation.

This Agreement and each other Transaction Document to which the Borrower is a party constitutes a legal, valid and binding obligation of the Borrower enforceable against the Borrower in accordance with its terms except as the enforcement thereof may be limited by applicable bankruptcy, insolvency or similar laws affecting the enforcement of rights of creditors generally and except to the extent that enforcement of rights and remedies set forth therein may be limited by equitable principles (regardless of whether enforcement is considered in a court of law or a proceeding in equity).

Set forth as *Schedule 6.01(h)* hereto is a list of all Project Companies and, as of the date hereof, a description of their equity interests and the ownership thereof. The Borrower has no subsidiaries other than the Project Companies.

All equity interests listed on *Schedule 6.01(h)* currently owned, directly or indirectly, by the Borrower are validly issued, fully paid and nonassessable and are owned, directly or indirectly, by the Borrower free and clear of all liens and encumbrances, except to the extent pledged under the Borrower Pledge Agreement or permitted under Section 7.02(b).

Neither the execution, delivery or performance by the Borrower of the Transaction Documents to which it is a party, the compliance by the Borrower with the terms and provisions thereof, nor the consummation of the transactions contemplated thereby, will:

conflict with, contravene, or violate any provision of any Requirement of Law or any Governmental Approval;

conflict with, or result in any breach of, any of the material terms and conditions of, or result in the creation or imposition of (or the obligation to create or impose), any Lien (except Liens created pursuant to the Security Documents) upon any of the property or assets of the Borrower pursuant to the terms of any agreement or instrument to which the Borrower is a party or by which it or any of its property or assets is bound; or

conflict with, contravene, or violate any provision of the articles or certificates of formation limited liability company agreements or other organizational documents of, or any Loan Document

or other agreement or instrument binding upon, the Borrower unless such conflict, contravention or violation could not reasonably be expected to have a Material Adverse Effect.

Except as set forth in *Schedule 6.01(k)*, at Closing there is no litigation, action, suit, investigation or proceeding by or before any Governmental Authority or arbitrator pending or affecting or involving or, to the knowledge of the responsible officers of the Borrower, threatened against the Borrower which in the aggregate represents a potential judgement or involves injunctive relief that could reasonably be expected to, individually or in the aggregate, have a Material Adverse Effect. Except as set forth on *Schedule 6.01(k)*, there is no litigation, action, suit, investigation or proceeding by or before any Governmental Authority or arbitrator pending or affecting or involving or, to the knowledge of the responsible officers of the Borrower, threatened against the Borrower which in the aggregate represents a potential judgement in excess of $5 million or involves injunctive relief that could reasonably be expected to have a Material Adverse Effect.

With respect to the Borrower and its affiliates and, to the Borrower's knowledge with respect to Material Project Participants, there is no injunction, writ, preliminary restraining order or any order of any nature issued by an arbitrator, court or other Governmental Authority directing that any of the material transactions provided for in any of the Transaction Documents not be consummated as herein or therein provided.

The Borrower is not in breach of or in default with respect to any order of any court, arbitrator, administrative agency or other Governmental Authority which breach or default could reasonably be expected to have a Material Adverse Effect.

The financial statements of the Borrower, the Project Companies, Sithe and Sithe New England delivered pursuant to Section 5.01(h) (including the related notes and schedules thereto) were prepared in accordance with GAAP (subject to customary exceptions in the case of unaudited statements) and fairly present the financial condition and the results of operations of such Persons on the dates and for the periods covered thereby, except as disclosed in the notes thereto and, with respect to interim financial statements, subject to normally recurring year-end adjustments.

No part of the proceeds of any Advance will be used by the Borrower to purchase or carry any Margin Stock (as defined in Regulation U) or to extend credit to others for the purpose of purchasing or carrying any Margin Stock. Neither the making of any Advance nor the use of the proceeds thereof will violate or be inconsistent with the provisions of Regulations T, U or X.

No Material Borrower Default or Borrower Event of Default has occurred and is continuing.

The Borrower has filed or caused to be filed all material federal, foreign, state and other tax returns which are required to be filed by it and has paid (prior to their delinquency dates) all material taxes, fees, charges and assessments ("*Taxes*") which have become due pursuant to such returns or pursuant to any assessment received by it, other than Taxes the payment of which are subject to a Contest and which are listed on *Schedule 6.01(q)* hereto.

The Borrower is not conducting any business other than Permitted Business.

The Obligations of the Borrower constitute direct, unconditional and general obligations of the Borrower which are not subordinated (whether by contract or otherwise) to the claims of any other creditor of the Borrower, other than Permitted Liens and subordination effected by operation of any Requirement of Law.

The Security Documents create, as security for the Obligations, valid and enforceable and, following any filings to be made in respect thereof, perfected first priority Liens on all of the Collateral, in favor of the Collateral Agent for the ratable benefit of the Secured Parties, subject to no Liens other than Permitted Liens. All Governmental Approvals, if any, necessary or desirable to perfect such Liens

have been duly effected or taken and all fees and expenses required to be paid in connection with the filing or obtaining of such Governmental Approvals have been paid.

The Borrower is not (i) an "investment company" or a company "controlled" by an "investment company," within the meaning of the Investment Company Act of 1940, as amended, (ii) a "holding company" or a "public utility company" within the meaning of PUHCA, or (iii) subject to regulation under the Federal Power Act of its rates or ability to issue securities.

The Borrower and the Project Companies are not, and, by reason of (i) the ownership (direct or indirect) of the Projects or the operation thereof by the Borrower or the Project Companies, or (ii) any other transaction contemplated by any Transaction Document, will not be deemed by any Governmental Authority to be, subject to regulation as an "electric utility," "electric corporation," "electrical company," "steam company," "steam utility," "public utility," "public utility company," "public utility holding company," or similar entity within the meaning of any Requirement of Law except that each Project Company is and will be a "public utility" under the Federal Power Act with authority to sell wholesale electric power and ancillary services at market-based rates and with all waivers of regulations and blanket authorizations as are customarily granted by FERC to a "public utility" that sells wholesale power and ancillary services at market-based rates.

Subject to subsection (x) below, neither the Administrative Agent, the Collateral Agent nor the Lenders will, solely by reason of (i) the ownership (direct or indirect), construction, operation and maintenance of the Projects by the Borrower or the Project Companies as contemplated by the Transaction Documents, (ii) the making of any of the Commitments, (iii) the securing of the Obligations by Liens on the Collateral or (iv) any other transaction contemplated by this Agreement or any other Transaction Document, be deemed by any Governmental Authority to be, or to be subject to regulation as, an "electric utility," "electric corporation," "electrical company," "steam company," "steam utility," "public utility," "public utility company," "public utility holding company," or similar entity within the meaning of any Requirement of Law.

If the Projects are operated as contemplated by the Project Documents, neither the Administrative Agent, the Collateral Agent nor the Lenders will, solely by reason of ownership or operation of the Project upon the exercise of their remedies under the Security Documents, and without regard to any other activity of the Administrative Agent, the Collateral Agent or any Lender, be deemed by any Governmental Authority to be subject to regulation as an "electric utility," "electric corporation," "electrical company," "steam company," "steam utility," "public utility," "public utility company," "public utility holding company," or similar entity within the meaning of any Requirement of Law, *provided* that the related Project Company maintains its EWG status or is no longer required under any Requirement of Law to maintain such status in order to be exempt from PUHCA, except that ownership or operation of the Project may subject such owner or operator to regulation as a "public utility" under the Federal Power Act.

There are no collective bargaining agreements covering the employees of the Borrower or any Multiemployer Plans which would reasonably be expected to have a Material Adverse Effect.

The Borrower does not maintain or contribute to any Plan, which maintenance or contribution could reasonably be expected to have a Material Adverse Effect.

As of the Closing Date, the factual statements made to the Lead Arrangers in writing and all documentation furnished to the Lead Arrangers by the Borrower (other than projections and forecasts) taken as a whole including written updated or supplemented information delivered on or prior to the Closing Date are, to the Borrower's knowledge true, correct and complete in all material respects.

No consent from, authorization by, or registration or filing with, any Person is required for the due execution, delivery, or performance of, any Loan Document by the Borrower or any Project Company,

except (i) those that have already been obtained or made and (ii) filings necessary to create, perfect or retain the perfection of Liens against the Collateral.

COVENANTS OF THE BORROWER

Affirmative Covenants. So long as any Note shall remain unpaid, the Letter of Credit shall remain outstanding, any Lender shall have any Commitment hereunder, or any payment Obligation shall remain unpaid, the Borrower shall, unless the Required Lenders shall otherwise consent in writing:

Records. Keep proper books of record and account in which full, true and correct entries in conformity with GAAP and all requirements of applicable Law shall be made of all dealings and transactions in relation to its business and activities.

Inspection Rights. Permit officers and designated representatives of the Administrative Agent and each Lender (but with respect to each Lender, not during performance testing) to visit and inspect any of the properties of the Borrower, and to examine the books and records of the Borrower (including, without limitation, the books of record and account of the Borrower), and discuss the affairs, finances and accounts of the Borrower with, and be advised as to the same by, its and their officers, directors and independent accountants, all upon reasonable notice and at such reasonable times as the Administrative Agent may desire. All inspections and visits by the Lenders shall be coordinated through the Administrative Agent, and the Administrative Agent shall attempt to consolidate inspections by multiple Lenders.

[Intentionally Omitted.]

Preservation of Existence, etc. Cause to be done, all things necessary to preserve and keep in full force and effect its limited liability company existence, its good standing in its jurisdiction of formation, its qualification to do business in each other jurisdiction where such qualification is necessary, and, except where failure to maintain the same could not reasonably be expected to have a Material Adverse Effect, its patents, trademarks, tradenames, copyrights, franchises and similar rights.

Maintenance of Properties. Keep, or cause to be kept, in good working order and condition, ordinary wear and tear excepted, the properties owned or leased by it, unless the failure to do so could not reasonably be expected to have a Material Adverse Effect.

Good Title. Except as may be otherwise permitted pursuant to Section 7.02(c), preserve and maintain good and valid title to, or leasehold interest in, all of the properties and assets owned or leased by it subject to no Liens other than Permitted Liens.

Taxes. Pay or cause to be paid when due, all Taxes and all charges, betterments, or other assessments relating to the Collateral, and all other lawful governmental and non-governmental claims required to be paid by the Borrower except to the extent any of the same are subject to a Contest.

Compliance With Laws. Comply with all applicable Laws and maintain in full force and effect all Governmental Approvals necessary for the conduct of its business and the operation of the Projects, except to the extent that the failure to do so would not reasonably be expected to have a Material Adverse Effect.

Compliance with Risk Management Policy; Power Marketing Agreement. Comply in all material respects with the terms and conditions of the Risk Management Policy and if a Default or Event of Default occurs under the Power Marketing Agreement, pursue, in consultation with the Administrative Agent, all rights and remedies of the Borrower in respect of such Default or Event of Default;

Gas Lateral. Use its good faith efforts to proceed promptly to (w) negotiate with Tennessee Gas Company or Algonquin with respect to the construction of the Gas Lateral, (x) prepare all reports and

---

studies required in connection with any Federal, State or local governmental filings which are required for construction of the Gas Lateral, (y) obtain or cause to be obtained all real estate rights-of-way necessary for the Gas Lateral and any other consents from any other Persons necessary in order to construct the Gas Lateral, (z) submit or cause to be submitted all such requisite governmental filings to the appropriate Governmental Authority as promptly as possible, and (aa) take, or cause to be taken, all actions necessary or desirable in order to cause the associated permits and approvals to be issued by the applicable Governmental Authority in as expeditious a manner as possible. The Borrower's obligations under this Section 7.01(j) will terminate, if and when, the Borrower demonstrates to the Technical Committee, in consultation with the Independent Fuel Consultant, that alternative arrangements (which alternative arrangements may consist of satisfactory arrangements with Distrigas) have been secured which provide Sithe Mystic Development access to gas supply and transportation in excess of the quantities which Distrigas is obligated to supply pursuant to the Gas Sales and Purchase Agreement at commercially reasonable rates and which together with the Distrigas supplied gas would provide all of Sithe Mystic Development's gas requirements, such requirements to be consistent with the assumptions used in the Closing Base Case regarding the quantity of fuel for the Mystic 8&9 Project, the nature of the transportation services for the Mystic 8&9 Proejct and the operating parameters of the Mystic 8&9 Project, including those related to availability and dispatch (any such alternative arrangements, an "*Alternative Plan*").

[Intentionally Omitted.]

Revenue Account. Transfer and deposit, or cause to be transferred and deposited, all Project Revenues received by, or on behalf of, the Borrower from Sithe Power Marketing or otherwise to the Revenue Account.

Use of Proceeds. Use or cause to be used the proceeds of the Advances solely in accordance with Section 2.01(b).

Interest Rate Hedging. No later than 10 Business Days after Closing, execute and deliver Swap Agreements (in a form substantially similar to Exhibit 1.01G) providing interest rate protection (i) through May 30, 2002, with respect to not less than 70% of the Notional Basis (as defined below) and (ii) from May 31, 2002 through the Maturity Date, with respect to not less than 50% of the Notional Basis. The "Notional Basis" shall equal, at any time, the sum of Project Advances and LC Loans in respect of Drawings under the Interconnection Payment Letters of Credit projected in accordance with the Closing Base Case to be outstanding at such time.

Negative Covenants. So long as any Note shall remain unpaid, any Letter of Credit shall remain outstanding, any Lender shall have any Commitment hereunder, or any payment Obligation shall remain unpaid, the Borrower will not, without the prior written consent of the Required Lenders:

Permitted Borrower Debt. Create, incur, assume, suffer to exist or otherwise become or remain directly or indirectly liable with respect to any Debt, other than the following ("*Permitted Borrower Debt*"):

liabilities under the Loan Documents to which the Borrower is a party;

any Debt of the Borrower outstanding on the Closing Date listed on *Schedule 7.02(a)* hereto;

Debt which is *pari passu* to the Obligations in an amount not to exceed $120,000,000 in the aggregate incurred to pay Project Costs and Financing Costs for any Additional Project so long as (A) the property, contracts, permits and rights that comprise such Additional Project are pledged as collateral for the Obligations and are reasonably acceptable to the Technical Committee and such Additional Project executes a guarantee substantially in the form of the Project Company Guarantee which is reasonably acceptable to the Technical Committee, (B) after giving effect to the incurrence of such indebtedness, (x) the debt-to-equity ratio of such Additional Project does not exceed 60% and (y) the average projected Debt Service Coverage Ratio for the period ending on the Maturity Date is not less than the Closing Base Case, as certified by the Borrower and confirmed by the Technical Committee in consultation with the Independent Engineer and the Power Market Consultant, (C) the proceeds of such indebtedness are contributed to the Person that owns such Additional Project pursuant to a guarantee substantially in the form of the Project Company Guarantee and (D) a customary intercreditor agreement is executed by the Collateral Agent and the provider of such Debt in form and substance reasonably satisfactory to the Technical Committee or appropriate amendments to the Loan Documents are made, in form and substance reasonably satisfactory to the Technical Committee (it being understood and agreed that the Collateral Agent and the Administrative Agent shall be obligated to execute such intercreditor agreement and any appropriate amendments to the Loan Documents upon receipt of written approval thereof by the Technical Committee);

Debt incurred under any interest rate swap agreements, interest rate cap agreements, interest rate collar agreements, interest rate insurance or other agreements and arrangements designed to protect against fluctuations in interest rate (with respect to the interest rate payable on the Project Advances and the LC Loans resulting from a drawing on the Interconnection Payment Letters of Credit) entered into by the Borrower other than for speculative purposes;

surety bonds, performance bonds or similar arrangements with third-party sureties, indemnitors or similar persons obtained or made in connection with a good faith contest;

trade accounts payable and other Debt for the acquisition of goods, services or rights in the ordinary course of business;

endorsement of negotiable instruments for collection;

unsecured Debt incurred in connection with Permitted Hedging Transactions; and

unsecured Debt in addition to the foregoing in an amount not to exceed $50,000,000 at any given time.

Liens. Create, incur, assume or suffer to exist any Lien upon its interests in the Project Companies or other assets, except for (i) Liens for Taxes not yet delinquent or being contested in good faith with adequate reserves being maintained therefor, (ii) Liens arising from judgments or awards so long as an appeal is being prosecuted in good faith with adequate reserves being maintained therefor and (iii) Liens to secure obligations under Swap Agreements and Permitted Borrower Debt described under clauses (i), (ii) and (iii) of Section 7.02(a).

Mergers, Sales of Assets, Etc. Merge or consolidate into or with any Person, or liquidate, wind-up or dissolve (or suffer any liquidation or dissolution), discontinue its business or convey, lease, sell, transfer or otherwise dispose of, in one transaction or series of transactions, all or substantially all of its business or property, (whether in one transaction or a series of transactions) whether now or hereafter acquired;

Sale of Interest in Project Companies. Except as otherwise permitted in the definition of "*Change of Control*," sell, lease, dispose of or transfer any of its interest in any Project Company.

Acquisitions, Subsidiaries, Etc. (i) Acquire by purchase or otherwise any property or assets of, or stock or other evidence of beneficial ownership of, any Person except pursuant to the Transaction Documents, (ii) enter into any partnership or joint venture, or (iii) create or acquire any Subsidiary, *provided* that the Borrower may create or acquire Subsidiaries in connection with Additional Projects, so long as such Subsidiaries created or acquired in connection with the Additional Projects shall not be acquired or created until the Borrower and each such Subsidiary has executed and delivered to the Administrative Agent a guarantee in substantially the form of the Project Company Guarantee, security

documents and all necessary documents, certificates and instruments reasonably requested by the Administrative Agent in form and substance substantially similar to the Loan Documents to which the Borrower and Project Companies are currently a party; *provided*, *further*, that any pre-financing development activities involving such Additional Projects shall not be undertaken by any such Subsidiary or if undertaken by any such Subsidiary shall be funded utilizing cash contributed by Sithe or Sithe New England.

Dividends; Incentive Fee. Pay any Incentive Fee (as defined in the Power Marketing Agreement) to Sithe Power Marketing or declare or pay any dividends or distributions to its shareholders, or return any capital to its members, or authorize or make any other distribution, payment or delivery of property or cash to its shareholders as such, or redeem, retire, purchase or otherwise acquire, directly or indirectly, any stock or other equity interests of the Borrower now or hereafter outstanding (or any options or warrants issued with respect thereto), or set aside any funds for any of the foregoing purposes, except the following ("*Permitted Dividends*"):

the Borrower may make, or cause to be made on the date of the Initial Advance, (A) a payment (by way of distribution, reimbursement or otherwise) to Sithe (or any Affiliate thereof) which will be used to repay the BECO Acquisition Loan in an amount equal to $116,561,970.91 (together with accrued interest from February 1, 2001 until the date repaid), (B) a reimbursement to Sithe (or any Affiliate thereof) in respect of certain Pre-Closing Project Costs in an amount equal to $317,298,521.59;

the Borrower may make all payments required to be made in connection with the Tax Sharing Agreement, *provided*, that the conditions set forth in Section 4.05(k) of the Depositary Agreement shall have been satisfied;

within forty-five (45) days of each Distribution Calculation Date (a "*Distribution Date*"), the Borrower may pay dividends or distributions to its equity holders, and/or any Incentive Fee to Sithe Power Marketing from the cash on deposit in the Distribution Account so long as:

(A) the Debt Service Coverage Ratio for each of (x) the twelve month period before the Distribution Calculation Date, calculated on an actual basis (or three months in the case of the first Distribution Calculation Date, or six months in the case of the second Distribution Calculation Date, or nine months in the case of the third Distribution Calculation Date) and (y) the twelve month period after the Distribution Calculation Date (calculated on a projected basis in accordance with Section 7.03(d)) shall be at least 1.50 to 1.00 for a 50% distribution, and at least 1.75 to 1.00 for a 100% distribution, as certified by the Borrower; and

(B) the Second Completion Date shall have occurred and either (I) the Gas Lateral shall have been constructed and be fully operational and all governmental approvals required for the operation of the Gas Lateral shall have been obtained or (II) an Alternative Plan shall be in full force and effect, *provided* that Permitted Dividends may not be paid as described in subclauses (ii) or (iii) of this clause (f) at any time when (w) a Borrower Event of Default or a Material Borrower Default has occurred and is continuing, (x) there exist any unpaid LC Loans in respect of drawings under any Standby Letter of Credit, (y) the Debt Service Reserve Requirement is not satisfied by any combination of (1) cash or cash equivalent, or (2) Acceptable Credit Support, (z) the Major Maintenance/Forced Outage Reserve Requirement is not satisfied by any combination of (1) cash or cash equivalent, or (2) Acceptable Credit Support or (aa) there has occurred and is continuing any event or circumstance described in Section 4.3(i) of the Power Marketing Agreement, regardless of whether the cure period described therein has lapsed. The Borrower shall be required to have certified to the Lenders as to matters set forth in (w), (x), (y), (z) and (aa) on such Distribution Date; *provided*, *further*, that if on any Distribution Calculation Date occurring in December, 2004, March 2005, June 2005 and September 2005, the Borrower shall have failed

to receive an Investment Grade Rating from two Rating Agencies, one of which shall be S&P or Moody's, (a) Permitted Dividends otherwise permitted above in respect of such Distribution Calculation Date shall be reduced by 50% and (b) 50% of amount on deposit in the Distribution Account as of such Distribution Calculation Date (prior to giving effect to any Permitted Dividends) shall be applied to prepay the Advances in accordance with Section 4.02(b)(ii); *provided*, *further*, that if on any Distribution Calculation Date occurring in December, 2005 or thereafter, the Borrower shall have failed to receive an Investment Grade Rating from two Rating Agencies, one of which shall be S&P or Moody's, (a) no Permitted Dividends shall be permitted and (b) 100% of amount on deposit in the Distribution Account as of such Distribution Calculation Date shall be applied to prepay the Advances in accordance with Section 4.02(b)(ii).

The Borrower may pay dividends or distributions to its equity holders from all Mystic Station Net Revenues received prior to the Second Completion Date *provided*, that Mystic Station Net Revenues may not be paid as described in this clause (iv) at any time when a Borrower Event of Default or a Material Borrower Default has occurred and is continuing and shall instead be retained in the Mystic Station Revenue Account to be applied in accordance with the terms of the Depositary Agreement.

Investments in Other Persons. Lend money or credit or make advances or contributions to any Person, or directly or indirectly purchase or acquire any stock, obligations or securities of, or any other interest in, or make any capital contribution to any Person or make any investments, except:

short-term bank deposits, government obligations, money market funds and other similar short-term investments;

maintenance of the Accounts and the Permitted Investments of the funds on deposit therein;

Permitted Investments; and

investments by the Borrower in any Project Company that are permitted or contemplated by the Loan Documents.

Transactions with Affiliates. Enter into any transaction or series of related transactions with any Affiliate other than (i) the Transaction Documents and the transactions pursuant to the Transaction Documents in effect on the Closing Date; (ii) the reimbursement of Pre-Closing Project Costs, (iii) the incurrence and repayment of Permitted Borrower Debt and the grant of security interests in connection therewith; (iv) Permitted Dividends; (v) arm's-length transactions in the ordinary course, (vi) transactions that are not material to the transactions contemplated by the Loan Documents, (vii) transactions approved by the Technical Committee, which approval shall not be unreasonably withheld, (viii) transactions pursuant to the Power Marketing Agreement, and (ix) transactions in which the only parties are two or more of the Borrower and the Project Companies or Subsidiaries to the extent the provisions of Section 7.02(e)(iii) hereof have been satisfied. The Borrower shall not, without the consent of the Technical Committee, communicate its satisfaction with any evidence provided by Sithe Power Marketing in accordance with Section 4.3(j)(y) of the Power Marketing Agreement.

Business. Enter into or engage in any business other than (a) the ownership (directly and indirectly) and development, construction, operation, expansion, management and financing of the Projects and activities reasonably incidental thereto including the sale of energy and (b) the ownership (directly and indirectly) and construction, operation, expansion, management and financing of any Additional Project (such activities shall expressly exclude pre-financing development activities relating to Additional Projects unless funded through equity contributions from Sithe or Sithe New England).

Additional Agreements. Enter into any agreement (other than the Loan Documents as in effect on the Closing Date) which restricts the ability of the Borrower to (i) enter into amendments or modifications of the Transaction Documents, (ii) enter into waivers of material Transaction Documents

(ii) sell, transfer or otherwise dispose of its assets, (iii) create, incur, assume or suffer to exist any Lien upon any of its property, and (iv) create, incur, assume, suffer to exist or otherwise become liable with respect to any Debt.

Compliance with ERISA. With respect to any Plan, (i) fail to satisfy the minimum funding requirements of ERISA or the Code; (ii) take any action, or omit to take any action which would give rise to a nonexempt prohibited transaction (as such term is defined in Section 4975 of the Code or Section 406 of ERISA) that is reasonably likely to subject the Lenders to any material tax or penalty under Section 4975 of the Code or Section 502(i) of ERISA; or (iii) engage in any transactions prohibited by ERISA or have any liabilities, in each case, which would reasonably expected to have a Material Adverse Effect.

Project Company Guarantee; Risk Management Policy; Power Marketing Agreement; SPM Security Documents.

Cancel or terminate, or agree to or permit any amendment or modification of, the Project Company Guarantee, or grant consents with respect to any obligation thereunder, or waive timely performance or observance by any Person of its obligations under the Project Company Guarantee. The Borrower shall not, nor shall it permit any Project Company to, make any material waiver, modification or amendment to, or permit any material amendment, waiver or modification of, the Risk Management Policy or utilize insurance to cover the First Contingency (as defined therein) without the consent of the Technical Committee;

provided, without limitation, that for purposes of this sentence, any waiver, modification or amendment to the stated limits or methodology in the Risk Management Policy shall be deemed material; *provided*, *further*, that without the consent of the Technical Committee, the Borrower may increase the historical period utilized for calculation of "value-at-risk" and may, on a one-time basis, convert its "value-at-risk" calculation methodology to a "Monte Carlo" simulation model; *provided*, *further*, that if the use of a specified type of insurance to cover the First Contingency (as defined in the Risk Management Policy) is approved by the Technical Committee in accordance with this clause (l), the continuing or subsequent use of such type of insurance shall not be subject to further Technical Committee approval; *provided*, *further*, that notwithstanding any of the foregoing, the Borrower shall promptly inform the Administrative Agent in writing of any proposed waiver, modification or amendment to the Risk Management Policy. For one-time waivers of stated limits in the Risk Management Policies, the Technical Committee will endeavor to reply within two (2) Business Days of confirmed receipt of such request. If the requested waiver relates to an exceedance of 10% or less of the applicable limit, Technical Committee approval shall be deemed to have been given if the Technical Committee fails to reply within such two Business Day period. For permanent amendments of stated limits contained in, or all other provisions of, the Risk Management Policies, the Technical Committee will endeavor to reply within 10 Business Days of confirmed receipt of such request.

cancel, waive or terminate, or agree to or permit any amendment, assignment or modification of, the Power Marketing Agreement, unless such amendment, waiver, modification, cancellation, termination or assignment would not reasonably be expected to have a Material Adverse Effect or the Borrower obtains prior written consent of the Technical Committee to such amendment, waiver, modification, cancellation, termination or assignment.

cancel, waive or terminate or agree to or permit any amendment, assignment or modification of, or grant any consent (including the consent required pursuant to Section 6.07 of the SPM Depositary Agreement) under any SPM Security Document, *provided*, *however*, that execution of any Joinder Agreement contemplated by the SPM Depositary Agreement shall not constitute an amendment or modification thereof and *provided*, *further*, that if any amendment or modification to Appendix C (Attribution Protocol) to the Power Marketing Agreement has been approved by the Technical Committee in accordance with clause (ii) of this Section 7.02(l), such consent shall also constitute approval of such amendment or modification for purposes of the SPM Depositary Agreement.

Profits, Management, Etc. Enter into any partnership, profit-sharing, royalty agreement or other similar arrangement whereby the Borrower's income or profits are, or might be, shared with any other Person (other than Sithe Power Marketing, Sithe Boston Power Services, Sithe New England Power Services and Sithe), or enter into any management contract or similar arrangement whereby its business or operations are managed by any other Person (other than Sithe Power Marketing, Sithe Boston Power Services, Sithe New England Power Services and Sithe).

Organizational Documents. Amend or modify, in any material fashion, its certificate of formation or limited liability company agreement.

Guaranty Obligations. Create, incur, assume, guarantee or remain liable on any Guaranty Obligations except:

to the extent any such Guaranty Obligation constitutes Borrower Permitted Debt or Debt allowed under this Agreement;

in the ordinary course of business and not in connection with the borrowing of money; or

to the extent such Guaranty Obligation is in favor of the Lenders pursuant to the Loan Documents.

Margin Stock. Use any proceeds of the Advances to purchase or carry any margin stock.

Name Change. Change its name or location without 15 days' prior written notice to the Administrative Agent.

Bank Accounts. Maintain bank accounts other than the Accounts (each of which shall be maintained with the Collateral Agent) and the Permitted Borrower Account.

Reporting Obligations. So long as any Note shall remain unpaid, any Letter of Credit shall remain outstanding, any Lender shall have any Commitment hereunder or any payment Obligation shall remain unpaid, the Borrower shall, unless the Required Lenders shall otherwise consent in writing, furnish to the Administrative Agent:

Borrower Financial Statements. (i) Promptly upon completion thereof and in any event within 120 days after the end of each fiscal year of the Borrower, an audited annual financial statement certified by a firm of independent public accountants of recognized international standing, and (ii) promptly upon completion thereof and in any event within 60 days after the end of each of the first three fiscal quarters of each fiscal year of the Borrower, an unaudited quarterly financial statement.

[Intentionally omitted.]

Officer's Certificates. At the time of the delivery of the financial statements under clause (a) above, a certificate of an Authorized Officer of the Borrower which certifies (i) that such financial statements fairly present the financial condition and the results of operations of the Borrower on the dates and for the periods indicated in accordance with GAAP, subject, in the case of interim financial statements, to normally recurring year-end adjustments and lack of notes, and (ii) that such Authorized Officer has reviewed the terms of the Loan Documents and has made, or caused to be made under his or her supervision, a review in reasonable detail of the business and financial condition of the Borrower during the accounting period covered by such financial statements, and that as a result of such review such Authorized Officer has concluded that no Borrower Event of Default or Material Borrower Default, has occurred during the period commencing at the beginning of the accounting period covered by the financial statements accompanied by such certificate and ending on the date of such certificate or, if any, Borrower Event of Default or Material Borrower Default has occurred, specifying the nature and extent thereof and, if continuing, the action the Borrower proposes to take in respect thereof.

Updated Projections. At the request of the Administrative Agent, which request may be no more frequent than annually, updated market projections (which, *inter alia*, shall forecast variable Operating Expenses for the Projects) for the following twelve month period, together with a certificate of the Power

Market Consultant and the Fuel Consultant as to the reasonableness of such forecast and its methodology. If such updated market projections are requested by the Administrative Agent, the Borrower shall use such updated projections in determining whether the conditions to Distribution have been satisfied with respect to the next quarter (the "*First Quarter*") and shall use the methodology adopted by such updated projections in determining whether the conditions to Distribution have been satisfied in each of the three quarters following the First Quarter.

Certain Events. Promptly after the Borrower obtains knowledge thereof, written notice of:

the occurrence of any Borrower Default or Borrower Event of Default specifying the nature thereof and the action which the Borrower is taking and proposes to take with respect to the same;

any pending or threatened litigation, action, suit, investigation, proceedings by or before any Governmental Authority or arbitrator involving the Borrower involving (A) an amount in dispute in excess of (i) $5,000,000 in respect of any one such proceeding or (ii) $10,000,000 in respect of all such proceedings; or (B) any injunctive or equitable relief;

the occurrence of any Casualty Event affecting any Project in excess of $5,000,000;

any cancellation of or material change in the terms, coverage or amounts of the insurance for the Borrower or the Project Companies or a change in the commercial availability of any such insurance that could reasonably be expected to have a Material Adverse Effect; and

any change in or transfer of ownership interests in the Borrower or the Borrower's interests in any Project Company.

Other information from time to time, such other information or documents (financial or otherwise) as the Administrative Agent may reasonably request.

BORROWER EVENTS OF DEFAULT

Borrower Events of Default. If any of the following events (each of which shall be a "*Borrower Event of Default*") shall occur and be continuing after the expiration of the grace period, if any, applicable thereto:

Failure to Make Payments. The Borrower shall (i) fail to pay or prepay any principal of any Note within five (5) Business Days after the same comes due and payable, whether by scheduled maturity or required prepayment or by acceleration or otherwise or (ii) fail to pay any interest on any Note or any Fees, or any other amount payable under any Swap Agreement with any Swap Bank or under the other Loan Documents within five (5) Business days after the same shall become due and payable;

Breach of Representation or Warranty. Any representation or warranty made or deemed made by the Borrower in any Loan Document or in any certificate delivered pursuant thereto shall prove to be false or misleading when made or deemed made if as a result of such falsity or misrepresentation, a Material Adverse Effect occurs or could reasonably be expected to occur and such Material Adverse Effect is not cured or vitiated prior to the 45th day after the date on which such misrepresentation occurred;

Breach of Loan Document Covenants and Obligations by Borrower. Other than as described in clause (a) above, the Borrower shall fail to perform or observe any covenant or obligation arising under any Loan Document, *provided*, that in the case of (1) Borrower Affirmative Covenants (other than covenants set forth in Sections 7.01(d) (existence), (f) (title) (only with respect to material properties and assets), (i) (risk management policy), (l) (Revenue Account) and (m) (use of proceeds)), and (2) Section 7.03 (i) (notice of default)), such failure has not been cured or remedied within 30 days after the Borrower becomes aware of such breach, or if such failure is not susceptible of being remedied within 30 days, such longer period as may be necessary (not to exceed 90 additional days), *provided*, that as to such extension, the Borrower shall at all times be diligently attempting to remedy such failure and such extension of time could not reasonably be expected to have a Material Adverse Effect, *provided*, that the Lenders' remedies in connection with a breach by the Borrower of its obligations pursuant to Section 7.01(j) shall be limited to those remedies provided in Section 7.02(f)(iii) and 8.01(h);

Default Under Other Agreements. The Borrower shall default in the (i) payment when due (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise) of any amount owing or (ii) in performance or observance of any other obligation or condition, in each case, with respect to any secured Debt (other than the Obligations) in the aggregate principal amount of $25,000,000 or more; or the Borrower shall default in the (i) payment when due (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise) of any amount owing or (ii) in performance or observance of any other obligation or condition, or any other event shall occur or condition exist, if the effect of such default, event or condition is to accelerate the maturity of any Debt (other than the Obligations) in an aggregate principal amount of $10,000,000 or more or any such Debt shall become or be declared to be due and payable prior to its stated maturity other than as a result of a regularly scheduled payment;

Bankruptcy, Etc. An Event of Bankruptcy shall occur with respect to the Borrower, Sithe Power Marketing or Sithe;

Change in Control. A Change of Control shall have occurred;

Clean Up Requirement. The Clean Up Requirement shall not have been satisfied;

Gas Lateral. If by May 30, 2003 neither of the following shall have occurred: (i) the Gas Lateral has been constructed and is fully operational, and all governmental approvals required for the operation of the Gas Lateral have been obtained, or (ii) an Alternative Plan is in full force and effect.

Dissolution. Any order, judgment, or decree shall be entered against the Borrower, Sithe Power Marketing or Sithe decreeing its involuntary dissolution or split up and such order shall remain undischarged and unstayed for a period in excess of thirty (30) days from the date of entry thereof; or the Borrower, Sithe

Power Marketing or Sithe shall otherwise dissolve or cease to exist;

Judgments. One or more judgments or decrees shall be entered by a court of competent jurisdiction against the Borrower in an aggregate amount in excess of $75,000,000 and not stayed, satisfied or discharged within sixty (60) days from the date of entry thereof;

Security Documents. Any of the Security Documents shall for any reason cease to be in full force and effect, or shall cease to give the Collateral Agent the Liens, rights, powers and privileges purported to be created thereby on any material Collateral (unless such failure has been cured or remedied within ten (10) days from the date of such cessation);

Compliance with ERISA. The Borrower shall fail to perform or observe the covenants set forth in 7.02(k) and such failure would reasonably be expected to have a Material Adverse Effect;

Project Event of Default. (I) A Material Project Event of Default shall have occurred or (ii) a Project Event of Default not constituting a Material Project Event of Default shall have occurred which Project Event of Default could reasonably be expected to have a Material Adverse Effect;

Second Completion Date. The Second Completion Date shall not have occurred on or before the Date Certain;

Breach of Negative Pledge. Sithe New England shall have pledged all or any portion of its membership interests in the Borrower;

Equity Contributions. So long as Sithe New England continues to have an obligation to fund Contingent Equity Contributions under the Equity Contribution Agreement (and such obligation is not currently cash collateralized or backed by Acceptable Credit Support) and/or Sithe has any remaining payment obligations under the Sithe Equity Guaranty:

Sithe New England shall fail to perform or observe the terms and conditions of the Equity Contribution Agreement, after giving effect to all grace periods provided therein;

The Sithe Equity Guaranty shall cease to be valid and binding and in full force and effect;

Sithe shall fail to perform or observe the terms or conditions of the Sithe Equity Guaranty, *provided, however*, in the case of a breach of any Original Financial Covenant or New Financial Covenant (defined therein) (X) prior to the making of all Contingent Equity Contributions (a) any cure periods applicable to such breach provided for in the Revolving Credit Facility or the New Revolving Credit Facility, as applicable, shall have expired, (b) the waiver of any such default by the lenders to the Revolving Credit Facility or the New Revolving Credit Facility shall be deemed to cure such default, in the case of any Original Unincorporated Financial Covenant or New Unincorporated Financial Covenant, respectively (as defined in the Sithe Equity Guaranty), and (c) such default hereunder shall be deemed cured if within 15 days following the occurrence of such default Sithe provides Acceptable Credit Support with respect to all remaining obligations of Sithe under the Sithe Equity Guaranty and (Y) thereafter, (a) any cure periods applicable to such breach provided for in the Revolving Credit Facility or the New Revolving Credit Facility, as applicable, shall have expired, (b) the waiver of any such default by the lenders to the Revolving Credit Facility or the New Revolving Credit Facility shall be deemed to cure such default, (c) such default hereunder shall be deemed cured if

within 15 days following the occurrence of such default Sithe provides Acceptable Credit Support with respect to all remaining obligations of Sithe under the Sithe Equity Guaranty, and (d) if Sithe shall have received and continues to maintain an Investment Grade Rating from two Rating Agencies, one of which shall be S&P or Moody's, then, notwithstanding any provision of any Loan Document to the contrary, such default shall not constitute a Borrower Event of Default hereunder.

Sithe Undertaking. The Sithe Undertaking shall cease to be valid and binding and in full force and effect or Sithe shall fail to perform or observe the terms or conditions thereof, after giving effect to all grace periods provided therein.

Sithe New England. For so long as the Distrigas Guaranty shall contain a net worth covenant with respect to Sithe New England and/or a covenant restricting certain asset dispositions by Sithe New England, (I) Sithe New England's net worth (as determined in accordance with GAAP) shall be less than $300 million or (ii) Sithe New England shall have pledged, transferred, assigned, mortgaged, leased, sold or hypothecated the Generating Assets (as defined in the Distrigas Guaranty) in a manner that could have a material adverse impact on Sithe New England's ability to perform fully its obligations under the Distrigas Guaranty (other than to the extent expressly consented to by Distrigas in writing); *provided*, in the case of clause (ii), that such pledge, transfer, assignment, mortgage, lease, sale or hypothecation (A) could reasonably be expected to have a Borrower Material Adverse Effect and (B) such Default remains unremedied for a period of 150 days.

Then, and in any such event, the Administrative Agent shall at the request, or may with the consent, of the Required Lenders, upon notice to the Borrower (I) declare the Commitments and the obligation of each Lender to make Advances and of the LC Issuers to issue, extend, or reinstate any amounts under, the Letters of Credit to be terminated, whereupon the same shall forthwith terminate, (ii) declare the Notes, all accrued interest thereon and the Swap Claims, if any, and all other amounts payable under this Agreement and the other Loan Documents to be forthwith due and payable, whereupon the Notes and all such interest and other amounts shall become and be forthwith due and payable, without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by the Borrower, (iii) demand that the Borrower immediately pay to the Collateral Agent an amount equal to the remaining amount that can be drawn under all Letters of Credit, whereupon the Borrower shall immediately make such payment to the Collateral Agent, which shall hold such payment as collateral for any amounts then owed or which may become due to the LC Issuers under the Loan Documents, (iv) direct the Collateral Agent to apply any and all amounts on deposit in the Accounts to repayment of the Obligations in accordance with the Depositary Agreement and (v) direct the Collateral Agent to exercise in respect of the Collateral, in addition to the other rights and remedies provided for herein and in the Security Documents or otherwise available to the Administrative Agent, the Collateral Agent, or the Lenders, any or all the rights and remedies of a secured party on default under the Uniform Commercial Code in effect in the State of New York and in effect in any other jurisdiction in which Collateral is located at that time; *provided, however*, that in the event of an actual or deemed entry of an order for relief with respect to the Borrower under the Federal Bankruptcy Code, (A) the Commitments and the obligation of each Lender to make Advances and of the LC Issuers to issue, or to extend the Expiration Date or otherwise amend or modify, or reinstate any amounts under, the Letters of Credit shall automatically be terminated and (B) the Notes, all such accrued interest and all such other amounts described in clauses (ii) and (iii) above shall automatically become and be due and payable, without presentment, demand, protest or any notice of any kind, all of which are hereby expressly waived by the Borrower. Notwithstanding anything to the contrary contained herein, no notice given or declaration made by the Administrative Agent pursuant to this

Section 8.01 shall affect the obligation of the LC Issuers to make any payment under any Letter of Credit issued by the LC Issuers in accordance with the terms of such Letter of Credit.

THE ADMINISTRATIVE AGENT AND THE TECHNICAL COMMITTEE

Authorization and Action. Each Lender hereby appoints and authorizes the Administrative Agent to take such action as agent on its behalf and to exercise such powers under this Agreement as are delegated to the Administrative Agent by the terms hereof, together with such powers as are reasonably incidental thereto. As to any matters not expressly provided for by any Loan Document (including enforcement thereof or collection thereunder), the Administrative Agent shall not be required to exercise any discretion or take any action, but shall be required to act or to refrain from acting (and shall be fully protected in so acting or refraining from acting) upon the instructions of the Required Lenders or, if required by the terms hereof, all Lenders, and such instructions shall be binding upon all Lenders and the LC Issuers; *provided, however*, that the Administrative Agent shall not be required to take any action which exposes the Administrative Agent to personal liability or which is contrary to this Agreement or applicable Law. The Administrative Agent agrees to deliver promptly to each Lender notice of each notice given to it by the Borrower pursuant to the terms of this Agreement or by any Project Company under the terms of the Project Company Guarantee.

Agent's Reliance, etc. Neither the Administrative Agent nor any of its directors, officers, agents or employees shall be liable for any action taken or omitted to be taken by it or them under or in connection with any Loan Document, except for its or their own gross negligence or willful misconduct as found by a court of competent jurisdiction. Without limitation of the generality of the foregoing, the Administrative Agent: (a) may treat the payee of any Note as the holder thereof until the Administrative Agent receives and accepts a Lender Assignment or other assignment or transfer documentation entered into by the Lender which is the payee of such Note, as assignor or transferor, and an assignee, as assignee or transferee, as provided in Section 10.07; (b) may consult with legal counsel (including counsel for the Borrower), independent public accountants and other experts selected by it and shall not be liable for any action taken or omitted to be taken in good faith by it in accordance with the advice of such counsel, accountants or experts; (c) makes no warranty or representation to any Lender and shall not be responsible to any Lender for any statements, warranties or representations made in or in connection with any Loan Document; (d) shall not have any duty to ascertain or to inquire as to the performance or observance of any of the terms, covenants or conditions of any Loan Document on the part of the Borrower or to inspect the Project or any other property (including the books and records) of the Borrower; (e) shall not be responsible to any Lender for the due execution, legality, validity, enforceability, genuineness, sufficiency or value of any Transaction Document or any other instrument or document furnished pursuant hereto or thereto; (f) shall incur no liability under or in respect of any Loan Document by acting upon any notice, consent, certificate or other instrument or writing (which may be by telegram, telecopy, cable or telex) believed by it to be genuine and signed or sent by the proper party or parties and (g) shall not be charged with having knowledge of any Borrower Default, Borrower Event of Default, Project Default or Project Event of Default unless provided with written notice thereof.

BNP PARIBAS and Affiliates. With respect to its Commitments and the Notes issued to it, BNP PARIBAS shall have the same rights and powers under this Agreement as any other Lender and may exercise the same as though it were not the Administrative Agent; and the term "*Lender*" or "*Lenders*" shall, unless otherwise expressly indicated, include BNP PARIBAS in its individual capacity. BNP PARIBAS and its Affiliates may accept deposits from, lend money to, act as trustee under indentures of and generally engage in any kind of business with, the Borrower, each Member, any of their respective Affiliates and any Person who may do business with or own securities of the Borrower, a Member or any Affiliate of the Borrower or of a Member, all as if BNP PARIBAS were not the Administrative Agent and without any duty to account therefor to the Lenders.

Lender Credit Decision. Each Lender acknowledges that it has, independently and without reliance upon the Administrative Agent or any other Lender and based on the financial information

---

referred to in Section 6.01(n) and such other documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement.

Indemnification. The Lenders agree to indemnify the Administrative Agent (to the extent not reimbursed by the Borrower), ratably according to the respective principal amounts of the Notes and the interests in the Letters of Credit then held by each of them (or if no Notes or Letters of Credit are at the time outstanding, ratably according to the respective Percentages of the Lenders), from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever which may be imposed on, incurred by, or asserted against the Administrative Agent in any way relating to or arising out of this Agreement or any action taken or omitted by the Administrative Agent under this Agreement; *provided*, that no Lender shall be liable for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from the Administrative Agent's gross negligence or willful misconduct as found by a court of competent jurisdiction. Without limitation of the foregoing, each Lender agrees to reimburse the Administrative Agent promptly upon demand for its ratable share of any out-of-pocket expenses (including counsel fees) incurred by the Administrative Agent in connection with the preparation, execution, delivery, administration, modification, amendment or enforcement (whether through negotiations, legal proceedings or otherwise) of, or legal advice in respect of rights or responsibilities under, this Agreement to the extent that the Administrative Agent is entitled to reimbursement for such expenses pursuant to Section 10.04 but is not reimbursed for such expenses by the Borrower, as the case may be.

Successor Administrative Agent. The Administrative Agent may resign at any time by giving written notice thereof to the Lenders and the Borrower and may be removed at any time with or without cause by the Required Lenders, with any such resignation or removal to become effective only upon the appointment of a successor Administrative Agent pursuant to this Section 9.06. Upon any such resignation or removal, the Required Lenders shall have the right to appoint a successor Administrative Agent, which shall be a Lender or shall be another commercial bank, trust company or insurance company reasonably acceptable to the Borrower. If no successor Administrative Agent shall have been so appointed by the Required Lenders, and shall have accepted such appointment, within 30 days after the retiring Administrative Agent's giving of notice of resignation or the Required Lenders' removal of the retiring Administrative Agent, then the retiring Administrative Agent may, on behalf of the Lenders, appoint a successor Administrative Agent, which shall be a Lender or shall be another commercial bank or trust company reasonably acceptable to the Borrower. Upon the acceptance of any appointment as Administrative Agent hereunder by a successor Administrative Agent and the execution and delivery by the Borrower and the successor Administrative Agent of an agreement relating to the annual administration fees to be paid to the successor Administrative Agent as contemplated by Section 4.09(a) in connection with its acting as Administrative Agent hereunder, such successor Administrative Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring Administrative Agent, and the retiring Administrative Agent shall be discharged from its duties and obligations under this Agreement. After any retiring Administrative Agent's resignation or removal hereunder as Administrative Agent, the provisions of this Article IX shall continue to inure to its benefit as to any actions taken or omitted to be taken by it while it was Administrative Agent under this Agreement.

Technical Committee. Each Lender hereby appoints and authorizes each of the Lead Arrangers, Credit Lyonnais, The Bank of Nova Scotia and CoBank to act as its technical committee hereunder and under the other Loan Documents (the "Technical Committee") with such powers as are expressly delegated to the Technical Committee by the terms of this Agreement and the other Loan Documents, together with such other powers as are reasonably incidental thereto and the power to appoint each of its additional members. The Technical Committee shall not have any duties or responsibilities except those expressly set forth in this Agreement or in any other Loan Document, or be a trustee or a

---

fiduciary for any Lender. Notwithstanding anything to the contrary contained herein the Technical Committee shall not be required to take any action which is contrary to this Agreement or any other Loan Documents or any Requirement of Law or exposes the Technical Committee to any liability. All decisions and determinations to be made by the Technical Committee hereunder and under the other Loan Documents shall be made by consent of four of its five members. Borrower and each Lender hereby agrees that the protective provisions set forth in Sections 9.02 through 9.05 shall apply to and protect, mutatis mutandis, each member of the Technical Committee and all determinations, decisions, actions or inactions taken or omitted to be taken by the Technical Committee. In the event that any member of the Technical Committee at any time reduces its Commitment to less than $20,000,000, either the Borrower or the Administrative Agent may request the remaining members of the Technical Committee to have such Lender removed. In the event that any member of the Technical Committee at any time ceases to be a Lender hereunder, is removed pursuant to the immediately preceding sentence or otherwise resigns from the Technical Committee, then the Administrative Agent in consultation with the Borrower, shall appoint a Lender as a successor member to the Technical Committee; provided (I) such Lender shall be a Lender with one of the ten largest Commitments at such time among the Lenders who are not then members of the Technical Committee and (ii) Borrower does not disapprove of such Lender within five (5) Business Days of receipt of notice of such Lender's appointment to the Technical Committee.

MISCELLANEOUS

Amendments, etc. No amendment or waiver of any provision of any Loan Document, nor any consent to any departure by the Borrower therefrom, shall in any event be effective unless the same shall be in writing and signed by the Required Lenders (unless the terms of this Agreement or any other Loan Document shall expressly provide that the Technical Committee or the Administrative Agent alone be empowered to approve or otherwise effect such amendment, waiver or consent), and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; *provided, however*, that no amendment, waiver or consent shall, unless in writing and signed by all the Lenders, do any of the following: (a) reduce the principal of, or interest on, the Notes, any Applicable Margin, any payment obligations of the Borrower under Article III or any Fees or other amounts payable hereunder, (b) postpone any date fixed for any payment of principal of, or interest on, the Notes, any payment obligations of the Borrower under Article III or any Fees or other amounts payable hereunder, (c) change the Percentage of the Commitments or of the aggregate unpaid principal amount of the Notes, or the percentage of the outstanding Advances held by Lenders which, in any case, shall be required for the Required Lenders or Required Lenders to take any action hereunder, (d) amend any Loan Document or consent to any amendment of a Project Document in a manner intended to prefer one or more Lenders over any other Lenders, (e) amend this Section 10.01, (f) extend the Date Certain, (g) extend any availability period hereunder, or (h) release any material Collateral (except as expressly provided in any Loan Document) or change any provision of any Security Document providing for the release of Collateral or (I) release any guarantee; and *provided, further*, that no amendment, waiver or consent shall, unless in writing and signed by (I) the Administrative Agent in addition to the Lenders required above to take such action, affect the rights or duties of the Administrative Agent under this Agreement or any Loan Document and (ii) the LC Issuers in addition to the Lenders required above to take such action, affect the rights and duties of the LC Issuers under any Loan Document.

Notices, etc. All notices and other communications provided for hereunder and under the other Loan Documents shall be in writing (including facsimile communication) and mailed, telecopied, or delivered (I) if to the Borrower, at its address at 335 Madison Avenue, New York, New York 10017, Attention: Treasurer; (ii) if to any Lender, at its address specified under its name on the signature pages hereto, or at the address specified in the Lender Assignment or other transfer or assignment documentation pursuant to which it became a Lender; (iii) if to either LC Issuer, at its respective

---

address specified under its name on the signature pages hereto; and (iv) if to the Administrative Agent, at its address specified under its name on the signature pages hereto; or, as to each party, at such other address as shall be designated by such party in a written notice to the other parties. All such notices and communications shall be effective when telecopied, *provided*, that the telecopy is followed by a duplicate mailed within 24 hours of such telecopy, and all notices and communications shall be effective five (5) days after when deposited in the mails, except that notices and communications to the Administrative Agent pursuant to Article II or VIII shall not be effective until received by the Administrative Agent. To the greatest extent possible and for the parties' convenience, the parties hereto will deliver ordinary course notices or other documents required to be delivered hereunder by electronic mail.

No Waiver of Remedies. No failure on the part of any Lender, the LC Issuers or the Administrative Agent to exercise, and no delay in exercising, any right hereunder or under any Note or under any other Loan Document shall operate as a waiver thereof; nor shall any single or partial exercise of any such right preclude any other or further exercise thereof or the exercise of any other right. The remedies herein provided are cumulative and not exclusive of any remedies provided by law.

Costs, Expenses and Indemnification.

All statements, reports, certificates, opinions and other documents or information required to be furnished by the Borrower to any Secured Party under this Agreement or any other Loan Document shall be supplied without cost to any Secured Party. The Borrower shall pay, on demand (I) all reasonable out-of-pocket costs and expenses, including all reasonable pre-closing costs, of the Administrative Agent, the Lenders and the LC Issuers (including the reasonable fees and disbursements of (A) Dewey Ballantine LLP, special counsel to the Administrative Agent, the Lenders and the LC Issuers and (B) special Massachusetts counsel to the Administrative Agent, the Lenders and the LC Issuers), incurred in connection with (1) the negotiation, preparation, execution and delivery of the Transaction Documents or any waiver or amendment of, or supplement or modification to, the Transaction Documents and (2) the review of any of the other agreements, instruments or documents referred to in this Agreement or relating to the transactions contemplated hereby; (ii) the reasonable fees and disbursements of the Independent Engineer, the Power Market Consultant, the Fuel Consultant and the Insurance Consultant for their services rendered to the Secured Parties from time to time payable under their respective engagement letters approved in writing by the Borrower, subject to maximum reimbursement amounts set forth therein; (iii) all reasonable out-of-pocket costs and expenses of the Administrative Agent incurred in connection with the ongoing administration of the transactions contemplated hereby; (iv) all reasonable out-of-pocket costs and expenses of the members of the Technical Committee which are incidental to the performance of their duties and responsibilities hereunder; (v) all reasonable costs and expenses of any of the Collateral Agent, the Depositary, the Administrative Agent and members of the Technical Committee or, with respect to clause (4) below, any Secured Party (including reasonable fees and disbursements of their legal counsel) incident to (1) the collection of the Obligations or protection or enforcement of the Obligations during the occurrence and continuation of any Borrower Event of Default, (2) the investigation, or any action in connection therewith, of any Project Default, Borrower Default, Project Event of Default or Borrower Event of Default, (3) the enforcement, collection, protection or preservation of any right or claim under the Transaction Documents (whether through negotiations, legal proceedings or otherwise), or (4) any workout or restructuring of the transactions contemplated by the Loan Documents; (v) the reasonable expenses payable to the Lead Arrangers under any fee letter executed by it and the Borrower; and (vi) any reasonable costs or expenses incurred by the Lead Arrangers, any co-arranger or any Affiliate of either thereof in connection with the syndication of the loans made pursuant hereto.

The Borrower hereby agrees to indemnify and hold each Lender, the LC Issuers, the Administrative Agent, the Collateral Agent, the Lead Arrangers, each member of the Technical

Committee and their respective officers, directors, employees, professional advisors and Affiliates (each an "*Indemnified Person*") harmless from and against any and all claims, damages, losses, liabilities, costs or expenses (including reasonable attorneys' fees and expenses) which any of them may incur or which may be claimed against any of them by any Person by reason of or in connection with consummation of the transactions contemplated by the Commitment Letter dated December 7, 2000 among Sithe and the Lead Arrangers, the Loan Documents or any investigation, litigation or other proceeding relating to the foregoing or any Project (each, a "*Project Matter*" and, collectively, the "*Project Matters*"), initiated by a Person other than the parties hereto, other than as a result of the Indemnified Person's gross negligence or willful misconduct as found by a court of competent jurisdiction.

Without limiting the generality of subsection (b), above, the Borrower further agrees to indemnify and hold harmless each Indemnified Person from and against any and all claims, losses, liabilities, suits, obligations, fines, damages, judgments, penalties, charges, costs and expenses (including reasonable attorneys' fees and disbursements) (whether civil or criminal, arising under a theory of negligence or strict liability, or otherwise) which may be imposed on, incurred or paid by or asserted against such Indemnified Person in connection with or resulting from any Environmental Discharge relating to any Project (each, an "*Environmental Matter*" and collectively, the "*Environmental Matters*") (I) at, upon or under any property of the Borrower or any of its Affiliates or any Project Party by or on behalf of any Person or (ii) by or on behalf of the Borrower or any of its Affiliates or any Project Party at any time and in any place.

The agreements of the Borrower in subsections (b) and (c), above, shall be in addition to any liabilities that the Borrower may otherwise have and shall apply whether or not a Secured Party or any other Indemnified Person is a formal party to any lawsuit, claim or other proceeding. Solely for purposes of enforcing the agreements set forth in subsections (b) and (c), above, the Borrower hereby consents, to the extent permitted by Law, to personal jurisdiction, service and venue in any court in which any claim or proceeding that relates to a Project Matter or an Environmental Matter is brought against an Indemnified Person.

The Borrower's obligations under this Section 10.04 shall survive the repayment of all amounts owing to the Lenders under the Notes and the termination of the Commitments. If and to the extent that the obligations of the Borrower under this Section 10.04 are unenforceable for any reason, the Borrower agrees to make the maximum contribution to the payment and satisfaction thereof which is permissible under applicable law.

The Lenders agree to indemnify and hold harmless the LC Issuers, the Administrative Agent, the Collateral Agent, the Lead Arrangers and each member of the Technical Committee and their respective officers, directors, employees, professional advisors and Affiliates, in their respective capacities as such (to the extent not reimbursed by the Borrower and without limiting the obligation, if any, of the Borrower to do so), from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind whatsoever which may at any time be imposed on, incurred by or asserted against the Administrative Agent, any Lead Arranger or any member of the Technical Committee in its capacity as such in any way relating to or arising out of this Agreement or any Loan Document, or the performance of its duties and responsibilities hereunder or any action taken or omitted to be taken by the Administrative Agent, any Lead Arranger or any member of the Technical Committee in its capacity as such under or in connection with any of the foregoing; provided, that the Lenders shall not be liable for the payment of any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements to the extent that any of the foregoing result in such Person's gross negligence or willful misconduct as determined by a court of competent jurisdiction. The agreements in this Section 10.04(f) shall survive the payment or satisfaction in full of the Obligations.

Right of Set-off.

Upon (I) the occurrence and during the continuance of any Borrower Event of Default and (ii) the granting of the request or consent specified by Section 8.01 to authorize the Administrative Agent to declare the Notes or amounts under the Letter of Credit due and payable pursuant to the provisions of Section 8.01, each Lender and the LC Issuers is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by such Lender or the LC Issuers to or for the credit or the account of the Borrower against any and all of the obligations of the Borrower now or hereafter existing under this Agreement and the Notes held by such Lender or under the Letter of Credit, irrespective of whether or not such Lender or the LC Issuers shall have made any demand under this Agreement or such Notes or under the Letter of Credit and although such obligations may be unmatured; *provided*, *however*, that any amounts obtained by any Lender through its right of set-off shall be shared, ratably, by the Lenders. Each Lender each LC Issuer agrees promptly to notify the Borrower after any such set-off and application made by such Lender or either LC Issuer, *provided*, that the failure to give such notice shall not affect the validity of such set-off and application. The rights of each Lender and the LC Issuers under this Section 10.05 are in addition to other rights and remedies (including other rights of set-off) which such Lender and the LC Issuers may have.

The Borrower agrees that, to the extent permitted by applicable Law, it shall have no right of set-off or deduction in respect of its obligations hereunder, and that the obligations of the Lenders hereunder are several and not joint. Nothing contained herein shall constitute a relinquishment or waiver of the Borrower's rights to any independent claim that the Borrower may have against the Administrative Agent or any Lender for the Administrative Agent's or such Lender's, as the case may be, breach of this Agreement, gross negligence or willful misconduct as determined by a court of competent jurisdiction, but no Lender shall be liable for the conduct of the Administrative Agent or any other Lender, and the Administrative Agent shall not be liable for the conduct of any Lender.

Binding Effect. This Agreement shall become effective when it shall have been executed by the Borrower, the LC Issuers, the Administrative Agent and each Lender whose name appears on the signature pages hereto and thereafter shall be binding upon and inure to the benefit of the Borrower, the Administrative Agent, each Lender and the LC Issuers and their respective successors and assigns, except that the Borrower shall not have the right to assign its rights hereunder or any interest herein without the prior written consent of all of the Lenders.

Assignments and Participations.

Assignments. Each Lender, with the consent of the Borrower (unless a Borrower Event of Default or a Material Borrower Default has occurred and is continuing) and the consent of the Administrative Agent (which consents shall not be unreasonably withheld); may assign to one or more banks, financial institutions, or other entities all or a portion of its rights and obligations under this Agreement and the other Loan Documents (including all or a portion of its Commitments, the Advances owing to it and the Note or Notes held by it); *provided, however*, that (A) each such assignment shall be of a constant, and not a varying, percentage of all of the assigning Lender's rights and obligations under this Agreement, (B) the amount of the Commitment of the assigning Lender being assigned pursuant to each such assignment (determined as of the date of the Lender Assignment with respect to such assignment) shall in no event be less than the lesser of (x) the amount of such Lender's then remaining Commitment and (y) $10,000,000 (except in the case of assignments between Lenders at the time already parties hereto), and (C) each assignee Lender shall comply with and be subject to the requirements of Section 4.10, including submission of the forms required under Section 4.10(d), and (D) the parties to each such assignment shall execute and deliver to the Administrative Agent a duly completed Lender Assignment, together with any Note or Notes subject to such assignment.

Notwithstanding the foregoing, any Lender in the ordinary course of its business and in accordance with Requirements of Law, may at any time assign to any Affiliate thereof without consent of the Borrower or the Administrative Agent. Upon such execution, delivery, acceptance and recording, from and after the effective date specified in each Lender Assignment, (x) the assignee thereunder shall be a party hereto and, to the extent that rights and obligations hereunder have been assigned to it pursuant to such Lender Assignment, shall have the rights and obligations of a Lender hereunder and (y) the Lender assignor thereunder shall, to the extent that rights and obligations hereunder have been assigned by it pursuant to such Lender Assignment, relinquish its rights and be released from its obligations under this Agreement (and, in the case of a Lender Assignment covering all or the remaining portion of an assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto).

By executing and delivering a Lender Assignment, the Lender assignor thereunder and the assignee thereunder confirm to and agree with each other and the other parties hereto as follows: (I) other than as provided in such Lender Assignment, such assigning Lender makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with any Loan Document or the execution, legality, validity, enforceability, genuineness, sufficiency or value of any Loan Document or any other instrument or document furnished pursuant thereto; (ii) such assigning Lender makes no representation or warranty and assumes no responsibility with respect to the financial condition of the Borrower or the performance or observance by the Borrower of any of its obligations under any Loan Document or any other instrument or document furnished pursuant thereto; (iii) such assignee confirms that it has received a copy of each Loan Document, together with copies of the Closing Base Case and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Lender Assignment; (iv) such assignee will, independently and without reliance upon the Administrative Agent, such assigning Lender or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Loan Documents; (v) such assignee appoints and authorizes the Administrative Agent to take such action as agent on its behalf and to exercise such powers under the Loan Documents as are delegated to the Administrative Agent by the terms thereof, together with such powers as are reasonably incidental thereto; and (vi) such assignee agrees that it will perform in accordance with their terms all of the obligations which by the terms of the Loan Documents are required to be performed by it as a Lender.

Upon its receipt of a Lender Assignment executed by an assigning Lender and an assignee, together with any Note or Notes subject to such assignment, the Administrative Agent shall, if such Lender Assignment has been completed and is in substantially the form of *Exhibit 10.07(a)*, (I) accept such Lender Assignment and (ii) give prompt notice thereof to the Borrower. Within five Business Days after its receipt of such notice, the Borrower shall execute and deliver to the Administrative Agent in exchange for each surrendered Note a new Note to such assignee in an amount equal to the Commitment assumed by it pursuant to such Lender Assignment and, if the assigning Lender has retained a Commitment hereunder, a new Note or Notes to the assigning Lender in an aggregate amount equal to the Commitment retained by it hereunder. The aggregate principal amount of the new Note or Notes delivered to the assignee and the assigning Lender shall be equal to the aggregate principal amount of such surrendered Note or Notes.

Participations. Each Lender may sell participations to one or more banks, financial institutions, or other entities in all or a portion of its rights and obligations under the Loan Documents (including all or a portion of its Commitment, the Advances owing to it and the Note or Notes held by it); *provided, however*, that (I) such Lender's obligations under this Agreement (including its Commitment to the Borrower hereunder) shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations, (iii) such Lender shall remain the holder

of any such Note for all purposes of this Agreement, (iv) the Borrower, the Administrative Agent and the other Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement, (v) the participating banks, financial institutions or other entities shall be entitled to the cost protection provisions contained in Sections 4.03(a), 4.03(c) and 4.06 only if the Lender from which such participant acquired its participation would have been entitled to such cost protection provisions had such Lender not sold such participation hereunder, (vi) the participating banks, financial institutions or other entities shall not have any right to approve any amendment or waiver of any provision of any Loan Document or to consent to the departure by the Borrower therefrom, unless the approval of all the Lenders is required for such amendment, waiver or consent, (viii) such participations shall in no event be less than the lesser of (x) the amount of such Lender's then remaining Commitment and (y) $5,000,000 (except in the case of assignments between Lenders at the time already parties hereto) and (ix) such Lender shall provide notice of such participation promptly thereafter.

Disclosure. Any Lender may, in connection with any assignment or participation or proposed assignment or participation pursuant to this Section 10.07, disclose to the assignee or participant or proposed assignee or participant, any information relating to the Borrower furnished to such Lender by or on behalf of the Borrower; *provided*, that prior to any such disclosure the assignee or participant or proposed assignee or participant shall agree, in accordance with the terms of Section 10.08, to preserve the confidentiality of any Confidential Information received by it from such Lender.

Notwithstanding anything to the contrary contained herein, any Lender (a "*Granting Lender*") may grant to a special purpose funding vehicle (a "*SPC*"), identified as such in writing from time to time by the Granting Lender to the Administrative Agent and the Borrower, the option to provide to the Borrower all or any part of any Advance that such Granting Lender would otherwise be obligated to make to the Borrower pursuant to this Agreement; *provided*, that (I) nothing herein shall constitute a commitment by any SPC to make any Advance, (ii) if an SPC elects not to exercise such option or otherwise fails to provide all or any part of such Advance, the Granting Lender shall be obligated to make such Advance pursuant to the terms hereof. The making of a Advance by an SPC hereunder shall utilize the Commitment of the Granting Lender to the same extent, and as if, such Advance were made by such Granting Lender. Each party hereto hereby agrees that no SPC shall be liable for any indemnity or similar payment obligation under this Agreement (all liability for which shall remain with the Granting Lender). In furtherance of the foregoing, each party hereto hereby agrees (which agreement shall survive the termination of this Agreement) that, prior to the date that is one year and one day after the payment in full of all outstanding commercial paper or other senior indebtedness of any SPC, it will not institute against, or join any other person in instituting against, such SPC any bankruptcy, reorganization, arrangement, insolvency or liquidation proceedings under the laws of the United States or any State thereof. In addition, notwithstanding anything to the contrary contained in this Section 10.07(d), any SPC may (I) with notice to, but without the prior written consent of, the Borrower and the Administrative Agent and without paying any processing fee therefor, assign all or a portion of its interest on any Advances to the Granting Lender or to any financial institutions (consented to by the Borrower and Administrative Agent) providing liquidity and/or credit support to or for the account of such SPC to support the funding or maintenance of Advances and (ii) disclose on a confidential basis any non-public information relating to its Advances to any rating agency, commercial paper dealer or provider of any surety, guarantee or credit or liquidity enhancement to such SPC. This Section 10.07(d) may not be amended or modified without the written consent of the SPC, which consent may not be unreasonably withheld.

Anything in this Section 10.07 to the contrary notwithstanding, any Lender may assign and pledge all or any portion of its Loans and its Notes to any Federal Reserve Bank as collateral security pursuant to Regulation A of the Board of Governors of the Federal Reserve System and any Operating

---

Circular issued by such Federal Reserve Bank. No such assignment shall release the assigning Lender from its obligations hereunder.

Confidentiality; Use of Name.

In connection with the negotiation and administration of this Agreement and the other Loan Documents, the Borrower has furnished and will from time to time furnish to the Administrative Agent and the Lenders (each, a "*Recipient*") written information which is confidential (such information, other than any such information which (I) was publicly available, or known to the Recipient otherwise than through other information previously provided by or on behalf of the Borrower and identified as being confidential, at the time of disclosure, (ii) subsequently becomes publicly available other than through any act or omission by the Recipient or (iii) otherwise subsequently becomes known to the Recipient other than through a Person whom the Recipient knows to be acting in confidence (or in violation of his or its obligations to the Borrower), being hereinafter referred to as "*Confidential Information*"). The Recipient will maintain the confidentiality of any Confidential Information in accordance with such procedures as the Recipient applies generally to information of that nature. It is understood, however, that the foregoing will not restrict the Recipient's ability to freely exchange such Confidential Information with current or prospective participants in or assignees of the Recipient's position herein, but the Recipient's ability to so exchange Confidential Information shall be conditioned upon any such prospective participant's or assignee's entering into an agreement for the benefit of the Borrower as to confidentiality substantially identical to this provision. It is further understood that the foregoing will not prohibit the disclosure of any or all Confidential Information if and to the extent that such disclosure may be required or requested (I) by a regulatory agency or otherwise in connection with an examination of the Recipient's records by appropriate authorities, (ii) pursuant to court order, subpoena or other legal process or in connection with any pending or threatened litigation, (iii) otherwise as required by law or (iv) in order to protect its interests or its rights or remedies hereunder or under the other Loan Documents. In the event of any required disclosure under clause (ii) or (iii), above, the Recipient agrees to use reasonable efforts to inform the Borrower as promptly as practicable before such disclosure so that the Borrower may make such disclosure on behalf of any Lender or potential Lender, the Administrative Agent, any Secured Party, the Collateral Agent or any participant (to the extent that the Borrower is not prohibited from doing so by Law) or seek a protective order or other appropriate remedy. To the extent that the Borrower does not make such disclosure on behalf of the Person required to make such disclosure, the Person making such disclosure shall furnish only that portion of Confidential Information that it reasonably determines to be required by Law to be furnished and will exercise its reasonable efforts to obtain reliable assurance that confidential treatment will be accorded such Confidential Information.

The Borrower shall not use the name of the Administrative Agent, the Collateral Agent, the LC Issuers, the Depositary or any Secured Party in any advertisement without the express written consent of such party, nor shall the Administrative Agent, the Collateral Agent, the Depositary or any Secured Party use the name of the Borrower in any advertisement (other than any advertisement concerning the transactions contemplated by this Agreement) without the express written consent of the Borrower.

WAIVER OF JURY TRIAL; Limitation of Liability. (a) THE BORROWER, THE ADMINISTRATIVE AGENT AND THE LENDERS EACH HEREBY IRREVOCABLY WAIVES ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT, OR ANY OTHER INSTRUMENT OR DOCUMENT DELIVERED HEREUNDER OR THEREUNDER.

(b) No claim shall be made by the Borrower or any Affilitate thereof against any Secured Party, or any of their Affiliates, directors, employees, attorneys, or agents for any special, indirect, consequential, or punitive damages in respect of any breach or wrongful conduct (whether or not the

---

claim therefor is based on contract, tort, or duty imposed by law), in connection with, arising out of, or in any way related to the transactions contemplated by this Agreement or the other Loan Documents or any act or omission or event occurring in connection therewith; and the Borrower and each Affiliate thereof hereby waives, releases, and agrees not to sue upon any such claim for any such damages, whether or not accrued and whether or not known or suspected to exist in its favor.

Additional Collateral. The Lenders agree that any Collateral taken or received by or on behalf of the Lenders as security for the Borrower's obligations under the Loan Documents will be held by the respective holder of such security not only for the benefit of the Lenders but also for the benefit of the other Secured Parties, and that the proceeds of any such security (whether before, during or after the pendency of any proceeding against the Borrower under the Federal Bankruptcy Code) shall be applied in accordance with the terms of the Depositary Agreement, it being understood that the Lenders may release or obtain reimbursement or other payments under the Loan Documents from all or any of such Collateral at any time or from time to time without any consent of, notice to or payment to or for the account of, any Lender or the holder of any Note.

GOVERNING LAW, ETC. THIS AGREEMENT AND THE NOTES SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK, WITHOUT GIVING EFFECT TO THE CONFLICT OF LAWS PRINCIPLES THEREOF (EXCEPT SECTIONS 5-1401 AND 5-1402 OF THE NEW YORK GENERAL OBLIGATIONS LAW). THE BORROWER, EACH LENDER AND THE ADMINISTRATIVE AGENT EACH (I) IRREVOCABLY SUBMITS TO THE NON-EXCLUSIVE JURISDICTION OF ANY NEW YORK STATE COURT OR FEDERAL COURT SITTING IN THE BOROUGH OF MANHATTAN, THE CITY OF NEW YORK IN ANY ACTION ARISING OUT OF ANY LOAN DOCUMENT, (II) AGREES THAT ALL CLAIMS IN SUCH ACTION MAY BE DECIDED IN SUCH COURT, (III) WAIVES, TO THE FULLEST EXTENT IT MAY EFFECTIVELY DO SO, THE DEFENSE OF AN INCONVENIENT FORUM AND (IV) CONSENTS TO THE SERVICE OF PROCESS BY MAIL. A FINAL JUDGMENT IN ANY SUCH ACTION SHALL BE CONCLUSIVE AND MAY BE ENFORCED IN OTHER JURISDICTIONS. NOTHING HEREIN SHALL AFFECT THE RIGHT OF ANY PARTY TO SERVE LEGAL PROCESS IN ANY MANNER PERMITTED BY LAW OR AFFECT ITS RIGHT TO BRING ANY ACTION IN ANY OTHER COURT.

Relation of the Parties; No Beneficiary. No term, provision or requirement, whether express or implied, of any Loan Document, or actions taken or to be taken by any party thereunder, shall be construed to create a partnership, association, or joint venture between such parties or any of them. No term or provision of the Loan Documents shall be construed to confer a benefit upon, or grant a right or privilege to, any Person other than the parties thereto.

No Recourse to Affiliates. Anything herein to the contrary notwithstanding, and except as expressly provided to the contrary in any Loan Document, the payment of the Obligations by the Borrower and the performance of all other obligations of the Borrower and the Project Companies under this Agreement and the other Loan Documents, and any certificate, notice, instrument or document delivered pursuant hereto or thereto are special obligations of the Borrower or the Project Companies, as the case may be, and, except for Sithe New England's obligation in respect of the Equity Contribution Agreement, Sithe's obligations under the Equity Guarantee, the Sithe Undertaking and the Administrative Services Agreements, Sithe Power Marketing's obligations under the Power Marketing Agreement, the SPM Security Agreement and SPM Depositary Agreement, Sithe New England Power Services under the Sithe Mystic Station O&M Agreement and Sithe Boston Power Services' obligations under the Mystic Development O&M Agreement and the Fore River O&M Agreement, do not constitute a debt or obligation of (and no recourse shall be had with respect thereto to) its members or any of its or their Affiliates, or any shareholder, partner, officer, director, employee, agent, attorney, consultant or controlling person of any such member or Affiliate; except to the extent

---

relating to such member's or such Affiliate's express obligations under any Transaction Document, no action shall be brought against members or any Affiliates of the Borrower or its members, or any shareholder, partner, officer, director, employee, agent, attorney, consultant or controlling person of any thereof as such, and any judicial proceedings a Lender, the Administrative Agent, the Collateral Agent or the LC Issuers may institute against the Borrower shall be limited to seeking the preservation, enforcement, foreclosure or other sale or disposition of the Liens and security interests now or at any time hereafter securing the repayment of the Advances and performance by the Borrower of its other covenants and obligations hereunder and under the other Loan Documents; and, except to the extent relating to any member's or such Affiliate's express obligations under any Transaction Document, no judgment for any deficiency upon the obligations hereunder, or under the other Loan Documents, shall be obtainable by the Administrative Agent, the Collateral Agent, the LC Issuers or any Lender against any of the members or their Affiliates or the Borrower's Affiliates or any shareholder, partner, officer or director of any thereof. Nothing in this Section 10.14 shall be construed so as to prevent the Administrative Agent, the Collateral Agent, the LC Issuers or any Lender from commencing any action, suit or proceeding with respect to the Borrower or causing legal papers to be served upon any member to the extent required to obtain jurisdiction over the Borrower.

Subject to Section 4.12 of the Depositary Agreement, each payment and transfer to any Affiliate permitted under any Loan Document or Project Document, each Permitted Dividend and each other payment or distribution by the Borrower or any Project Company that is not made in breach of its obligations under the Loan Documents shall be received by the Borrower's and the Project Companies' Members, shareholders and Affiliates free and clear from all Liens granted to the Collateral Agent and all other rights, claims, Liens and interests of any or all of the Lenders and other holders of Obligations or other claims arising from any of the Loan Documents, including any and all avoidance and recovery rights and other claims of any type or description arising in favor of any or all of the Lenders and any such other holders pursuant to any applicable law, all of which are hereby expressly and forever waived and released.

Execution in Counterparts. This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers thereunto duly authorized, as of the date first above written.

THE BORROWER

SITHE BOSTON GENERATING, LLC

By ______________________________

Name:
Title:

Address for Notices:

335 Madison Avenue

New York, New York 10017
Attention: Treasurer
Telephone: (212) 351-0061
Telecopier: (212) 351-0813

THE LENDERS

BNP PARIBAS

By ______________________________
Name:
Title:

By ______________________________
Name:
Title:

Address for Notices:

787 Seventh Avenue, 31st Floor
New York, New York 10019
Attention: Project Finance—Portfolio Administration
Greg Miller/Sean Finnegan
Telephone: (212) 841-2131/2310
Telecopier: (212) 841-3219/2203

Domestic Lending Office:

919 Third Avenue, 3rd Floor
New York, New York 10022
Attention: Tecla Hurley
Telephone: (212) 471-6651
Telecopier: (212) 471-6697

LIBOR Lending Office:

919 Third Avenue, 3rd Floor
New York, New York 10022
Attention: Tecla Hurley
Telephone: (212) 471-6651
Telecopier: (212) 471-6697

CREDIT SUISSE FIRST BOSTON

By ______________________________
Name:
Title:

By ______________________________
Name:
Title:

Address for Notices:

Eleven Madison Avenue
New York, New York 10010
Attention: Brian Caldwell
Telephone: (212) 325-0029
Telecopier: (212) 325-8321

Domestic Lending Office:

Eleven Madison Avenue
New York, New York 10010
Attention: David Dodd
Telephone: (212) 325-5541
Telecopier: (212) 325-8321

5 World Trade Center, 8th Floor
New York, New York 10277
Attention: Jenaro Sarasola
Telephone: (212) 322-1384
Telecopier: (212) 335-0593

LIBOR Lending Office:

Eleven Madison Avenue
New York, New York 10010
Attention: David Dodd
Telephone: (212) 325-5541
Telecopier: (212) 325-8321

5 World Trade Center, 8th Floor
New York, New York 10277
Attention: Jenaro Sarasola
Telephone: (212) 322-1384
Telecopier: (212) 335-0593

CREDIT LYONNAIS

By ______________________________
Name:
Title:

By ______________________________
Name:
Title:

Address for Notices:

1301 Avenue of the Americas
New York, New York 10019
Attention: Michael Pepe/Georges Romano
Telephone: (212) 261-7889/7398
Telecopier: (212) 261-3421

Domestic Lending Office:

1301 Avenue of the Americas
New York, New York 10019
Attention: Justine Ventrelli
Telephone: (212) 261-7886
Telecopier: (212) 261-3421

LIBOR Lending Office:

1301 Avenue of the Americas
New York, New York 10019
Attention: Justine Ventrelli

Telephone: (212) 261-7886
Telecopier: (212) 261-3421

THE BANK OF NOVA SCOTIA

By ______________________________
Name:
Title:

Address for Notices:

One Liberty Plaza, 26th Floor
New York, New York 10006
Attention: Pamela McDougall/Scott Heyer
Telephone: (212) 225-5073/5622
Telecopier: (212) 225-5090

Domestic Lending Office:

One Liberty Plaza, 26th Floor
New York, New York 10006
Attention: Hazel Young
Telephone: (212) 225-5413
Telecopier: (212) 225-5145

LIBOR Lending Office:

One Liberty Plaza, 26th Floor
New York, New York 10006
Attention: Hazel Young
Telephone: (212) 225-5413
Telecopier: (212) 225-5145

ABBEY NATIONAL TREASURY SERVICES plc

By ______________________________
Name:
Title:

Address for Notices:

26-28 Dorset Square
London, NW1 6QG
United Kingdom
Attention: Chris Bassindale/Scott Barnett
Telephone: (011-44-20) 7612-3346/3454
Telecopier: (011-44-20) 7487-0543

Domestic Lending Office:

26-28 Dorset Square
London, NW1 6QG
United Kingdom
Attention: Sue Hawkins/Sarah Tapping
Telephone: (011-44-20) 7612-3264/3409
Telecopier: (011-44-20) 7487-0547

LIBOR Lending Office:

26-28 Dorset Square
London, NW1 6QG
United Kingdom
Attention: Sue Hawkins/Sarah Tapping
Telephone: (011-44-20) 7612-3264/3409
Telecopier: (011-44-20) 7487-0547

AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED

By ______________________________
Name:
Title:

Address for Notices:

1177 Avenue of the Americas
New York, New York 10036-2798
Attention: Jowie De La Merced
Telephone: (212) 801-9778
Telecopier: (212) 556-4877

Domestic Lending Office:

1177 Avenue of the Americas
New York, New York 10036-2798
Attention: Tessie Amante/Doreen Klingenbeck
Telephone: (212) 801-9744/9726
Telecopier: (212) 801-9859

LIBOR Lending Office:

1177 Avenue of the Americas
New York, New York 10036-2798
Attention: Tessie Amante/Doreen Klingenbeck
Telephone: (212) 801-9744/9726
Telecopier: (212) 801-9859

BAYERISCHE HYPO-UND VEREINSBANK AG NEW YORK BRANCH

By ______________________________
Name:
Title:

By ______________________________
Name:
Title:

Address for Notices:

150 East 42nd Street
New York, New York 10017
Attention: Paul Colatrella
Telephone: (212) 672-3776
Telecopier: (212) 672-5516

(By Mail Only)
Am Tucherpark 1
80311 Munchen
Germany

Attention: Hilde Lehner

Domestic Lending Office:

150 East 42nd Street
New York, New York 10017
Attention: Gilda Andrews/Milagros Carillo
Telephone: (212) 672-5742/5568
Telecopier: (212) 672-5516/6003

LIBOR Lending Office:

150 East 42nd Street
New York, New York 10017
Attention: Gilda Andrews/Milagros Carillo
Telephone: (212) 672-5742/5568
Telecopier: (212) 672-5516/6003

BAYERISCHE LANDESBANK, CAYMAN ISLANDS BRANCH

By ______________________________
Name:
Title:

By ______________________________
Name:
Title:

Address for Notices:

560 Lexington Avenue
New York, New York 10022
Attention: Jim King/Chris Stolarski
Telephone: (212) 230-9101/9931
Telecopier: (212) 230-9117

Domestic Lending Office:

560 Lexington Avenue
New York, New York 10022
Attention: Pat Sanchez
Telephone: (212) 310-9810
Telecopier: (212) 310-9930

LIBOR Lending Office:

560 Lexington Avenue
New York, New York 10022
Attention: Pat Sanchez
Telephone: (212) 310-9810
Telecopier: (212) 310-9930

CoBANK, ACB

By ______________________________
Name:
Title:

Address for Notices:

5500 South Quebec Street
Greenwood Village, Colorado 80111-1914
Attention: Gail Nofsinger/Cantleen Reed
Telephone: (303) 694-5986/740-4101
Telecopier: (303) 224-2672/224-2590

Domestic Lending Office:

5500 South Quebec Street
Greenwood Village, Colorado 80111-1914
Attention: April Like/Ed Welty
Telephone: (303) 740-4173/4074
Telecopier: (303) 740-4021

LIBOR Lending Office:

5500 South Quebec Street
Greenwood Village, Colorado 80111-1914
Attention: April Like/Ed Welty
Telephone: (303) 740-4173/4074
Telecopier: (303) 740-4021

DG BANK DEUTSCHE GENOSSENSCHAFTSBANK AG

By ______________________________
Name:
Title:

By ______________________________
Name:
Title:

Address for Notices:

609 Fifth Avenue
New York, New York 10017
Attention: Daria A. Pishko/Ya-Rou Yang
Telephone: (212) 745-1545/1568
Telecopier: (212) 745-1552

Domestic Lending Office:

609 Fifth Avenue
New York, New York 10017
Attention: John O'Shea
Telephone: (212) 745-1544
Telecopier: (212) 745-1422

LIBOR Lending Office:

609 Fifth Avenue
New York, New York 10017
Attention: John O'Shea
Telephone: (212) 745-1544
Telecopier: (212) 745-1422

FORTIS CAPITAL CORP.

By

Name:
Title:

Address for Notices:

3 Stamford Plaza
301 Tresser Boulevard, 9th Floor
Stamford, Connecticut 06901-3239
Attention: Mohammed Alam/Hendrik Vroege
Telephone: (203) 705-5830/5745
Telecopier: (203) 705-5919

Domestic Lending Office:

3 Stamford Plaza
301 Tresser Boulevard, 9th Floor
Stamford, Connecticut 06901-3239
Attention: Marlene Ellis/Peter Testa
Telephone: (203) 705-5863/5755
Telecopier: (203) 705-5888

LIBOR Lending Office:

3 Stamford Plaza
301 Tresser Boulevard, 9th Floor
Stamford, Connecticut 06901-3239
Attention: Marlene Ellis/Peter Testa
Telephone: (203) 705-5863/5755
Telecopier: (203) 705-5888

GOVERNOR AND COMPANY OF THE BANK OF SCOTLAND

By ______________________________

Name:
Title:

Address for Notices:

Bank of Scotland
565 Fifth Avenue
New York, New York 10017
Attention: Steven Gray
Telephone: (212) 450-0812
Telecopier: (212) 883-6612

Domestic Lending Office:

Bank of Scotland
Loans Administration
Orchard Brae House
30 Queensferry Road
Edinburgh EH3 2UG
United Kingdom
Attention: Lesley Ross
Telephone: (011-44-131) 343-7077
Telecopier: (011-44-131) 343-7080

LIBOR Lending Office:

Bank of Scotland

Loans Administration
Orchard Brae House
30 Queensferry Road
Edinburgh EH3 2UG
United Kingdom
Attention: Lesley Ross
Telephone: (011-44-131) 343-7077
Telecopier: (011-44-131) 343-7080

TORONTO DOMINION (TEXAS), INC.

By ______________________________
Name:
Title:

Address for Notices:

909 Fannin Street, 17th Floor
Houston, Texas 77010
Attention: Carol Brandt
Telephone: (713) 653-8204
Telecopier: (713) 951-9921

31 West 52nd Street, 18th Floor
New York, New York 10019
Attention: Frank DeLaney/Betty Chang
Telephone: (212) 827-7771/
Telecopier: (212) 827-

Domestic Lending Office:

909 Fannin Street, 17th Floor
Houston, Texas 77010
Attention: Carol Brandt
Telephone: (713) 653-8204
Telecopier: (713) 951-9921

LIBOR Lending Office:

909 Fannin Street, 17th Floor
Houston, Texas 77010
Attention: Carol Brandt
Telephone: (713) 653-8204
Telecopier: (713) 951-9921

THE BANK OF TOKYO-MITSUBISHI, LTD., NEW YORK BRANCH

By ______________________________
Name:
Title:

Address for Notices:

1251 Avenue of the Americas, 10th Floor
New York, New York 10020
Attention: Anthony Meo
Telephone: (212) 782-4355
Telecopier: (212) 782-6442

Domestic Lending Office:

1251 Avenue of the Americas, 10th Floor
New York, New York 10020

Attention:	Rolando Uv
Telephone:	(201) 413-8570
Telecopier:	(201) 521-2304/2305

LIBOR Lending Office:

1251 Avenue of the Americas
New York, New York 10020-1104

Attention:	
Telephone:	(212)
Telecopier:	(212)

NIB CAPITAL BANK N.V.

By ______________________________

Name:
Title:

By ______________________________

Name:
Title:

Address for Notices:

4, Carnegieplein
P.O. Box 380
2501 BH The Hague
The Netherlands

Attention:	Mr. B.W.H. Kolenburg
Telephone:	(011-31-70) 342-5924
Telecopier:	(011-31-70) 360-7423

Domestic Lending Office:

4, Carnegieplein
P.O. Box 380
2501 BH The Hague
The Netherlands

Attention:	Matthijs van Nes
Telephone:	(011-31-70) 342-5237
Telecopier:	(011-31-70) 342-5366

LIBOR Lending Office:

4, Carnegieplein
P.O. Box 380
2501 BH The Hague
The Netherlands

Attention:	Matthijs van Nes
Telephone:	(011-31-70) 342-5237
Telecopier:	(011-31-70) 342-5366

THE SUMITOMO BANK, LIMITED

By ______________________________

Name:
Title:

Address for Notices:

277 Park Avenue
New York, New York 10172
Attention: Paul Rudewick
Telephone: (212) 224-4311
Telecopier: (212) 224-4880

Domestic Lending Office:

277 Park Avenue
New York, New York 10172
Attention: Connie Tsoi
Telephone: (212) 224-4048
Telecopier: (212) 224-4391

LIBOR Lending Office:

277 Park Avenue
New York, New York 10172
Attention: Connie Tsoi
Telephone: (212) 224-4048
Telecopier: (212) 224-4391

RABOBANK IRELAND plc

By ______________________________

Name:
Title:

By ______________________________

Name:
Title:

Address for Notices:

George's Dock House
International Financial Services Centre
Dublin 1
Ireland
Attention: Suzanne Whelan
Telephone: (011-353-1) 607-6147
Telecopier: (011-353-1) 670-1724

Domestic Lending Office:

George's Dock
House
International
Financial Services
Centre
Dublin 1
Ireland
Attention: Lavinia Sweeney
Telephone: (011-353-1) 607-6143
Telecopier: (011-353-1) 670-1724

LIBOR Lending Office:

George's Dock House
International Financial Services Centre
Dublin 1
Ireland

Attention:	Lavinia Sweeney
Telephone:	(011-353-1) 607-6143
Telecopier:	(011-353-1) 670-1724

THE DSR LC ISSUER

BAYERISCHE LANDESBANK GIROZENTRALE, CAYMAN ISLANDS BRANCH

By ______________________________

Name:
Title:

By ______________________________

Name:
Title:

Address for Notices:

560 Lexington Avenue
New York, New York 10022

Attention:	Jim King/Chris Stolarski
Telephone:	(212) 230-9101/9931
Telecopier:	(212) 230-9117

THE PROJECT LC ISSUER

BNP PARIBAS

By ______________________________

Name:
Title:

By ______________________________

Name:
Title:

Address for Notices:

787 Seventh Avenue, 31st Floor
New York, New York 10019

Attention:	Letter of Credit Department
	Anthony Reardon
Telephone:	(212) 841-2290
Telecopier:	(212) 841-2146

787 Seventh Avenue, 31st Floor
New York, New York 10019

Attention:	Project Finance—Portfolio Administration
	Greg Miller/Sean Finnegan
Telephone:	(212) 841-2131/2310
Telecopier:	(212) 841-3219/2203

THE ADMINISTRATIVE AGENT

BNP PARIBAS, as Administrative Agent

By ________________________

Name:
Title:

By ________________________

Name:
Title:

Address for Notices:

787 Seventh Avenue, 31st Floor
New York, New York 10019
Attention: Project Finance—Portfolio Administration
Greg Miller/Sean Finnegan
Telephone: (212) 841-2131/2310
Telecopier: (212) 841-3219/2203

EXECUTION VERSION

CREDIT AND REIMBURSEMENT AGREEMENT

Dated as of January 31, 2001

Among

SITHE BOSTON GENERATING, LLC,

as Borrower,

THE LENDERS NAMED HEREIN,

BAYERISCHE LANDESBANK GIROZENTRALE,

as DSR LC Issuer,

BNP PARIBAS,

as Project LC Issuer

and

BNP PARIBAS,

as Administrative Agent

TABLE OF CONTENTS

SCHEDULES

EXHIBITS

ANNEX A

DEFINITIONS

"*Acceptable Credit Support*" means any one or more of (1) the DSR Letter of Credit, (2) an irrevocable letter of credit issued by a bank or other financial institution with a rating of at least A3 by Moody's or at least A- by S&P naming Sithe or any affiliate thereof (other than the Borrower or a Project Company) as the account party, and (3) a guarantee from Sithe or an affiliate thereof (other than the Borrower or a Project Company) that is rated at least Baa3 by Moody's and at least BBB- by S&P and is reasonably acceptable to the Administrative Agent.

"*Accounts*" has the meaning set forth in the Depositary Agreement.

"*Additional Project*" means (1) the Medway Project or (2) with the approval of the Technical Committee, any other electric generating facility developed by Borrower or an affiliate of the Borrower after the Closing Date, in each case together with all real property rights, contracts, Governmental Approvals and other property and rights associated with such facility.

"*Additional Project Documents*" means, in respect of any Project, any Project Document entered into by or on behalf of the related Project Company after the Closing Date (excluding agreements entered into by Sithe Power Marketing, Sithe New England Power Services, Sithe Boston Power Services or Sithe under the Power Marketing Agreement, the O&M Agreements or the Administrative Services Agreements, as the case may be); *provided*, that "Additional Project Document" shall not include agreements entered into (i) for a term of less than 6 months, or (ii) with an annual cost or value of less than $5,000,000 (for the avoidance of doubt, power and fuel agreements meeting the foregoing specifications shall be deemed not to be Additional Project Documents).

"*Administrative Agent*" means BNP PARIBAS.

"*Administrative Services Agreements*" means collectively, the Sithe Mystic Administrative Services Agreement, the Mystic Development Administrative Services Agreement and Fore River Administrative Services Agreement.

"*Advance*" means, as the context requires, a Project Advance, a Working Capital Loan or an LC Loan, and refers to a Base Rate Advance or a LIBOR Rate Advance (each of which shall be a "*Type*" of Advance).

"*Affiliate*" means, with respect to any Person, any Subsidiary of such Person or any other Person directly or indirectly controlling, controlled by, or under direct or indirect common control with such Person including, in each such case, any director or officer of such Person. A Person shall be deemed to control a corporation, limited liability company, or partnership if such Person possesses, directly or indirectly, the power to direct or cause the direction of the management and policies of such corporation, limited liability company or partnership, whether through the ownership of voting securities, by contract or otherwise.

"*Aggregate Payment LC Commitment*" means an amount equal to $59,550,000, which amount equals the aggregate Stated Amount of the Interconnection Payment Letters of Credit.

"*Aggregate LC Commitment*" means an amount equal to $62,000,000 plus the Aggregate Payment LC Commitment.

"*Aggregate Project Commitment*" means an amount equal to $1,088,450,000.

"*Aggregate Working Capital Commitment*" means an amount equal to $40,000,000.

"*Algonquin*" means Algonquin Gas Transmission Company.

"*Algonquin Guaranty*" means the Guaranty dated as of September 28, 1999, by Sithe in favor of Algonquin.

"*Algonquin Service Agreement*" means collectively, the Service Agreement dated as of September 28, 1999, between Algonquin and Sithe Fore River and the Letter Agreement dated September 28, 1999 between Algonquin and Sithe Fore River.

"*Alternative Plan*" shall have the meaning set forth in Section 7.01(j) of the Credit Agreement.

"*Applicable Margin*" means, on any date, for a Base Rate Advance or a LIBOR Rate Advance (i) the percentage per annum set forth below in Column "A Base" or Column "A LIBOR", respectively, if the Borrower shall have received an Investment Grade Rating from two Rating Agencies, one of which is either S&P or Moody's or (ii) the percentage per annum set forth below in Column "B Base" or Column "B LIBOR", respectively, if the Borrower shall be unrated or rated below Investment Grade Rating in accordance with (i) above, opposite the period in which such date occurs:

Periods	**A LIBOR**	**A Base**	**B LIBOR**	**B Base**
Prior to the second anniversary of Closing	1.375	0.625	1.375	0.625
On and following the second anniversary of Closing But prior to the fourth anniversary of Closing	1.450	0.70	1.650	0.90
Thereafter	1.750	1.00	2.00	1.250

"*Applicable Rate*" means (i) the sum of the Base Rate plus the Applicable Margin or (ii) the sum of the LIBOR Rate plus the Applicable Margin, as the case may be.

"*Approved Capital Expenditures*" means, for any period capital expenditures which have been approved in accordance with Section 3.02(bb) of the Project Company Guarantee and which are payable pursuant to clause *second* of Section 4.05 of the Depositary Agreement.

"*Auditors*" means, with respect to Sithe, Sithe Fore River, Sithe Mystic, Sithe Mystic Development, Sithe New England and Sithe Power Marketing, Deloitte & Touche LLP, or any other "Big Five" accounting firm selected by such Persons should Deloitte & Touche LLP cease to be the Auditors for any reason.

"*Authorized Officer*" means as to any Person (except as otherwise provided), the president, the treasurer, any vice president or the secretary of such Person, or if such Person is a partnership, the president, the treasurer, any vice president or the secretary of a general partner of such Person, or, if such Person is a limited liability company, any management committee member, or, with respect to financial matters, the chief financial officer or treasurer of such Person, or if such Person is a partnership, the chief financial officer or treasurer of a general partner of such Person or, if such Person is a limited liability company, any management committee member having primary responsibility for financial and accounting matters for such limited liability company.

"*Base Fee*" has the meaning set forth in the Power Marketing Agreement.

"*Base Rate*" means, for any period, a fluctuating interest rate per annum as shall be in effect from time to time, which rate per annum shall at all times be equal to the higher of:

(a) the rate of interest announced publicly by BNP PARIBAS or its successor as Administrative Agent, from time to time, as its "base rate" or "prime rate" for Dollar loans (which rate may not necessarily be its lowest rate) in effect at its New York Branch; or

(b) the sum of the Federal Funds Rate *plus* 0.50% per annum.

"*Base Rate Advance*" means an Advance by a Lender which is designated as such in a Notice of Interest Rate Election, or which is deemed to be such pursuant to the terms of the Credit Agreement.

"*BECO*" means Boston Edison Company and its successors.

"*BECO Acquisition Loan*" means the loan or loans made by the BECO Acquisition Lenders pursuant to the BECO Acquisition Credit Agreement.

"*BECO Acquisition Credit Agreement*" means the Credit Agreement dated as of May 15, 1998, among Sithe New England, as borrower, the BECO Acquisition Lenders and Bank of Montreal as Agent, as amended, restated, supplemented or otherwise modified from time to time.

"*BECO Acquisition Lenders*" means Bank of Montreal and each other financial institution party as a "Lender" to the BECO Acquisition Credit Agreement as set forth on *Appendix I* thereto

"*Benefiting Project*" means the Project owned by the Benefiting Project Company.

"*Benefiting Project Company*" means the Development Project Company to which Project Advances are contributed or with respect to which proceeds of Project Advances are used or for which Project Letters of Credit are issued.

"*Borrower*" means Sithe Boston Generating, LLC, a Delaware limited liability company.

"*Borrower Default*" means any event or condition which upon the giving of notice, the lapse of time or both would constitute a Borrower Event of Default.

"*Borrower Event of Default*" has the meaning set forth in Section 8.01 of the Credit Agreement.

"*Borrower Permitted Debt*" means any Debt permitted by Section 7.02(a) of the Credit Agreement.

"*Borrower Permitted Liens*" means those Liens permitted by Section 7.02(b) of the Credit Agreement.

"*Borrower Pledge Agreement*" means the Pledge Agreement dated as of January 31, 2001, between the Borrower and the Collateral Agent.

"*Borrowing*" means, as the context requires, a Project Borrowing or a Working Capital Borrowing.

"*Business Day*" means a day of the year on which banks are not required or authorized to close in New York City and, if the applicable Business Day relates to any LIBOR Rate Advances, a day on which dealings are carried on in the London interbank market.

"*Cabot*" means Cabot LNG LLC, a Delaware limited liability company.

"*Cabot Guaranty*" means the Guaranty dated as of January 15, 2000, by Cabot in favor of Sithe Mystic Development and Sithe Power Marketing.

"*Calendar Quarter*" means each three (3) calendar month period ended March 31, June 30, September 30 and December 31.

"*Capitalized Lease Liabilities*" means all monetary obligations of a Person under any leasing or similar arrangement which, in accordance with GAAP, would be classified as capitalized leases, and, for purposes of this Agreement and each other Loan Document, the amount of such obligations shall be the capitalized amount thereof, determined in accordance with GAAP.

"*Cash Flow*" means, with respect to the Borrower, for any period, the excess, if any, computed on a cash basis, of (i) the amount of all Project Revenues during such period over (ii) all Operating Expenses and Approved Capital Expenditures, without duplication, to the extent paid pursuant to paragraph *second* of Section 4.05 of the Depositary Agreement during such period.

"*Casualty Event*" means, in respect of any Project, any single event of damage or destruction of all or any portion of such Project.

"*Change of Control*" means, as to any Project Company, Sithe (or its parent) shall collectively cease to own, directly or indirectly through one or more subsidiaries, at least 50% of the outstanding

membership interests in such Project Company; *provided*, that such event shall not be deemed a "Change of Control" if such event is approved by the Required Lenders; *provided, further*, that in any event 100% of the outstanding membership interests in such Project Company shall continue to be subject to a pledge in favor of the Collateral Agent.

"*Change Order*" has the meaning set forth in the EPC Agreements.

"*Clawback Limit*" means, as of the date calculated, an amount equal to the lesser of (a) the aggregate amount of Mystic Station Net Revenues distributed to Sithe New England (or any other Sithe Affiliate) from the Clawback Trigger Date through and including such calculation date, and (b) $10,000,000 (i) *minus* the positive difference if any, between $50,600,000 and the aggregate amount of Contingent Equity Contributions applied toward Project Costs and/or Financing Costs as of such calculation date and (ii) *plus* any Cost Overruns.

"*Clawback Trigger Date*" means the first date upon which the Remaining Contingent Equity Commitment (as defined in the Equity Contribution Agreement) shall equal $10,000,000 or less.

"*Clean Up Requirement*" has the meaning set forth in Section 2.02(f) of the Credit Agreement.

"*Closing*" means the day upon which each of the conditions precedent enumerated in Section 5.01 the Credit Agreement shall be fulfilled or waived. All transactions contemplated by the Closing shall take place on a Business Day at the offices of Dewey Ballantine LLP, 1301 Avenue of the Americas, New York, New York 10019, as the parties hereto may mutually agree.

"*Closing Base Case*" means the updated Term Sheet Base Case delivered at Closing, which shall be in form and substance satisfactory to the Lenders.

"*Closing Date*" means the date on which the Closing occurs.

"*Code*" means the Internal Revenue Code of 1986, as amended.

"*Collateral*" means all of the collateral purported to be governed by any or all of the Security Documents.

"*Collateral Agent*" has the meaning set forth in the Depositary Agreement.

"*Commitment*" means, with respect to each Lender, its Project Commitment, Working Capital Commitment or, to the extent provided in Section 3.02 of the Credit Agreement, its commitment to make Advances to the Borrower in respect of the Letters of Credit.

"*Completion Date*" means, as to any Development Project, the date upon which Project Completion shall have occurred with respect to such Project.

"*Confidential Information*" has the meaning set forth in Section 10.09 of the Credit Agreement.

"*Consents*" means the Acknowledgments and Consents with respect to each Material Project Document and any additional separate Acknowledgments and Consents that shall be entered into from time to time with respect to Additional Project Documents, in substantially the form attached as *Exhibit 1.01A* to the Credit Agreement or otherwise in form and substance reasonably satisfactory to the Administrative Agent, between the Collateral Agent and each Person party to any of the Material Project Documents for the related Project.

"*Construction Schedule*" means the construction schedules for each of the Development Projects under the EPC Agreements, copies of which are attached as *Exhibit B* to the Project Company Guarantee.

"*Contest*" means, with respect to the payment of Taxes or any other claims or liabilities, the satisfaction of each of the following conditions: (i) the validity or amount thereof is being diligently contested in good faith by the Borrower or any Project Company, as the case may be, by appropriate

proceedings timely instituted, (ii) the Borrower or any Project Company has established adequate cash reserves with respect to the contested items, (iii) during the period of such contest, the enforcement of any contested item is effectively stayed, and (iv) such failure to so pay or discharge during the period of such contest would not reasonably be expected to result in a Material Adverse Effect.

"*Contingent Equity Account*" has the meaning set forth in the Depositary Agreement.

"*Contingent Equity Amount*" has the meaning set forth in the Equity Contribution Agreement.

"*Contingent Equity Contributions*" has the meaning set forth in the Equity Contribution Agreement.

"*Contractor*" means WGI and its successors.

"*Contractual Obligation*" means, as to any Person, any provision of any Security issued by such Person or of any agreement, instrument or undertaking to which such Person is a party or by which it or any of its property is bound.

"*Conversion*", "*Convert*" or "*Converted*" each refers to a conversion of Advances pursuant to Section 2.03 of the Credit Agreement, including any selection of a longer or shorter Interest Period to be applicable thereto or any continuation of an Advance as described in Section 2.03(b) of the Credit Agreement.

"*Cost Overruns*" means, as of any date, all Project Costs as of such date, in excess of all Project Costs set forth in the Closing Base Case (including contingency of $50,600,000).

"*Covered Taxes*" has the meaning set forth in Section 4.09(a) of the Credit Agreement.

"*Credit Agreement*" means the Credit and Reimbursement Agreement, dated as of January 31, 2001, by and among the Borrower, the Lenders, the Administrative Agent and the LC Issuers.

"*CSFB*" means Credit Suisse First Boston.

"*Date Certain*" means the date which is 28 months after the Closing Date.

"*Debt*" means, with respect to any Person, (i) indebtedness for borrowed money, including obligations evidenced by bonds, debentures, notes or other similar instruments, (ii) obligations to pay the deferred purchase price of property or services (excluding obligations under agreements for the purchase of goods and services in the normal course of business, which exclusion is intended to encompass the Project Documents, which are not more than 90 days past due and obligations being contested in good faith by appropriate proceedings, unless by such contest (A) the Liens evidenced by the Security Documents could reasonably be expected to be endangered or (B) any portion of a Project could reasonably be expected to be lost to a third party or forfeited), (iii) Capitalized Lease Liabilities, (iv) obligations (contingent or otherwise) under reimbursement or similar agreements with respect to the issuance of letters of credit, (v) obligations under "swaps", "caps", "floors", "collars", or other interest rate hedging contracts or similar arrangements and (vi) obligations under direct or indirect guaranties in respect of, and obligations (contingent or otherwise) to purchase or otherwise acquire, or otherwise to assure a creditor against loss in respect of, indebtedness or obligations of another Person of the kinds referred to in clauses (i) through (v), above (such as obligations to pay for property or services irrespective of whether such property is tendered or transferred or such services are performed).

"*Debt Service Account*" has the meaning set forth in the Depositary Agreement.

"*Debt Service Coverage Ratio*" means for any period, the ratio of (1) the aggregate of all of the Borrower's Cash Flow for such period (which amount shall exclude all casualty proceeds, eminent domain proceeds and performance liquidated damages, but shall include any business interruption proceeds) to (2) Scheduled Debt Service for such period, each as determined on a cash basis.

"*Debt Service Reserve Account*" has the meaning set forth in the Depositary Agreement.

"*Debt Service Reserve Requirement*" means, for any period, the amount which is estimated by the Borrower, and certified to the Administrative Agent to be the Scheduled Debt Service for the immediately succeeding two (2) Calendar Quarter periods.

"*Default Rate*" means a rate per annum equal at all times to 2% per annum above the Applicable Rate in effect from time to time.

"*Deferred Project Approval*" has the meaning set forth in Section 3.01(o) of the Project Company Guarantee.

"*Depositary*" has the meaning set forth in the Depositary Agreement and the SPM Depositary Agreement, as applicable.

"*Depositary Agreement*" means the Collateral Agency and Depositary Agreement dated as of January 31, 2001, by and among the Borrower, the Project Companies, the Depositary, the Collateral Agent and the Administrative Agent.

"*Development Project*" means the Mystic 8&9 Project or the Fore River Project, and collectively, the "*Development Projects*".

"*Development Project Company*" means each of Sithe Mystic Development and Sithe Fore River and collectively, the "*Development Project Companies*".

"*Distribution Calculation Date*" means the last date of each Calendar Quarter.

"*Distribution Conditions*" means each of the conditions to the making of Permitted Dividends, set forth in Section 7.02(f)(iii) of the Credit Agreement, including in the provisos thereto.

"*Distribution Date*" has the meaning set forth in Section 7.02(f)(iii) of the Credit Agreement.

"*Distrigas*" means Distrigas of Massachusetts Corporation and its successors.

"*Distrigas Guaranty*" means the Guaranty dated as of January 15, 2000, by Sithe New England in favor of Distrigas.

"*Dollars*" or "*$*" means the lawful currency of the United States of America.

"*Domestic Lending Office*" means, with respect to any Lender, the office or Affiliate of such Lender specified as its "Domestic Lending Office" below its name on the signature pages hereto or in the Lender Assignment pursuant to which it became a Lender, or such other office or Affiliate of such Lender as such Lender may from time to time specify to the Borrower and the Administrative Agent.

"*Drawing*" means a drawing under a Letter of Credit.

"*DSR LC Issuer*" means Bayerische Landesbank Girozentrale.

"*DSR Letter of Credit*" means a letter of credit, in substantially the form of *Exhibit 1.01D*, to be issued by the DSR LC Issuer pursuant to Section 3.01 of the Credit Agreement.

"*Eligible Facility*" means an "eligible facility," as that term is defined in Section 32(a)(2) of PUHCA.

"*Environmental Discharge*" means (a) the presence of any Hazardous Substance at any location, including any location where any Hazardous Substances generated, used, stored, treated or disposed by or on behalf of the Borrower or any of its Affiliates have come to be located, in quantities or concentrations that (i) are reasonably likely to constitute or result in a violation of applicable Environmental Law, (ii) are reportable to any Governmental Authority or (iii) are reasonably likely to give rise to any investigation or remedial response obligation, and with respect to each of (i), (ii) and

(iii) above, would reasonably be expected to have a Material Adverse Effect, and (b) any action or condition in violation of any applicable Environmental Law or that could create a liability under any applicable Environmental Law which could reasonably be expected to have a Material Adverse Effect.

"*Environmental Law*" means any Law relating to the environment, natural resources, safety or health of humans (as it relates to Hazardous Substances), including laws relating to noise or to Releases, or threatened Releases of Hazardous Substances into the indoor or outdoor environment or otherwise relating to the presence of Hazardous Substances at any location, and laws relating to threatened or endangered species of living organisms.

"*Environmental Matter*" has the meaning set forth in Section 10.04(c) of the Credit Agreement.

"*Environmental Notice*" shall mean any written complaint, order, citation, notice, request for information or communication actually received by the Borrower or any Project Company from any Person (a) with respect to any violation or alleged violation of any Environmental Law, (b) relating to liability for Environmental Discharges or (c) relating to liability for the presence of Hazardous Substances on or off Property, and related to Project operations that, with respect to each of (a), (b) and (c) above, could reasonably be expected to result in a Material Adverse Effect or Project Material Adverse Effect, as applicable.

"*EPC Agreements*" means collectively, the Mystic Development EPC Agreement and the Fore River EPC Agreement, and each an "*EPC Agreement*".

"*Equity Contribution Agreement*" means the Equity Contribution Agreement dated as of January 31, 2001, between Sithe New England, the Borrower and the Collateral Agent.

"*Equity Contribution Account*" has the meaning set forth in the Depositary Agreement.

"*ERISA*" means the Employee Retirement Income Security Act of 1974, as amended.

"*ERISA Affiliate*" means any trade or business (whether or not incorporated) which is a member of a controlled group of corporations or other entities and which are under common control with Borrower within the meaning of the regulations under Section 414 of the Code.

"*Eurocurrency Liabilities*" has the meaning set forth in Regulation D of the Board of Governors of the Federal Reserve System, as in effect from time to time.

"*Event of Bankruptcy*" means, with respect to any Person, the occurrence of any of the following events:

(1) the commencement by such Person of a voluntary case concerning itself as debtor under the Federal Bankruptcy Code or similar Law;

(2) an involuntary case is commenced against such Person as debtor and the petition is not dismissed within 90 days, after commencement of the case;

(3) a custodian (as defined in the Federal Bankruptcy Code) is appointed for, or takes charge of, all or substantially all of the property of such Person or such Person commences any other proceedings under any reorganization, arrangement, adjustment of debt, relief of debtors, dissolution, insolvency or liquidation or similar Law of any jurisdiction whether now or hereafter in effect relating to such Person or there is commenced against such Person any such proceeding which remains undismissed for a period of 90 days;

(4) the entry of any order of relief or other order approving any such case or proceeding involving such Person;

(5) such Person is adjudicated insolvent or bankrupt;

(6) such Person suffers any appointment or any custodian or the like for it or any substantial part of its property to continue undischarged or unstayed for a period of 90 days;

(7) such Person makes a general assignment for the benefit of creditors;

(8) such Person shall state that it is unable to pay its debts generally as they become due;

(9) such Person shall by any act or failure to act, consent to, approve of or acquiesce in any of the foregoing; or

(10) any limited liability company, partnership or corporate action, as the case may be, is taken by such Person for the purpose of effecting any of the foregoing.

"*EWG*" means an "exempt wholesale generator," as that term is defined in Section 32 (a)(1) of PUHCA.

"*Expiration Date*" means, with respect to any Letter of Credit, the meaning set forth in such Letter of Credit.

"*Federal Bankruptcy Code*" means the United States Bankruptcy Code of 1978.

"*Federal Funds Rate*" means, for any period, a fluctuating interest rate per annum equal for each day during such period to the weighted average of the rates on overnight federal funds transactions with members of the Federal Reserve System arranged by federal funds brokers, as published for such day (or, if such day is not a Business Day, for the next preceding Business Day) by the Federal Reserve Bank of New York, or, if such rate is not so published for any day which is a Business Day, the average of the quotations for such day for such transactions received by the Administrative Agent from three Federal funds brokers of recognized standing selected by it.

"*Federal Power Act*" means the Federal Power Act of 1920.

"*Fee Letters*" means collectively, the fee letter agreements dated as of January 31, 2001, entered into among (a) the Borrower and the Project LC Issuer, and (b) the Borrower and the DSR LC Issuer.

"*Fees*" means, collectively, each of the fees set forth in Section 4.09 of the Credit Agreement.

"*FERC*" means the Federal Energy Regulatory Commission or any federal agency successor thereto.

"*Financing Costs*" means, (x) as to the Borrower, all interest during construction, commitment fees, letter of credit fees and other fees and expenses (including legal expenses) incurred in connection with the financing of the Projects, (y) as to any Project, all interest during construction, commitment fees, letter of credit fees and other fees and expenses (including legal expenses) incurred in connection with the financing of such Project, and (z) as to any Additional Project, all interest during construction, commitment fees, letter of credit fees and other fees and expenses (including legal expenses) incurred in connection with the financing of such Additional Project.

"*Firm Vapor Service Agreement*" means the Service Agreement for Firm Vapor Service dated as of January 15, 2000, between Distrigas and Sithe Power Marketing.

"*First Completion Date*" means the earlier of (i) Project Completion for the Mystic 8&9 Project and (ii) Project Completion for the Fore River Project.

"*First Distrigas Payment Date*" means the 25th day of the month following the month in which the Commencement Date (as defined in the Gas Sales and Purchase Agreement) shall have occurred.

"*Fore River Administrative Services Agreement*" means the Administrative Services Agreement dated as of January 31, 2001, between Sithe Fore River and Sithe.

"*Fore River EPC Agreement*" means the Engineering, Procurement and Construction Agreement dated as of May 8, 2000, between Sithe Fore River and WGI (as successor to Raytheon Engineers & Constructors, Inc.), including any Change Orders thereto listed on Schedule 4 to the Credit Agreement.

"*Fore River Interconnection Agreement*" means the Interconnection Agreement dated as of October 23, 2000, between BECO and Sithe Fore River.

"*Fore River Long Term Service Agreement*" means the Long Term Service Agreement dated as of December 8, 2000, between Sithe Fore River and MHIA.

"*Fore River O&M Agreement*" means the Operation and Maintenance Agreement dated as of January 31, 2001, between Sithe Fore River and Sithe Boston Power Services.

"*Fore River Project*" means an 800 MW combined-cycle electric generating facility under construction in Weymouth, Massachusetts and owned by Sithe Fore River.

"*Fore River Terminalling Agreement*" means the Terminalling Agreement dated as of July 27, 2000, between Sithe Edgar and Sprague Energy Corp., as assigned to Sithe Fore River pursuant to that certain Assignment Agreement dated as of the date hereof between Sithe Edgar and Sithe Fore River.

"*Fore River TIF Agreement*" means the Tax Increment Financing Agreement, dated as of November 22, 1999 between the Town of Weymouth, Massachusetts and Sithe Edgar.

"*FPA*" means Federal Power Act of 1920, as amended.

"*Fuel Consultant*" means Benjamin Schlesinger and Associates, Inc. or, after the Closing Date, any other fuel consulting firm that is mutually acceptable to the Administrative Agent and the Borrower.

"*GAAP*" means generally accepted accounting principles in the United States as in effect and as may be modified from time to time.

"*Gas Lateral*" means a 24" lateral gas pipeline, which, if constructed, will connect the Mystic 8&9 Facility and the existing pipeline of either Algonquin or Tennessee Gas Company.

"*Gas Sales and Purchase Agreement*" means the Gas Sales and Purchase Agreement dated as of January 15, 2000, between Distrigas and Sithe Mystic Development.

"*Governmental Approval*" means any authorization, consent or approval, or any license, franchise, lease, ruling, determination, tariff, rate, permit, certificate or exemption of, or acceptance for filing with, any Governmental Authority required in connection with any of (i) the execution, delivery or performance of any Transaction Document by any Project Company or Material Project Participant, (ii) the grant and perfection of any Lien contemplated by the Security Documents, or (iii) the ownership, development, construction, completion, operation or maintenance of any Project (including the sale of power or the purchase or transportation of fuel in connection therewith).

"*Governmental Authority*" means any nation or the federal government or any state or other political subdivision thereof, and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government and any other governmental entity with authority over any aspect of construction or operation of any Project.

"*Granting Lender*" has the meaning specified in Section 10.07(d) of the Credit Agreement.

"*Guaranty Obligations*" means obligations of any Person of the type described in clause (vi) of the definition of "Debt" herein.

"*Hazardous Substances*" means any substances (including products) that are subject to any prohibition, limitation, management guideline or criterion, standard, regulation or restriction contained in, or the presence of which could result in the imposition of liability under, any applicable Environmental Law, and specifically including polychlorinated biphenyls, petroleum or hydrocarbon-

based products or derivatives, natural gas-based products or derivatives, and any substances defined as or fulfilling the characteristics of a hazardous waste or a hazardous substance under any applicable Environmental Law.

"*HubLine Precedent Agreement*" means the HubLine Precedent Agreement dated as of August 2, 2000, between Algonquin and Sithe Power Marketing.

"*HubLine Service Agreement*" means, collectively, the HubLine Service Agreement dated as of August 2, 2000, between Algonquin and Sithe Power Marketing and the HubLine Letter Agreement dated April 2, 2000, between Algonquin and Sithe Power Marketing.

"*ICAP*" means "Installed Capability", as such term is defined in the definitions section of "New England Power Pool FERC Schedule No. 6—Market Rules and Procedures" in effect from time to time.

"*Indemnified Person*" has the meaning set forth in Section 10.04(b) of the Credit Agreement.

"*Independent Engineer*" means Black & Veatch Corporation or, after the Closing Date, any other independent consulting engineer of recognized expertise that is mutually acceptable to the Administrative Agent and the Borrower.

"*Initial Advance*" means the first Advance made pursuant to the terms of the Credit Agreement.

"*Insurance Consultant*" means Marsh USA, Inc. or, after the Closing Date, any other insurance consultant that is mutually acceptable to the Administrative Agent and the Borrower.

"*Interconnection Agreements*" means collectively the Mystic Development Interconnection Agreement and the Fore River Interconnection Agreement, and each an "*Interconnection Agreement*".

"*Interconnection Payment Letters of Credit"* means the letters of credit issued by the Project LC Issuer for delivery to BECO pursuant to Section 5 of the respective Interconnection Agreements.

"Interconnection Security Letters of Credit" means (a) the letters of credit issued by the Project LC Issuer for delivery to BECO pursuant to Section 6 of the respective Interconnection Agreements and (b) a letter of credit which may be issued by the Project LC Issuer for delivery to National Grid USA pursuant to Section 1 of the Related Facilities Agreement.

"*Interest Period"* means, for each Advance (or portion thereof), the period from the date on which such Advance (or portion thereof) was most recently Converted or, if not previously Converted, on which such Advance was made, to (and including) a date selected by the Borrower in accordance with this definition and Article II of the Credit Agreement.

All Advances comprising part of the same Borrowing shall have the same Interest Period. The duration of each Interest Period for any LIBOR Rate Advance shall be 1, 2, 3 or 6 months, and if available, 9 or 12 months, in each case as the Borrower may select in the relevant Notice of Borrowing or Notice of Conversion, in accordance with the terms of Section 2.01 or Section 2.03 of the Credit Agreement, as applicable; *provided, however,* that:

(i) the Borrower may not select any Interest Period for any LIBOR Rate Advance which ends after any Payment Date unless, after giving effect to such selection, the sum of the aggregate principal amount of LIBOR Rate Advances that mature after such Payment Date shall be equal to or less than the aggregate principal amount of the Advances permitted to be outstanding after such Payment Date pursuant to Section 2.01 of the Credit Agreement;

(ii) whenever the last day of any Interest Period for any Advance would otherwise occur on a day other than a Business Day, the last day of such Interest Period shall be extended to occur on the next succeeding Business Day; *provided*, that in the case of any Interest Period for a LIBOR Rate Advance, that if such extension would cause the last day of such Interest Period to occur in the next following calendar month, the last day of such Interest Period shall occur on the next preceding Business Day; and

(iii) in the case of LIBOR Rate Advances, any Interest Period that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day at the end of such Interest Period) shall end on the last Business Day of a calendar month.

"*Interim Credit Agreement"* means the Interim Credit Agreement dated as of December 12, 2000, among Sithe New England, as borrower, the Interim Lenders, The Sumitomo Bank, as Documentation Agent, Bayerische Hypo-und Vereinsbank, AG, New York Branch, as Syndication Agent, Australia and New Zealand Banking Group Limited, as Agent for the Lenders, as amended, restated, supplemented or otherwise modified from time to time.

"*Interim Lenders"* means the financial institutions from time to time party to the Interim Credit Agreement as "Lenders".

"*Interim Loan"* means the loan or loans made by the Interim Lenders pursuant to the Interim Credit Agreement.

"*Investment Grade Rating"* means a rating from Moody's of at least Baa3, or S&P, of at least BBB- (or the equivalent from another Rating Agency).

"*Law"* means any foreign (with respect to regulation of the Lenders), federal, state, local or other statute, law, rule, regulation, ordinance, order, code or binding rule of common law, now or hereafter in effect, and any binding judicial or administrative interpretation thereof by a Governmental Authority, including any judicial or administrative order, consent decree or judgment.

"*LC Commitment"* has the meaning set forth in Section 3.01 of the Credit Agreement.

"*LC Issuers"* means, collectively, the DSR LC Issuer and the Project LC Issuer, and each individually, a "*LC Issuer"*.

"*LC Loan"* has the meaning set forth in Section 3.03(b) of the Credit Agreement.

"*LC Payment Date"* has the meaning set forth in Section 3.03(a) of the Credit Agreement.

"*Lead Arrangers"* means BNP PARIBAS and CSFB, and each individually, a "*Lead Arranger"*.

"*Lender Assignment"* means an assignment and agreement entered into by a Lender and an assignee in accordance with the terms and subject to the conditions set forth in Section 10.07 of the Credit Agreement, and accepted by the Administrative Agent, in substantially the form of *Exhibit 10.07(a)* of the Credit Agreement.

"*Lenders"* has the meaning set forth in the introductory paragraph to the Credit Agreement.

"*Lending Office"* means, with respect to any Lender's Base Rate Advances, such Lender's Domestic Lending Office, and, with respect to any Lender's LIBOR Rate Advances, such Lender's LIBOR Lending Office.

"*Letters of Credit"* means, collectively, the DSR Letter of Credit, the Interconnection Security Letters of Credit and the Interconnection Payment Letters of Credit.

"*LIBOR Lending Office"* means, with respect to any Lender, the office or Affiliate of such Lender specified as its "LIBOR Lending Office" below its name on the signature pages hereto or in the Lender Assignment pursuant to which it became a Lender (or, if no such office or Affiliate is specified, its Domestic Lending Office), or such other office or Affiliate of such Lender as such Lender may from time to time specify to the Borrower and the Administrative Agent.

"*LIBOR Rate"* means, for the Interest Period for each LIBOR Rate Advance comprising part of the same Borrowing, an interest rate per annum, as set forth on the Telerate Screen Page 3750, equal to the average (rounded upward to the nearest whole multiple of 1/100 of 1% per annum, if such average is not such a multiple) of the rate per annum at which deposits in U.S. dollars are offered by first class banks in London, England to prime banks in the London interbank market at 11:00 A.M. (London time) two (2) Business Days before the first day of such Interest Period in an amount substantially equal to such LIBOR Rate Advance comprising part of such Borrowing and for a period equal to such Interest Period. In the event that no such rate is posted on the Telerate Screen, the LIBOR Rate for the Interest Period for each LIBOR Rate Advance comprising part of the same Borrowing shall be the rate per annum equal to the average (rounded upward to the nearest whole multiple of 1/100 of 1% per annum, if such average is not such a multiple) of the respective rates furnished to and received by the Administrative Agent from not less than three first class banks in the London interbank market two (2) Business Days before the first day of such Interest Period.

"*LIBOR Rate Advance"* means an Advance which is designated as such in a Notice of Interest Rate Election or a Notice of Conversion.

"*LIBOR Reserve Percentage"* of any Lender for the Interest Period for any LIBOR Rate Advance means the reserve percentage applicable to such Lender during such Interest Period (or if more than one such percentage shall be so applicable, the daily average of such percentages for those days in such Interest Period during which any such percentage shall be so applicable) under regulations issued from time to time by the Board of Governors of the Federal Reserve System (or any successor thereto) for determining the maximum reserve requirement (including any emergency, supplemental or other marginal reserve requirement) then applicable to such Lender with respect to liabilities or assets consisting of or including Eurocurrency Liabilities having a term equal to such Interest Period.

"*Lien"* means any mortgage, charge, deed of trust, pledge, conveyance, hypothecation, assignment, participation, deposit arrangement, encumbrance, lien, (statutory or otherwise), preference, priority

---

right or interest or other security arrangement of any kind or nature whatsoever, including, without limitation, any conditional sale or other title retention agreement, any financing lease having substantially the same economic effect as any of the foregoing and the filing of any financing statement under the Uniform Commercial Code (other than any such financing statement filed for informational purposes only) or comparable law of any jurisdiction to evidence any of the foregoing.

"*LLC Agreement"* means the Limited Liability Company Agreement of the Borrower dated as of August 10, 2000.

"*Loan Documents"* means, collectively, the Credit Agreement, the Project Company Guarantee, the Sithe Undertaking, the Sithe Equity Guaranty, the Equity Contribution Agreement, the Security Documents, the Fee Letter, the Notes and any Swap Agreement.

"*LTSAs"* means collectively, the Fore River Long Term Service Agreement and the Mystic Development Long Term Service Agreement, and each a "*LTSA"*.

"*Major Maintenance/Forced Outage Reserve Account"* has the meaning set forth in the Depositary Agreement.

"*Major Maintenance/Forced Outage Reserve Requirement"* means (a) $60 million for the period commencing on the Second Completion Date through the date upon which all combustion turbines in each of the Development Projects have undergone a single SCR Overhaul, and (b) $30 million, thereafter; *provided*, that subject to the foregoing $30 million minimum requirement, the Major Maintenance/Forced Outage Reserve Requirement shall be reduced by the actual amount of funds expended following each SCR Overhaul.

"*Material Adverse Effect"* means with respect to the Borrower, an event or occurrence that has a material adverse effect on the business, operations, property, assets, or financial condition of the Borrower or the ability of the Borrower to pay its debts or perform and comply with its material obligations under the Loan Documents or Security Documents to which it is a party, or the validity or priority of the Lenders' security interest in the Collateral.

"*Material Borrower Default"* means a default by the Borrower under Section 8.01 of the Credit Agreement, in respect of subsections (a) (payments), (b) (representation and warranty), (d) (cross default), (e) (bankruptcy), (i) (dissolution), (j) (judgements), (k) (security documents), (m) (Project Event of Default), (o) (negative pledge), (p) (Equity Contributions), (q) (Sithe Undertaking) or (u) (Sithe New England).

"*Material Project Documents"* means collectively, the Material Project Documents (Fore River), Material Project Documents (Mystic Development) and the Material Project Documents (Mystic) and any Additional Project Documents which may be entered into from time to time by the Project Company in respect of its related Project.

"*Material Project Documents (Fore River)"* means collectively, the Fore River EPC Agreement, the Fore River Interconnection Agreement, the Fore River Terminalling Agreement, the Fore River Long Term Service Agreement, the Power Marketing Agreement, the Fore River O&M Agreement, the Precedent Agreement, the Algonquin Service Agreement, the Fore River Administrative Services Agreement, the Raytheon/Fore River Guaranty, and the MHI/Fore River Guaranty and the Fore River TIF Agreement, *provided, however*, that upon the commencement of firm gas transportation services under the HubLine Service Agreement between Algonquin and Sithe Fore River, the Precedent Agreement and the Algonquin Service Agreement shall cease to be Material Project Documents (Fore River) and the HubLine Service Agreement shall thereafter constitute a Material Project Document (Fore River).

"*Material Project Documents (Mystic)"* means collectively, the Sithe Mystic Interconnection Agreement, the Sithe Mystic Terminalling Agreement, the Power Marketing Agreement, the Sithe Mystic O&M Agreement and the Sithe Mystic Administrative Services Agreement.

"*Material Project Documents (Mystic Development)*" means collectively, the Mystic Development EPC Agreement, the Mystic Development Interconnection Agreement, the Firm Vapor Service Agreement, the Gas Sales and Purchase Agreement, the Mystic Development Long Term Service Agreement, the Power Marketing Agreement, the Mystic Development O&M Agreement, the Mystic Development Administrative Services Agreement, the Raytheon/Mystic Development Guaranty, the Cabot Guaranty, the MHI/Mystic Development Guaranty, the Distrigas Guaranty, the Mystic Development TIF Agreement, and the Mystic Development PILOT Agreement.

"*Material Project Event of Default*" means, all Project Events of Default by a Project Company under Section 4.01 of the Project Company Guarantee, except Section 4.01 (a) (payment), (c) (with respect to covenant defaults where a cure period is permitted), (j)(ii) (with respect to Material Project Documents other than the Power Marketing Agreement, the Raytheon guarantees, the agreements with Distrigas, the Long Term Service Agreements and the MHI guaranties), (l) (ERISA) and (q) (Date Certain).

"*Material Project Participants*" means Sithe Power Marketing, Sithe, Sithe New England Power Services, Sithe Boston Power Service, WGI (through the expiration of all warranties under each of the EPC Agreements), Algonquin, BECO, Boston Gas Company, Distrigas, Raytheon Company (through the expiration of all warranties under each of the EPC Agreements), MHIA, MHI, Cabot, Sprague Energy Corp. and Exxon Company, U.S.A.

"*Maturity Date*" means December 31, 2007.

"*Medway Project*" means a nominal 540 MW simple cycle generating facility under development in Medway, Massachusetts.

"*Member*" means any Person who holds membership interests in a Project Company.

"*MHI*" means Mitsubishi Heavy Industries, Ltd. and its successors.

"*MHIA*" means Mitsubishi Heavy Industries America, Inc. and its successors.

"*MHI/Fore River Guaranty*" means the Guaranty dated as of December 8, 2000, by MHI in favor of Sithe Fore River, guaranteeing the obligations of MHIA under the Fore River Long Term Service Agreement.

"*MHI/Mystic Development Guaranty*" means the Guaranty dated as of November 6, 2000, by MHI in favor of Sithe Mystic Development, guaranteeing the obligations of MHIA under the Mystic Development Long Term Service Agreement.

"*Minimum Notice Period*" means, (i) with respect to LIBOR Rate Advances, a period of least three (3) Business Days prior to a proposed Borrowing, (ii) with respect to Base Rate Advances, a period of at least (1) Business Day prior to a proposed Borrowing, (iii) with respect to a Conversion of a LIBOR Rate Advance into a Base Rate Advance, a period of at least one (1) Business Day prior to such Conversion and (iv) with respect to a Conversion of a Base Rate Advance into a LIBOR Rate Advance, a period of at least three (3) Business Days prior to such Conversion.

"*Monthly Payment Date*" means, with respect to each calendar month, (a) the last day of such calendar month, or if any such date is not a Business Day, the Business Day immediately preceding such day and (b) any other one (1) day of such month as may be selected by the Borrower, provided that the Collateral Agent has received written notice of such date at least one Business Day in advance thereof.

"*Moody's*" means Moody's Investors Service, Inc., and any successor rating agency.

"*Mortgage*" means the Mortgage and Security Agreement dated as of January 31, 2001, by Sithe Mystic, Sithe Mystic Development and Sithe Fore River in favor of the Collateral Agent.

"*Multiemployer Plan*" means a multiemployer plan, as defined in Section 4001(a)(3) of ERISA, to which the Borrower or any ERISA Affiliate is making or accruing an obligation to make contributions, or has within any of the preceding five plan years made or accrued an obligation to make contributions, such plan being maintained pursuant to one or more collective bargaining agreements.

"*Multiple Employer Plan*" means a single employer plan, as defined in Section 4001(a)(15) of ERISA, which (i) is maintained for employees of the Borrower or an ERISA Affiliate and at least one Person other than the Borrower and its ERISA Affiliates or (ii) was so maintained and in respect of which the Borrower or an ERISA Affiliate could have liability under Section 4064 or 4069 of ERISA in the event such plan has been or was to be terminated.

"*MW*" means megawatt(s) or one million watts.

"*Mystic 8&9 Project*" means a 2 × 800 MW combined-cycle electric generating facility under construction in Everett, Massachusetts.

"*Mystic Development Administrative Services Agreement*" means the Administrative Services Agreement dated as of January 31, 2001, between Sithe Mystic Development and Sithe.

"*Mystic Development EPC Agreement*" means the Engineering, Procurement and Construction Agreement dated as of December 31, 1999, between Sithe Mystic Development and WGI (as successor to Raytheon Engineers & Constructors, Inc.), including any Change Orders thereto listed on Schedule 4 to the Credit Agreement.

"*Mystic Development Interconnection Agreement*" means the Interconnection Agreement, between BECO and Sithe Mystic Development filed with FERC under Docket No. ER01-89C as finally executed.

"*Mystic Development Long Term Service Agreement*" means the Long Term Service Agreement dated as of November 6, 2000, between Sithe Mystic Development and MHIA.

"*Mystic Development O&M Agreement"* means the Operation and Maintenance Agreement dated as of January 31, 2001, between Sithe Mystic Development and Sithe Boston Power Services.

"*Mystic Development PILOT Agreement"* means the Agreement For Payment In Lieu of Taxes, dated as of December 10, 1999 between the City of Everett, Massachusetts and Sithe Mystic, as assigned to Sithe Mystic Development.

"*Mystic Development TIF Agreement"* means the Tax Increment Financing Agreement, dated as of December 10, 1999 between the City of Everett, Massachusetts and Sithe Mystic, as assigned to Sithe Mystic Development.

"*Mystic Station Net Revenue"* means, with respect to any period, the revenues received from Mystic Station Project during such period less Operating Expenses and Approved Capital Expenditures, without duplication, incurred in respect of the Mystic Station Project during such period.

"*Mystic Station Project"* means a 1,005 MW electric generating facility in operation in Everett, Massachusetts and owned by Sithe Mystic.

"*Net Consolidated Usage"* shall have occurred, as of a given date, if on such date the aggregate amount reallocated from the contingency line item of either Project Budget exceeds the aggregate amount of demonstrated savings, if any, from completed line items in either Project Budget for which a Reallocation Certificate (in the form of *Exhibit 2.01(b)* to the Credit Agreement) has been provided.

"*Non-performing Lender"* has the meaning set forth in Section 2.03(a)(iv) of the Credit Agreement.

"*Non-Variable Operating Expenses"* means all items included in any Operating Budget other than variable fuel expenses, costs associated with the purchase of emissions credits and fuel transportation costs.

"*Note"* means a Project Note, Working Capital Note or a LC Loan Note.

"*Notice of Borrowing"* has the meaning set forth in Section 2.01(c)(ii) of the Credit Agreement.

"*Notice of Conversion"* has the meaning set forth in Section 2.03(b)(i) of the Credit Agreement.

"*Notice of Working Capital Borrowing"* has the meaning set forth in Section 2.02(d) of the Credit Agreement.

"*O&M Agreements"* means collectively, the Sithe Mystic Station O&M Agreement, the Mystic Development O&M Agreement and Fore River O&M Agreement.

"*Obligations"* means (a) each and every obligation, covenant and agreement of the Borrower now or hereafter existing contained in the Credit Agreement or any other Loan Document to which the Borrower is a party, whether for principal, interest, premium, Fees, Swap Claims, expenses or otherwise, and any amendments or supplements thereto, extensions or renewals thereof or replacements therefor, (b) all sums advanced in accordance with the Security Documents to which the Borrower or any Project Company is a party by or on behalf of any Secured Party to protect any of the Collateral purported to be covered thereby, (c) any amounts paid by any Indemnified Person as to which such Indemnified Person has a right to reimbursement against the Borrower and (d) amounts paid by any Secured Party in preservation of such Secured Party's rights or interests in the Collateral, together with interest on the amounts referred to in clauses (a) through (d), above, in each case whether direct or indirect, joint or several, absolute or contingent, liquidated or unliquidated, now or hereafter existing, renewed or restructured, whether or not from time to time decreased or extinguished and later increased, created or incurred, and including all Debt of the Borrower under any instrument now or hereafter evidencing or securing any of the foregoing.

"*Operator"* means, in the case of the Mystic Development O&M Agreement and the Fore River O&M Agreement, Sithe Boston Power Services, and in the case of the Sithe Mystic Station O&M Agreement, Sithe New England Power Services.

"*Operating Budget"* shall have the meaning set forth in Section 3.02(bb) of the Project Company Guarantee.

"*Operating Expenses"* means, with respect to the Borrower, for any period, the aggregate of all operating and maintenance expenses for all Projects during such period, including: (a) insurance premiums; (b) franchise, licensing, property and other taxes (other than income taxes) payable by the Borrower and any Project Company; (c) labor and personnel costs; (d) costs incurred under any Project Document (other than the Base Fee or the Incentive Fee payable under the Power Marketing Agreement or any payments due under the Tax Sharing Agreement); (e) fuel and fuel transportation and storage costs; (f) utilities, supplies and other services required for the ownership, operation and maintenance of any Project; (g) maintenance expenses not funded from amounts withdrawn from the Major Maintenance/Forced Outage Reserve Account (but excluding Approved Capital Expenditures); (h) general and administrative and management costs with regard to the Borrower and each Project; and (i) agency, consulting, professional and other fees. "*Operating Expenses*" when used with respect to any Project Company, shall mean each of the types of expenses referred to above which have been incurred only by, or on behalf of, such Project Company.

"*Outstanding Amount"* means any outstanding LC Loan and other amounts owing to the respective Lender under a Letter of Credit.

"*Payment Date"* means each March 31, June 30, September 30 and December 31.

"*Payment LC Commitment"* means, with respect to a Lender, the product of (x) such Lender's Percentage and (y) the Aggregate Payment LC Commitment.

"*Percentage"* means, in respect of any Lender, the percentage set forth next to such Lender's name under the column entitled "Lender Percentage" on *Schedules 1, 2* and *3* to the Credit Agreement.

"*Permitted Borrower Account"* means an account established in the name of the Borrower, which shall not be subject to a Lien in favor of any Lenders and the cash or securities deposited therein shall not constitute Collateral.

"*Permitted Borrower Debt"* has the meaning set forth in Section 7.02(a) of the Credit Agreement.

"*Permitted Business"* means, as to the Borrower and any Project Company, the financing, development, permitting, construction, management, expansion, operation, maintenance and improvement of the Projects (or Project Company's respective Project, as the case may be) and the procurement, marketing and sale of supplies and parts, capacity, energy, ancillary services, fuel and emissions credits in connection with such Project (including Permitted Hedging Transactions), and all activities reasonably related or incidental thereto, including those contemplated in the related EPC Agreement and the other Project Documents and those otherwise permitted under the Credit Agreement and the Project Company Guarantee, as the case may be. "*Permitted Business"* may also include the financing, permitting, construction, management, expansion, operation, maintenance and improvement of Additional Projects, but shall expressly exclude any pre-financing development activities of any Additional Project.

"*Permitted Dividends"* has the meaning set forth in Section 7.02(f) of the Credit Agreement.

"*Permitted Exceptions"* has the meaning set forth in Section 5.02(d) of the Credit Agreement.

"*Permitted Hedging Transactions"* means physical or financial transactions entered for the forward or future purchase or sale of fuel, fuel transportation, capacity, energy, ancillary services, emissions credits or related products, entered into in accordance with the Risk Management Policy.

"*Permitted Investments"* means:

(i) direct obligations of the United States of America or obligations fully guaranteed as to principal and interest by the United States of America, not maturing not later than 90 days (or if a Borrower Event of Default shall have occurred and be continuing, 30 days) from the date of acquisition thereof;

(ii) certificates of deposit issued by, bankers' acceptances created by, or time deposits with any bank or trust company which is organized under the laws of the United States of America or any state thereof, and having capital, surplus and undivided profits of at least $500,000,000 and that is rated "A" or better by S&P or "A2" by Moody's maturing not later than 90 days (or if a Borrower Event of Default shall have occurred and be continuing, 30 days) from the date of acquisition thereof;

(iii) commercial paper rated (on the date of acquisition thereof) A-1 and P-1 or better by S&P and Moody's, respectively, maturing not more than 90 days (or in the event of a Borrower Event of Default shall occur and be continuing, 30 days) from the date of acquisition thereof;

(iv) repurchase obligations with a term of not more than 90 days (or if a Borrower Event of Default shall have occurred and be continuing, 30 days) for underlying securities of the types described in clauses (i) or (ii) above, entered into with any financial institution meeting the qualifications specified in clause (iii) above;

(v) money market funds (including, without limitation, deposits in the VISTA Money Market Funds and any other fund for which the Collateral Agent or any Affiliate thereof serves as an investment advisor, administrator, shareholder servicing agent and/or custodian or subcustodian), so long as such funds are rated AAA by Moody's or Aaa by S&P; and

(vi) any other investment designated by the Borrower and approved in writing by the Technical Committee;

provided, however, that, notwithstanding the foregoing, the Borrower may invest up to 50% of the funds in the Major Maintenance/Forced Outage Reserve Account in investments described in clauses (i) through (v), above, which mature no later than 360 days from the date of acquisition thereof.

"*Permitted Liens"* means Borrower Permitted Liens and Project Company Permitted Liens.

"*Person"* means an individual, partnership, corporation (including a business trust), limited liability company, joint stock company, trust, unincorporated association, joint venture or other entity, including any Government Authority.

"*Plan"* means a Single Employer Plan or a Multiple Employer Plan.

"*Power Market Consultant"* means Pace Global Energy Services, LLC or, after the Closing Date, any other consulting firm that is mutually acceptable to the Lead Arrangers and the Borrower.

"*Power Marketing Agreement"* means the Marketing and Procurement Agreement dated as of January 31, 2001, by and among Sithe Power Marketing, the Borrower, Sithe Mystic, Sithe Mystic Development and Sithe Fore River.

"*Precedent Agreement"* means the Precedent Agreement dated as of September 28, 1999, between Algonquin and Sithe Power Marketing.

"*presence"*, when used in connection with any Environmental Discharge or Hazardous Substances, shall mean and include presence, generation, manufacture, processing, distribution, installation, treatment, use, storage, handling, repair, encapsulation, transportation, handling, Release and threatened Release, where such presence is either regulated by applicable Environmental Law or may serve as the basis for liability.

"*Pre-Closing Project Costs"* means, as to each Project Company and its Project, the aggregate amount of all Project Costs and Financing Costs for such Project as confirmed by the Independent Engineer, whether constituting out-of-pocket costs or internal costs (including, without limitation, capitalized interest) and including all costs of employees and internal resources and all other internal direct and allocated costs at a fair valuation together with a reasonable allowance for overhead and administrative costs, incurred by such Project Company or any affiliate of such Project Company at any time on or before the Closing Date.

"*Pre-Completion Operating Expenses"* means with respect to any Development Project, Operating Expenses incurred by (or allocable to) such Development Project prior to Project Completion thereof, provided such expenses are not included in the Project Budget for such Development Project.

"*Pre-Completion Revenues"* means with respect to any Development Project, Project Revenues earned by (or allocable to) such Development Project, prior to Project Completion thereof.

"*Project"* means, as the context requires, the Mystic Station Project, the Mystic 8&9 Project or the Fore River Project.

"*Project Advance"* means an advance by a Lender to the Borrower pursuant to Section 2.01(a) of the Credit Agreement.

"*Project Borrowing"* means a borrowing consisting of Project Advances made of, or Converted into, the same Type and Interest Period made on the same day by the Lenders. Project Borrowings consisting of Project Advances of the same Type and Interest Period on the same day shall be deemed a single Borrowing hereunder until repaid in full or next Converted.

"*Project Budget"* means, as to each Development Project, the budget of Project Costs (including Pre-Closing Project Costs) and Financing Costs prepared by or on behalf of the applicable Project Company, reviewed by the Independent Engineer and approved on or before the Closing Date by the Lead Arrangers.

"*Project Commitment"* has the meaning set forth in Section 2.01(a)(i) of the Credit Agreement.

"*Project Company"* means, each of, Sithe Mystic, Sithe Mystic Development and Sithe Fore River (and collectively, the Project Companies).

"*Project Company Guarantee"* means the Project Company Guarantee dated as of January 31, 2001, by and among each Project Company and the Collateral Agent.

"*Project Company Permitted Debt"* means any Debt permitted by Section 3.04(a) of the Project Company Guarantee.

"*Project Company Permitted Liens"* means Liens permitted by Section 3.04(b) of the Project Company Guarantee.

"*Project Completion"* means, with respect to a Development Project, satisfaction of the following conditions and requirements:

(1) satisfaction by the Contractor of the requirements of Section 17.3 of the related EPC Agreement, with the exception of (i) punch list items as long as, with respect to such punch list items, set-asides satisfactory to the Administrative Agent have been agreed between the related Project Company and the Contractor, (ii) delivery of the certificate referred to in Section 17.3 of the related EPC Agreement and (iii) in the event that a determination shall have been made pursuant to the terms of the related EPC Agreement that liquidated damages will be paid pursuant to Section 20.1 of the related EPC Agreement for such Project Company, either such damages have been paid or arrangements satisfactory to the Administrative Agent for the payment thereof have been made;

(2) Final releases of mechanics' and materialmen's liens (in substantially the form of *Exhibit C* of the Project Company Guarantee) from (and certified by) the Contractor and from all other mechanics and materialmen in privity with the related Project Company, which have performed work or supplied material to the related Project for an aggregate contract price or invoice price greater than $100,000 since the delivery of the last such releases pursuant to the Project Company Guarantee (other than in respect of any "punch list" items agreed to by (i) the Contractor and the related Project Company pursuant to the related EPC Agreement and (ii) all other mechanics and materialmen in privity with the related Project Company (other than those specifically excluded above), and approved by the Independent Engineer), together with copies of all receipts for such work and material;

(3) An unmodified CLTA Endorsement No. 100 to the title policies covering the Property, together with such other endorsements as the Administrative Agent may reasonably request, and with evidence satisfactory to the Administrative Agent that the title companies are in a position to issue to the Administrative Agent, as Administrative Agent for the Secured Parties, their ALTA rewrite policies of title insurance without exception for mechanics' or materialmen's liens;

(4) Evidence that the insurance required by Section 3.02(aa) of the Project Company Guarantee is in full force and effect;

---

(5) Final certificates of occupancy for such Development Project, if required by applicable Law, issued by the appropriate Governmental Authority, containing such conditions, if any, as shall be acceptable to the Required Lenders, together with such other assurances as may be requested by the Administrative Agent that such Development Project and the occupancy and operation thereof comply in all material respects with all applicable Requirements of Law and comply with all Governmental Approvals;

(6) All material Governmental Approvals then required to be obtained by the Borrower and the relevant Project Company shall have been duly obtained and be in full force and effect, final and nonappealable, and there shall be no challenge to any existing material Governmental Approval;

(7) Delivery and approval of the Operating Budgets for such Project;

(8) Receipt of a certificate from the Independent Engineer regarding performance tests made in accordance with Section 3.03(c) of the Project Company Guarantee; and

(9) Satisfaction of all requirements for the construction of all interconnection facilities, including, without limitation, the provision of gas, water and electricity, to allow for commercial operation of the applicable Project;

provided, that any and all conditions above may be waived with the approval of the Required Lenders.

"*Project Costs"* means,

(x) as to any Project, all costs incurred for design, development, site acquisition, site preparation, permitting, manufacturing, construction, acquisition, project management, installation, testing, startup and initial operation of such Project, or any facilities related thereto, including spare parts and fuel handling facilities and fuel, electrical, water and sewer interconnection equipment and facilities and the initial working capital of the business to be conducted and all other costs and expenditures in any respect related thereto, and specifically includes all Pre-Closing Project Costs for such Project, all pre-completion operating and maintenance costs for such Project (including, with respect to Mystic Station, all operation and maintenance costs for such Project prior to the Second Completion Date), all amounts payable under the related EPC Agreement or other Project Documents for such Project and all property, sales and use taxes, and insurance, management, consultant, legal and other costs and expenditures that accrue or become payable prior to the Project Completion for such Project, *but excludes* all Pre-Completion Operating Costs for such Project, and

(y) as to any Additional Project, all costs incurred for design, development, site acquisition, site preparation, permitting, manufacturing, construction, acquisition, project management, installation, testing, startup and initial operation of such Additional Project, or any facilities related thereto, including spare parts and fuel handling facilities and fuel, electrical, water and sewer interconnection equipment and facilities and the initial working capital of the business to be conducted and all other costs and expenditures in any respect related thereto, and specifically includes any pre-closing Project Costs for such Additional Project, all pre-completion operation and maintenance costs for such Additional Project, all amounts payable under the related EPC Agreement or other Project Documents for such Additional Project and all property, sales and use taxes, and insurance, management, consultant, legal and other costs and expenditures that accrue or become payable prior to the project completion date for such Additional Project.

"*Project Default"* means any event or condition which upon the giving of notice, the lapse of time or both would constitute a Project Event of Default.

"*Project Documents"* means, with respect to any Project, the Material Project Documents for such Project and all agreements providing for the development, construction, operation and maintenance of such Project, including, without limitation, construction contracts, spare parts agreements, power sales agreements, power transmission agreements, marketing and procurement agreements, interconnection agreements, fuel supply agreements, fuel transportation agreements, operation and maintenance agreements, administrative services agreements, long-term service agreements, shared use agreements, tax abatement agreements, tax sharing agreements, construction management agreements, development agreements and any combination of any of the foregoing.

"*Project Event of Default"* has the meaning set forth in Article IV of the Project Company Guarantee.

"*Project LC Issuer*" means BNP PARIBAS.

"*Project Letters of Credit*" means, collectively, the Interconnection Security Letters of Credit and the Interconnection Payment Letters of Credit.

"*Project Material Adverse Effect*" means with respect to a Project Company, an event or occurrence that has a material adverse effect on the business, operations, property, assets, or financial condition of such Project Company or the ability of such Project Company to pay its debts or perform and comply with its material obligations under the Loan Documents to which such Project Company is a party, or the validity or priority of the Lenders' security interest in such Project Company's interest in the Collateral.

"*Project Matter*" has the meaning set forth in Section 10.04(b) of the Credit Agreement.

"*Project Note*" means a promissory note of the Borrower payable to the order of each Lender, evidencing the aggregate indebtedness of the Borrower to such Lender resulting from the Project Advances made by such Lender.

"*Project Revenues*" means, for any period, the sum of the following received by the Borrower or credited to the account of the Borrower as described in clause (ii) below on a cash basis during such period: (i) all revenues and income received from any source, including revenues derived from and in connection with the sale of electricity generated by any Project, fuel, emission credits, ancillary services, ICAP and any other revenue, including trading revenues and fuel sale; (ii) investment earnings on amounts in the Accounts, but only to the extent such investment earnings have been transferred to the Revenue Account; and (iii) the proceeds of any business interruption insurance, delay in start-up insurance or delay liquidated damages received after the Second Completion Date.

"*Projects*" means, collectively, Mystic Station Project, Mystic 8&9 Project and Fore River Project.

"*Property*" means, with respect to each Project, the applicable site description attached to the Mortgage.

"*Prudent Engineering and Operating Practices*" means, with respect to a particular time, those practices, methods, techniques and standards, as at such time, that are generally accepted for use in the merchant power electric generation industry commonly used in safe and prudent electric engineering and operations to design, engineer, construct, test, operate and maintain electric generation and transmission equipment.

"*PUHCA*" means the Public Utility Holding Company Act of 1935, as amended.

"*Rating Agency*" means each of S&P and Moody's, and their respective successors, or any other nationally recognized statistical rating agency.

"*Raytheon/Fore River Guaranty*" means the Guaranty dated as of May 8, 2000, by Raytheon Company in favor of Sithe Fore River.

"*Raytheon/Mystic Development Guaranty*" means the Guaranty dated as of May 8, 2000, by Raytheon Company in favor of Mystic Development.

"*Recipient*" has the meaning set forth in Section 10.09 of the Credit Agreement.

"*Release*" means any release, pumping, pouring, emptying, injecting, escaping, leaching, migrating, dumping, seepage, spill, leak, flow, discharge, disposal or emission.

"*Related Facilities Agreement*" means the Related Facilities Agreement to be executed between National Grid USA and Sithe Fore River.

"*Representative*" means, with respect to any Person, any one of the individuals designated as such in the certificate of such Person delivered pursuant to Section 5.01(h) of the Credit Agreement, or any other individual thereafter designated as such by such Person to the Administrative Agent from time to time in writing.

"*Request for Issuance*" has the meaning set forth in Section 3.02(b) of the Credit Agreement.

"*Required Lenders*" means, on any relevant date of determination, Lenders holding or, in the case of the reimbursement obligations of the Borrower under any Letter of Credit, participating in, at least 51% of the sum of (a) the aggregate principal amount of the outstanding Advances plus (b) the aggregate undrawn amount of any Letter of Credit (if any of the Letters of Credit are outstanding at such time).

"*Required Project Approvals*" shall have the meaning, with respect to a Project, set forth in Section 3.01(m) of the Project Company Guarantee.

"*Requirement of Law*" shall mean, as to any Person, the certificate of incorporation and by-laws or partnership agreement or other organizational or governing documents of such Person, and, as to any Person or a Project, any Law applicable to or binding upon (a) such Person or any of its properties or to which such Person or any of its properties is subject or (b) the Project or to which a Project is subject, including relevant Environmental Laws, restrictive land use covenants and zoning, use and building codes, laws, regulations and ordinances.

"*Revolving Credit Facility*" has the meaning set forth in the Section 1.1 of Sithe Equity Guaranty.

"*Risk Management Policy*" means (i) the Credit Risk Management Policy relating to Sithe Boston Generating and (ii) the Market Risk Management Policy relating to Sithe Boston Generating, as such risk management policies may be amended as permitted by the Loan Documents.

"*S&P*" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., and any successor rating agency.

"*Scheduled Debt Service*" means, for any period (without duplication), all principal payments on the Advances (excluding any repayments of Working Capital Advances) and all payments of interest, Fees or other amounts, scheduled to be made by the Borrower during such period under this Agreement, the Notes, any Swap Agreement and any other Loan Document. For the purposes of computing Scheduled Debt Service for any period, all payments received by the Borrower during such period under any Swap Agreement may be netted against Scheduled Debt Service for such period.

"*SCR Overhaul*" means, with respect to a combustion turbine and its associated heat recovery steam generator, the replacement of the catalyst associated with the selective catalytic reduction equipment installed therein.

"*SEC*" means the Securities and Exchange Commission and any federal agency successor thereto.

"*Second Completion Date*" means the later of (i) Project Completion for the Mystic 8&9 Project and (ii) Project Completion for the Fore River Project.

"*Secured Parties*" has the meaning set forth in the Depositary Agreement.

"*Security*" means any shares, stock, bonds, debentures, notes, evidences of indebtedness or any other instruments commonly known as "securities".

"*Security Agreement*" means the Security Agreement dated as of January 31, 2001, by and among the Collateral Agent, the Borrower, Sithe Mystic, Sithe Mystic Development and Sithe Fore River.

"*Security Documents*" means the Mortgage, the Security Agreement, the Depositary Agreement, the Consents, the Borrower Pledge Agreement, the SPM Security Agreement, SPM Depositary

Agreement, each financing statement and any other instrument or document delivered to grant the Collateral Agent a security interest in the Collateral or to assure or preserve the Collateral Agent's security interest therein or any right or remedy created thereby.

"*Shared Use Agreements*" means agreements providing for the sharing of real property, transmission lines, water lines, permits, contractual rights and other property and rights among the Projects and other generating facilities adjacent to the Project sites.

"*Single Employer Plan*" means a single employer plan, as defined in Section 4001(a)(15) of ERISA, which (i) is maintained for employees of the Borrower or an ERISA Affiliate and no Person other than the Borrower and its ERISA Affiliates, or (ii) was so maintained and in respect of which the Borrower or an ERISA Affiliate could have liability under Section 4069 of ERISA in the event such plan has been or were to be terminated.

"*Sithe*" means Sithe Energies, Inc., a Delaware corporation.

"*Sithe Boston Power Services*" means Sithe Boston Power Services, LLC, a Delaware limited liability company.

"*Sithe Equity Guaranty*" means the Equity Guaranty dated as of January 31, 2001, by Sithe in favor of the Collateral Agent.

"*Sithe Edgar*" means Sithe Edgar, LLC, a Delaware limited liability company.

"*Sithe Fore River*" means Sithe Fore River Development, LLC, a Delaware limited liability company.

"*Sithe Mystic*" means Sithe Mystic LLC, a Delaware limited liability company.

"*Sithe Mystic Administrative Services Agreement*" means the Administrative Services Agreement dated as of January 31, 2001, between Sithe Mystic and Sithe.

"*Sithe Mystic Development*" means Sithe Mystic Development LLC a Delaware limited liability company.

"*Sithe Mystic Interconnection Agreement*" means the Interconnection and Operation Agreement dated as of December 10, 1997, between BECO and Sithe.

"*Sithe Mystic Station O&M Agreement*" means the Operation and Maintenance Agreement dated as of January 31, 2001, between Sithe Mystic and Sithe New England Power Services.

"*Sithe Mystic Terminalling Agreement*" means the Terminalling Agreement dated as of March 15, 1988, between Exxon Company, U.S.A. and Sithe Mystic, as amended and assigned to Sithe by BECO effective May 15, 1998.

"*Sithe New England*" means Sithe New England Holdings, LLC, a Delaware limited liability company.

"*Sithe New England Power Services*" means Sithe New England Power Services, Inc., a Delaware corporation.

"*Sithe Power Marketing*" means Sithe Power Marketing, L.P., a limited partnership organized under the laws of Delaware.

"*Sithe Undertaking*" means the Undertaking Agreement dated as of January 31, 2001 between Sithe and the Collateral Agent, with respect to Sithe Power Marketing's obligations under the Power Marketing Agreement.

"*SPC*" has the meaning specified in Section 10.07(d) of the Credit Agreement.

"*SPM Depositary Agreement*" means the Collateral Agency and Depositary Agreement dated as of January 31, 2001, by and among Sithe Power Marketing, the Borrower, State Street Bank and Trust Company, as depositary thereunder, and State Street Bank and Trust Company, as collateral agent thereunder.

"*SPM Security Agreement*" means the Security Agreement dated as of January 31, 2001, between Sithe Power Marketing and the Borrower.

"*Specifications*" means with respect to any Project, the specifications of such Project as set forth and referred to in *Exhibit A* (Specifications) to the related EPC Agreement.

"*Standby Letters of Credit*" shall mean collectively, the Interconnection Security Letters of Credit and the DSR Letter of Credit.

"*Stated Amount*" means (i) in respect of the Interconnection Security Letter of Credit for the Mystic 8&9 Project, initially $12,421,250 (as may be reduced by the Borrower upon the submission to the Project LC Issuer of a Reduction Certificate in the form attached to such Letter of Credit), (ii) in respect of the Interconnection Security Letter of Credit for the Fore River Project, initially $5,866,250 (as may be reduced by the Borrower upon the submission to the Project LC Issuer of a Reduction Certificate in the form attached to such Letter of Credit), (iii) in respect of the Interconnection Security Letter of Credit for the Fore River Project to be provided to National Grid USA, if any, initially $2,000,000, (iv) in respect of the Interconnection Payment Letter of Credit for the Mystic 8&9 Project, $39,685,000, (v) in respect of the Interconnection Payment Letter of Credit for the Fore River Project, $19,865,000, and (vi) in respect of the DSR Letter of Credit, an amount equal $60 million; *provided*, that if on the date such DSR Letter of Credit is issued, amounts remain available for Drawing under previously issued Interconnection Security Letters of Credit and/or LC Loans relating to a Drawing under a previously issued Interconnection Security Letter of Credit remain unpaid, such amount available for Drawing shall equal (X) $60,000,000 minus (Y) the sum of (a) the aggregate amount available for Drawing under all such outstanding Interconnection Security Letters of Credit, plus (b) the aggregate principal amount of all outstanding LC Loans resulting from all Drawings under an Interconnection Security Letter of Credit; *provided, further*, that the amount available for Drawing of the DSR Letter of Credit calculated pursuant to the immediately preceding proviso shall be increased, from time to time, by the amount of any (a) permanent reduction in the aggregate amount available for Drawing under all outstanding Interconnection Security Letters of Credit, (b) the expiration of any outstanding Interconnection Security Letter of Credit (provided no extension, renewal or replacement has been provided therefore) and (b) repayment of any outstanding LC Loans resulting from a Drawing under such Interconnection Security Letters of Credit (provided a Reinstatement Certificate is not provided to the beneficiary of such Letter of Credit in respect of such repayment).

"*Subsequent Advances*" has the meaning set forth in Section 5.03 of the Credit Agreement.

"*Subsidiary*" means, with respect to any Person, any corporation or unincorporated entity of which more than 50% of the outstanding capital stock (or comparable interest) having ordinary voting power (irrespective of whether at the time capital stock of any other class or classes of such corporation or entity shall or might have voting power upon the occurrence of any contingency) is at the time directly or indirectly owned by said Person (whether directly or through one or more other Subsidiaries).

"*Swap Agreement*" means any agreement entered into by the Borrower with a Lender (or any Affiliate thereof), other than for speculative purposes, providing for a swap, ceiling rates, ceiling and floor rates, contingent participating or other hedging mechanism with respect to the interest payable on the Project Advances, substantially in the form of *Exhibit 1.01G* to the Credit Agreement.

"*Swap Bank*" means a Lender (or any Affiliate thereof) party to a Swap Agreement.

"*Swap Claims*" means any settlement amounts or other breakage or termination fees payable by the Borrower under any Swap Agreement in connection with any unwinding, breach or termination thereof.

"*Taking*" means any requisition, expropriation or condemnation of any interest in a Project, or any portion thereof, or any similar event.

"*Taxes*" has the meaning set forth in Section 6.01(g) of the Credit Agreement.

"*Tax Sharing Agreement*" means the Tax Sharing Agreement dated as of January 31, 2001, by and among Sithe Northeast Generating Company, Inc., Borrower, Sithe Mystic, Sithe Mystic Development and Sithe Fore River.

"*Technical Committee*" shall have the meaning set forth in Section 9.07 of the Credit Agreement.

"*Term Sheet Base Case*" means the Base Case Financial Projections attached to the Commitment Letter dated December 7, 2000, among Sithe and the Lead Arrangers.

"*Total Commitment*" means the total of (i) the Aggregate Project Commitment, (ii) the Aggregate Working Capital Commitment and (iii) the Aggregate LC Commitment.

"*Trading Account*" has the meaning set forth in the SPM Depositary Agreement.

"*Transaction Documents*" means, collectively, the Project Documents and the Loan Documents.

"*Type*", when used in the context of any Advance, has the meaning assigned to that term in the definition of "Advance" herein.

"*Uniform Commercial Code*" means the Uniform Commercial Code, as amended from time to time, in effect in any specified jurisdiction.

"*WGI*" means Washington Group International, Inc.

"*Working Capital Advance*" means an advance by a Lender to the Borrower pursuant to Section 2.03 of the Credit Agreement.

"*Working Capital Borrowing*" means a borrowing consisting of Working Capital Advances made of, or Converted into, the same Type and Interest Period made on the same day by the Lenders. Working Capital Borrowings consisting of Working Capital Advances of the same Type and Interest Period on the same day shall be deemed a single Borrowing hereunder until repaid in full or next Converted.

"*Working Capital Commitment*" has the meaning assigned thereto in Section 2.02(a) of the Credit Agreement.

"*Working Capital Note*" means a promissory note of the Borrower payable to the order of each Lender, evidencing the aggregate indebtedness of the Borrower to such Lender resulting from the Working Capital Advances made by such Lender.

PROJECT COMPANY GUARANTEE

THIS PROJECT COMPANY GUARANTEE, dated as of January 31, 2001, made jointly and severally by SITHE MYSTIC LLC ("*Sithe Mystic*"), SITHE MYSTIC DEVELOPMENT LLC ("*Sithe Mystic Development*") and SITHE FORE RIVER DEVELOPMENT, LLC ("*Sithe Fore River*" and, collectively with Sithe Mystic and Sithe Mystic Development, the "*Guarantors*", and individually, a "*Guarantor*"), in favor of BNP PARIBAS, acting in its capacity as the collateral agent (the "*Collateral Agent*") for the Secured Parties (as defined below).

W I T N E S S E T H:

WHEREAS, each Guarantor is a direct wholly-owned subsidiary of SITHE BOSTON GENERATING, LLC, a Delaware limited liability company (the "*Borrower*").

WHEREAS, the Borrower has entered into the Credit and Reimbursement Agreement dated as of January 31, 2001 (as the same may be amended, supplemented or otherwise modified from time to time, the "*Credit Agreement*"), with the financial institutions listed on the signature pages thereof under the heading "The Lenders" and the other financial institutions from time to time party thereto (each, a "*Lender*" and collectively, the "*Lenders*") and BNP PARIBAS, as administrative agent (the "*Administrative Agent*").

WHEREAS, the Credit Agreement contemplates the execution, delivery and the implementation of this Guarantee.

WHEREAS, it is a condition precedent to the obligations of the Lenders under the Credit Agreement that this Guarantee shall have been entered into by the parties hereto and shall have become unconditionally and fully effective in accordance with the terms hereof.

WHEREAS, each Guarantor has duly authorized the execution, delivery and performance of this Guarantee and will receive direct and indirect benefits by reason of the availability of the Advances.

NOW, THEREFORE, in order to induce the Lenders to make the Advances to the Borrower pursuant to the Credit Agreement, and for other good and valuable consideration receipt of which is hereby acknowledged by each Guarantor, each Guarantor hereby agrees with the Collateral Agent, for its benefit and the ratable benefit of the Collateral Agent and the Secured Parties, as follows:

ARTICLE I

DEFINITIONS

SECTION 1.01. *Certain Terms.* The following terms (whether or not underscored) when used in this Guarantee, including its preamble and recitals, shall have the following meanings (such definitions to be equally applicable to the singular and plural forms thereof):

(a) "*Funding Guarantor*" has the meaning assigned to such term in Section 5.5 hereof.

(b) "*Guaranteed Obligations*" has the meaning assigned to that term in Section 2.1 hereof.

(c) "*Guarantor*" and "*Guarantors*" have the respective meanings assigned to those terms in the preamble hereto.

(d) "*Guarantee*" means this Project Company Guarantee, as the same may be amended, supplemented, amended and restated or otherwise modified from time to time.

SECTION 1.02. *Credit Agreement Definitions.* Unless otherwise defined herein, terms used in this Guarantee, including its preamble and recitals, have the meanings provided in Annex A to the Credit Agreement.

ARTICLE II

GUARANTEE

SECTION 2.01. *Guarantee.* Each Guarantor jointly and severally with each other Guarantor hereby unconditionally and irrevocably guarantees the full and prompt payment when due, whether at stated maturity, by acceleration or otherwise (including, without limitation, all amounts which would have become due but for the operation of the automatic stay under Section 362(a) of the Federal Bankruptcy Code, 11 U.S.C. 362(a)), of the following (collectively, the "*Guaranteed Obligations*"):

(a) all Obligations of the Borrower under the Loan Documents, whether for principal, interest, fees, expenses, Swap Claims or otherwise; and

(b) any and all expenses (including reasonable counsel fees and expenses) incurred by the Collateral Agent or any Lender in enforcing any of their respective rights under this Guarantee;

SECTION 2.02. *Limitation of Guarantor's Liability.* Each Guarantor confirms that it is its intention that the guaranty by such Guarantor pursuant to this Guarantee not constitute a fraudulent transfer or conveyance for purposes of any federal, state or foreign law. To effectuate the foregoing intention, such Guarantor hereby irrevocably agrees that the obligations of each Guarantor under this Guarantee shall be limited to the maximum amount as will, after giving effect to all other contingent and fixed liabilities of such Guarantor and after giving effect to any collections from payments made by or on behalf of any other Guarantor in respect of the obligations of such other Guarantor under its Guarantee, result in the obligations of such Guarantor under this Guarantee not constituting a fraudulent conveyance or fraudulent transfer under federal, state or foreign law.

SECTION 2.03. *Guarantee Absolute.* This Guarantee shall be construed as a continuing, absolute and unconditional guarantee of payment. Each Guarantor guarantees that the Obligations will be paid strictly in accordance with the terms of the Credit Agreement, and that all other Guaranteed Obligations shall be paid strictly in accordance with the terms of the Loan Documents, regardless of any law, regulation or order now or hereafter in effect in any jurisdiction affecting any of such terms or the rights of the Collateral Agent or any of the Secured Parties with respect thereto. The liability of each Guarantor under this Guarantee shall be absolute and unconditional irrespective of:

(a) any lack of validity or enforceability of this Guarantee, the Credit Agreement, any other Loan Document or any other agreement or instrument relating to any of the foregoing, the absence of any action to enforce the same, any release of the Borrower or any other Guarantor, the recovery of any judgment against the Borrower or any Guarantor, any action to enforce the same or any other circumstance which might otherwise constitute a legal or equitable discharge or defense of a Guarantor;

(b) any occurrence or condition whatsoever, including without limitation, (i) any compromise, settlement, release, waiver, renewal, extension, indulgence or modification of, or any change in, any of the obligations of the Borrower or any Guarantor contained in this Guarantee, the Credit Agreement or any other Transaction Document, (ii) any impairment, modification, release or limitation of the liability of the Borrower or any Guarantor or any of their estates in bankruptcy, or any remedy for the enforcement thereof, resulting from the operation of any present or future provision of any applicable bankruptcy law, as amended, or other statute or from the decision of any court, (iii) the assertion or exercise by any Guarantor, the Collateral Agent or any Lender of any rights or remedies, (iv) the assignment or the purported assignment of any property as security for the Obligations, including all or any part of the rights of any Guarantor under this Guarantee, (v) the extension of the time for payment by the Borrower or any Guarantor of any payments or other sums or any part thereof owing or payable under any of the terms and provisions of any Transaction Document or of the time for performance by the Borrower or any Guarantor of any other obligations under or arising out of any terms or provisions or the extension of the renewal of any thereof, (vi) the modification or amendment

---

(whether material or otherwise) of any duty, agreement or obligation of the Borrower or any Guarantor set forth in any Transaction Document, (vii) the voluntary or involuntary liquidation, dissolution, sale or other disposition of all or substantially all of the assets, marshalling of assets and liabilities, receivership, insolvency, bankruptcy, assignment for the benefit of creditors, reorganization, arrangement, composition or readjustment of, or other similar proceeding affecting the Borrower or any of the Guarantors or any of their respective assets, or the disaffirmancy of this Guarantee or any Transaction Document in any such proceeding or (viii) the release or discharge of the Borrower or any Guarantor from the performance or observance of any agreement, covenant, term or condition contained in any of such instruments by operation of law; or

(c) any exchange, release or non-perfection of any collateral, or any release or amendment or waiver of or consent to departure from any other guarantee, for all or any of the Guaranteed Obligations.

Each Guarantor hereby (i) waives diligence, presentment, demand of payment, filing of claims with a court in the event of the merger, insolvency or bankruptcy of any Guarantor, and all demands whatsoever, (ii) acknowledges that any agreement, instrument or document evidencing this Guarantee may be transferred and that the benefit of its obligations hereunder shall extend to each holder of any agreement, instrument or document evidencing this Guarantee without notice to them and (iii) covenants that this Guarantee will not be discharged except by complete performance of this Guarantee. Each Guarantor further agrees that if at any time all or any part of any payment theretofore applied by any person to this Guarantee is, or must be, rescinded or returned for any reasons whatsoever, including without limitation, the insolvency, bankruptcy or reorganization of the Borrower or any Guarantor, this Guarantee shall, to the extent that such payment is or must be rescinded or returned, be deemed to have continued in existence notwithstanding such application, and this Guarantee shall continue to be effective or be reinstated, as the case may be, as though such application had not been made.

SECTION 2.04. *Waiver.* Each Guarantor hereby waives promptness, diligence, notice of acceptance and any other notice with respect to any of the Guaranteed Obligations and this Guarantee and any requirement that the Collateral Agent or any Lender protect, secure, perfect or insure any security interest or lien or any property subject thereto or exhaust any right or take any action against the Borrower or any other person or entity (including any other guarantor) or any collateral.

SECTION 2.05. *Subrogation.* No Guarantor will exercise any rights which it may acquire by way of subrogation under this Guarantee, by any payments made hereunder or otherwise, until all the Guaranteed Obligations shall have been paid in full. If any amount shall be paid to any of the Guarantors on account of such subrogation rights at any time when all the Guaranteed Obligations shall not have been paid in full (whether pursuant to a claim in any bankruptcy or similar proceeding or otherwise), such amount shall be held in trust for the benefit of the Collateral Agent and the Secured Parties and shall forthwith be paid to the Collateral Agent to be credited and applied upon the Guaranteed Obligations, whether matured or unmatured, in accordance with the terms of the Credit Agreement, or any other Loan Documents.

SECTION 2.06. *Consent to Jurisdiction; Waiver of Immunities.*

(a) Each Guarantor hereby irrevocably submits to the non-exclusive *in personam* jurisdiction of any New York State or Federal court of competent jurisdiction sitting in New York City in any action or proceeding arising out of or relating to this Guarantee, and each Guarantor hereby irrevocably agrees that all claims in respect of such action or proceeding may be heard or determined in such New York State or Federal court. Each Guarantor hereby irrevocably waives, to the fullest extent it may effectively do so, the defense of an inconvenient forum to the maintenance of such action or proceeding. The Guarantors may, with the prior written consent of the Collateral Agent, appoint any other Person maintaining an office in New York City as a process agent, and upon the acceptance of

the appointment as process agent, such process agent shall thereupon become process agent hereunder. Service of process in any such action or proceeding may be made by mailing (by certified mail) or delivering a copy of such process to each of the Guarantors in care of the Borrower, at the Borrower's above address, and each Guarantor hereby irrevocably authorizes and directs the Borrower to accept such service on its behalf. As an alternative method of service, each Guarantor also irrevocably consents to the service of any and all process in any such action or proceeding by the mailing (by certified mail) of copies of such process to the Guarantors at their addresses specified in Section 4.2. Each Guarantor agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in accordance with applicable law in other jurisdictions by suit on the judgment or in any other manner provided by law.

(b) Nothing in this Section shall affect the right of the Collateral Agent to serve legal process in any other manner permitted by law or affect the right of the Collateral Agent to bring any action or proceeding against each Guarantor or its property in the courts of any other jurisdictions.

(c) To the extent that any of the Guarantors has or hereafter may acquire any immunity from jurisdiction of any court or from any legal process (whether through service or notice, attachment prior to judgment, attachment in aid of execution, execution or otherwise) with respect to itself or to its property, each Guarantor hereby irrevocably waives such immunity in respect of its obligations under this Guarantee.

(d) By executing this Guarantee, each Guarantor hereby irrevocably and unconditionally waives any objection which it may now or hereafter have to the laying of venue of any of the aforesaid actions or proceedings arising out of or in connection with this Guarantee brought in any of the aforesaid courts, and hereby further irrevocably and unconditionally waives and agrees not to plead any claim that any such action or proceeding brought in any such court has been brought in an inconvenient forum.

ARTICLE III

REPRESENTATIONS AND COVENANTS

SECTION 3.02. *Representations and Warranties.* Each Guarantor hereby represents and warrants to the Collateral Agent as follows (such representations and warranties being made as of the Closing Date and, to the extent provided herein, on each subsequent date on which such representations and warranties are made or deemed to be made hereunder):

(a) It is duly organized, validly existing, and in good standing under the laws of its jurisdiction of formation;

(b) It (i) has the power and authority to own its property and assets and to transact the business in which it is engaged or presently proposes to engage, and (ii) is authorized to do business as a foreign corporation and is in good standing in each jurisdiction in which it is required to be authorized to do business;

(c) It has full power and authority and legal right to execute and deliver this Guarantee and the other Transaction Documents to which it is a party and to perform its obligations hereunder and thereunder;

(d) It has taken all necessary action to authorize its execution, delivery and performance of this Guarantee and the Transaction Documents to which it is a party;

(e) This Guarantee and each other Transaction Document to which it is a party has been duly executed and delivered by such Guarantor;

(f) For Federal income tax purposes, it is not an association taxable as a corporation;

(g) This Guarantee and each other Transaction Document to which it is a party constitute a legal, valid and binding obligation of such Guarantor enforceable against such Guarantor in accordance with their terms except as the enforcement thereof may be limited by applicable bankruptcy, insolvency or similar laws affecting the enforcement of rights of creditors generally and except to the extent that enforcement of rights and remedies set forth therein may be limited by equitable principles (regardless of whether enforcement is considered in a court of law or a proceeding in equity);

(h) Neither the execution, delivery or performance by such Guarantor of the Transaction Documents to which it is a party, the compliance by such Guarantor with the terms and provisions thereof, nor the consummation of the transaction contemplated thereby, will:

(i) Conflict with, contravene, or violate any provision of any material Requirement of Law or any Governmental Approval;

(ii) Conflict with, or result in any breach of, any of the terms and conditions of, or result in the creation or imposition of (or the obligation to create or impose), any Lien (except Liens created pursuant to the Security Documents) upon any of the property or assets of such Guarantor pursuant to the terms of any contractual obligation, agreement or instrument to which such Guarantor is a party or by which it or any of its property or assets is bound; or

(iii) Conflict with, contravene, or violate any provision of the articles or certificates of formation, limited liability company agreements or other organizational documents of such Guarantor or, or any Transaction Document or other material contractual obligation, agreement or instrument binding upon such Guarantor unless such conflict, contravention or violation could not reasonably be expected to have a Project Material Adverse Effect;

(i) (1) At Closing, except for such matters relating to such Guarantor as set forth in *Schedule 3.01(i)*, there is no litigation, action, suit, investigation or proceeding by or before any Governmental Authority or arbitrator pending or affecting or involving or, to the knowledge of the responsible officers of the Guarantor, threatened against the Guarantor which, individually or in the aggregate, represent a potential judgment or involves injunctive relief that would reasonably be expected to have a Material Adverse Effect; (2) subsequent to Closing, except for such matters relating to such Guarantor as set forth in *Schedule 3.01(i)*, as updated from time to time by such Guarantor by written notice to the Administrative Agent, there is no litigation, action, suit, investigation or proceeding by or before any Governmental Authority or arbitrator pending or affecting or involving or, to the knowledge of the responsible officers of such Guarantor, threatened against such Guarantor which, individually, or in the aggregate represents a potential judgment in excess of $5,000,000 or involves injunctive relief that could reasonably be expected to have a Project Material Adverse Effect;

(j) With respect to such Guarantor and, to such Guarantor's knowledge with respect to Material Project Participants, there is no injunction, writ, preliminary restraining order or any order of any nature issued by an arbitrator, court or other Governmental Authority directing that any of the material transactions provided for in any of the Transaction Documents not be consummated as herein or therein provided;

(k) Such Guarantor is not in breach of or in default with respect to any order of any court, arbitrator, administrative agency or other Governmental Authority which breach or default could reasonably be expected to have a Project Material Adverse Effect;

(l) The proforma balance sheet of such Guarantor which was delivered pursuant to Section 5.01(h) of the Credit Agreement were prepared in accordance with GAAP (except for the omission of footnotes) and fairly present the proforma financial condition of the Guarantor on the Closing Date;

(m) [Intentionally Omitted];

(n) All Governmental Approvals with respect to such Guarantor, which under any Requirement of Law, including without limitation Environmental Law, are required to have been obtained by such Guarantor on or prior to the Closing Date are listed in Part A of *Schedule 3.01(n)* (collectively, the "*Required Project Approvals*"). Except as indicated in Part A of *Schedule 3.01(n)*, all such Required Project Approvals have been obtained, are in full force and effect, are held by or on behalf of such Guarantor, are final, and are not subject to appeal;

(o) All Governmental Approvals which under any Requirement of Law, including without limitation Environmental Law, are required to be obtained by such Guarantor after the Closing Date are listed in Part B of *Schedule 3.01(n)* (collectively, the "*Deferred Project Approvals*"). Such Guarantor reasonably believes that each Deferred Project Approval shall be obtained in a final and non-appealable form in the ordinary course prior to the time it is required to be obtained hereunder or under the other Transaction Documents;

(p) Such Guarantor is in compliance with, and its related Project is being owned, operated and maintained in compliance with, all Requirements of Law, including without limitation Environmental Law, and in compliance with the requirements of all Required Project Approvals, except such noncompliance as could not, individually or in the aggregate, reasonably be expected to have a Project Material Adverse Effect;

(q) No Project Default or Project Event of Default has occurred and is continuing;

(r) To such Guarantor's knowledge, no Borrower Default or Borrower Event of Default has occurred or is continuing and no Material Project Participant is in breach or default of any of the terms or provisions of any Material Project Document relating to such Guarantor's Project;

(s) Such Guarantor has filed or caused to be filed all federal, foreign, state and other tax returns which are required to be filed by it and has paid (prior to their delinquency dates) all taxes, fees, charges and assessments ("*Taxes*") which have become due pursuant to such returns or pursuant to any assessment received by it, other than Taxes with respect to such Guarantor, the payment of which are subject to a Contest or which are listed on *Schedule 3.01(s)* hereto;

(t) Such Guarantor is not conducting any business other than Permitted Business and does not own any Subsidiaries or any equity in any other Person;

(u) The Obligations of such Guarantor constitute direct, unconditional and general obligations of such Guarantor which are not subordinated (whether by contract or otherwise) to the claims of any other creditor of such Guarantor, other than Project Company Permitted Liens and subordination effected by operation of any Requirement of Law;

(v) Such Guarantor has good, marketable and valid title in and to or valid leasehold interest in or easement over all of its property and assets, free and clear of all Liens other than Project Company Permitted Liens;

(w) Such Guarantor has obtained and holds in full force and effect all patents, trademarks, copyrights and other such rights or adequate licenses therein, free from unduly burdensome restrictions, which are necessary for the ownership, construction, operation and maintenance of the Project;

(x) The Transaction Documents, the Required Project Approvals and, upon receipt thereof, the Deferred Project Approvals, create rights in the Borrower sufficient to enable such Guarantor to own, construct, operate and maintain the Project and to perform as required under the Transaction Documents.

(y) The copies of the Material Project Documents to which such Guarantor is a party delivered pursuant to this *Section 3.01(y)* are true, correct and complete copies of such documents (with any waivers or amendments to date hereof), and such Material Project Documents (with the exception of

the Mystic Development Interconnection Agreement and the Related Facilities Agreement) are in full force and effect in accordance with their terms and no term or condition thereof has been amended from the form thereof delivered to the Administrative Agent and the Collateral Agent, or waived except as permitted under this Guarantee.

(z) All utility services, means of transportation, facilities and other materials necessary for the construction and operation of such Guarantor's related Project (including as necessary, gas, electrical, water and sewage services and facilities) are, or will be when needed, available to such Project and arrangements in respect thereof have been made, or will be made, on commercially reasonable terms, to the extent that the absence of such utility services, means of transportation, facilities and materials could reasonably be expected to result in a Material Adverse Effect. The services to be performed, the materials to be supplied and the land use and other rights granted to such Guarantor under the Project Documents will provide it with rights and property interests necessary for the development, construction, operation and maintenance of such Project, other than those services, materials or rights which it can obtain in the ordinary course of business without material expense or material delay;

(aa) The Security Documents create, as security for the Obligations, valid and enforceable and, following any filings to be made in respect thereof, perfected first priority Liens on all of the Collateral held by such Guarantor, in favor of the Collateral Agent for the ratable benefit of the Secured Parties, subject to no Liens other than Permitted Liens. All Governmental Approvals, if any, necessary or desirable to perfect such Liens have been duly effected or taken and all fees and expenses required to be paid in connection with the filing or obtaining of such Governmental Approvals have been paid;

(bb) (i) Such Guarantor has not received any Environmental Notice. (ii) Other than matters with respect to such Guarantor as set forth in *Schedule 3.01(bb)* (or as set forth in any environmental reports referred to in such schedule), to the knowledge of such Guarantor, there are no past or present actions, activities, circumstances, conditions, events or incidents, including without limitation Environmental Discharge, that could reasonably be expected to form the basis of any litigation, action, suit, investigation or proceeding by or before any Governmental Authority or arbitrator pending or affecting or involving or, to the knowledge of the responsible officers of such Guarantor, threatened against such Guarantor which, individually or in the aggregate, represents a potential judgment that would reasonably be expected to exceed $5,000,000;

(cc) Such Guarantor has obtained and maintains all insurance required pursuant to *Section 3.02(aa)* hereof and no event, condition or occurrence has occurred or is existing which could render such insurance voidable, void or illegal;

(dd) Such Guarantor is not (i) an "investment company" or a company "controlled" by an "investment company," within the meaning of the Investment Company Act of 1940, as amended, (ii) a "holding company," or a "public utility company" within the meaning of PUHCA, or (iii) subject to financial, organizational or rate regulation under the Federal Power Act except that such Guarantor is and will be a "public utility" under the Federal Power Act with authority to sell wholesale electric power and ancillary services at market-based rates and with all waivers of regulations and blanket authorizations as are customarily granted by FERC to a "public utility" that sells wholesale power at market-based rates, including blanket authority to issue securities and waiver and abbreviated filing requirements for interlocking positions;

(ee) Such Guarantor is not, and, by reason of (i) the ownership (direct or indirect) or operation of its related Project, or (ii) any other transaction contemplated by any Transaction Document, will not be deemed by any Governmental Authority to be, subject to financial, organizational or rate regulation as an "electric utility," "electric corporation," "electrical company," "steam company," "steam utility," "public utility", "public utility company," "public utility holding company" or similar entity within the meaning of any Requirement of Law, except that such Guarantor is and will be a "public utility" under the Federal Power Act with authority to sell wholesale electric power and ancillary services at market-

based rates and with all waivers of regulations and blanket authorizations as are customarily granted by FERC to a "public utility" that sells wholesale power at market-based rates;

(ff) Subject to subsection (gg) below, none of the Borrower, the Administrative Agent, the Collateral Agent nor the Lenders will, solely by reason of (i) such Guarantor's ownership (direct or indirect), construction, operation and maintenance of its related Project as contemplated by the Transaction Documents, (ii) the making of any of the Commitments, (iii) the securing of the Obligations by Liens on the Collateral or (iv) any other transaction contemplated by this Agreement or any other Transaction Document, be deemed by any Governmental Authority to be, or to be subject to regulation as, an "electric utility," "electric corporation," "electrical company," "steam company," "steam utility," "public utility," "public utility company," "public utility holding company" or similar entity within the meaning of any Requirement of Law;

(gg) If such Guarantor's Project is operated as contemplated by the Loan Documents, none of the Borrower, the Administrative Agent, the Collateral Agent nor the Lenders will, solely by reason of ownership or operation of the Project upon the exercise of their remedies under the Security Documents, and without regard to any other activity of the Borrower, the Administrative Agent, the Collateral Agent or any Lender, be deemed by any Governmental Authority to be subject to financial, organizational or rate regulation as an "electric utility," "electric corporation," "electrical company," "steam company," "steam utility," "public utility," "public utility company," "public utility holding company" or similar entity within the meaning of any Requirement of Law, *provided* that such Guarantor maintains its EWG status or is no longer required under any Requirement of Law to maintain such status in order to be exempt from PUCHA, except that ownership or operation of such Project may subject such owner or operator to regulation as a "public utility" under the Federal Power Act;

(hh) There are no collective bargaining agreements covering the employees of such Guarantor or Multiemployer Plans which could reasonably be expected to have a Project Material Adverse Effect;

(ii) Such Guarantor does not maintain or contribute to any Plan, which maintenance or contribution could reasonably be expected to have a Project Material Adverse Effect;

(jj) (i) As of the Closing Date, there is no fact known to such Guarantor which has had or could reasonably be expected to have a Project Material Adverse Effect which will not be set forth in the documents, certificates and other written statements furnished to the Administrative Agent, the Independent Engineer, the Fuel Consultant and the Insurance Consultant prior to the Closing Date. (ii) As of the Closing Date, the factual statements made by such Guarantor and all documentation (other than projections and forecasts), taken as a whole, furnished in writing by such Guarantor to the Administrative Agent, the Independent Engineer, the Fuel Consultant and the Insurance Consultant, taken as a whole, including written updated or supplemented information delivered on or prior to the Closing Date are, to such Guarantor's knowledge, true and correct in all material respects. (iii) The assumptions constituting the basis on which such Guarantor prepared the Project Budget and the Construction Schedule are reasonable and were developed and utilized consistently and in good faith and such Guarantor has no reason to believe that such assumptions are incorrect or misleading in any material respect; and

(kk) No consent from, authorization by, or registration or filing with, any Person is required for the due execution, delivery, or performance of, any Loan Document by such Guarantor, except (i) those that have already been obtained or made, and (ii) filings necessary to create, perfect or retain the perfection of Liens against the Collateral held by such Guarantor.

SECTION 3.02. *Covenants.* Each Guarantor hereby agrees with the Collateral Agent and each Lender that, so long as there are outstanding Obligations or Commitments, such Guarantor shall, unless the Required Lenders shall otherwise consent in writing:

(a) *Mandatory Payments.* Apply (i) any proceeds or funds received by such Guarantor in respect of a Casualty Event or Taking or in respect of performance liquidated damages under the EPC Agreement to which such Guarantor is a party (after giving effect to any Extension Period as defined in Section 20.2.4 of such EPC Agreement which may have been granted by such Guarantor), which such Guarantor has not, in accordance with Section 3.02(b), applied toward the repair, replacement, rebuilding or restoration of the affected Project, to the prepayment of Advances made to the Borrower under the Credit Agreement in accordance with Section 4.02 thereof, (ii) fifty (50) percent of any proceeds or funds received by such Guarantor in respect of a Casualty Event or Taking or performance liquidated damages, which remain after making all required repairs, replacements, rebuildings or restoration to the affected Project, to the prepayment of Advances made to the Borrower under the Credit Agreement in accordance with Section 4.02 thereof (with the remaining fifty (50) percent to be deposited into the Revenue Account and applied in accordance with the Depositary Agreement) and (iii) any Net Emissions Profits (as defined in Section 3.04(d) hereof) to the prepayment of Advances made to the Borrower under the Credit Agreement in accordance with Section 4.02 thereof.

(b) *Application of Proceeds and Performance Liquidated Damages.*

(i) In the event that such Guarantor receives proceeds in respect of (A) a Casualty Event of $10,000,000 or less or (B) any Taking of $10,000,000 or less, so long as no Project Event of Default with respect to the affected Project, and no Borrower Event of Default shall have occurred and be continuing, such Guarantor shall be entitled to receive from the Collateral Agent or the Administrative Agent, as the case may be, such proceeds as reimbursement for, or payment of, the costs of repair, replacement, rebuilding or restoration of any portion of such Project on account of such Taking or Casualty Event, as the case may be.

(ii) In the event that such Guarantor receives proceeds in respect of (A) a Casualty Event in excess of $10,000,000 or (B) any Taking in excess of $10,000,000, so long as no Project Event of Default with respect to affected Project, and no Borrower Event of Default shall have occurred and be continuing, such Guarantor shall be entitled to receive from the Collateral Agent or the Administrative Agent, as the case may be, such proceeds as reimbursement for, or payment of, the costs of repair, replacement, rebuilding or restoration of any portion of such Project on account of such Taking or Casualty Event, as the case may be, if, and only if, prior to application by the Collateral Agent or the Administrative Agent, as the case may be, of such proceeds, such Guarantor shall have provided to the reasonable satisfaction of the Required Lenders and the Administrative Agent (A) contracts, purchase orders or other instruments for such repair, replacement, rebuilding or restoration demonstrating such Guarantor's ability to effect such repair, replacement, rebuilding or restoration at a cost not greater than the amount of such proceeds (or, if such cost is greater, accompanied by an explanation of the source of funds for such excess amounts), (B) assurances that such affected Project is capable of being restored to substantially the same operating standards as existed immediately prior to such Casualty Event or Taking, (C) assurances showing the Borrower's ability to meet its obligations under the Loan Documents during the period from such Taking or Casualty Event, as the case may be, until completion of such repair, replacement, rebuilding or restoration, and until completion of such repair, replacement, rebuilding or restoration, and thereafter for a period reasonably acceptable to the Required Lenders and the Administrative Agent, and (D) assurances that all Material Project Documents relating to the affected Project shall remain in full force and effect during such period and thereafter for a period acceptable to the Required Lenders and the Administrative Agent; *provided*, *further,* that any determination by such Guarantor not to apply such proceeds or to rebuild or restore the affected Project subject to such Taking or Casualty Event shall be subject to

the prior written approval of the Technical Committee, in consultation with the Independent Engineer, such approval not to be unreasonably withheld or delayed.

(iii) In the event that any performance liquidated damages are received by either Development Project Company in excess of $10,000,000 under such Development Project Company's EPC Agreement, such Guarantor may use such amounts to complete the affected Project if completion is performed in accordance with a plan approved by the Technical Committee in consultation with the Independent Engineer (such approval not to be unreasonably withheld or delayed). Neither Development Project Company may grant the Contractor an Extension Period in excess of 30 days pursuant Section 20.2.4 of either EPC Agreement unless consented to by the Technical Committee.

(iv) Such Guarantor shall give prompt notice to the Borrower of the receipt of any proceeds described under this Section 3.02(b).

(v) Notwithstanding any provisions of Section 3.02(a) and (b) to the contrary, the proceeds of any Taking made by the Massachusetts Water Resources Authority ("MWRA") at the real property owned by Sithe Fore River and located in Weymouth and Quincy, Massachusetts, shall be governed by the provisions of that certain Closing Agreement dated May 15, 1998, among BECO, Sithe, Sithe New England, and Sithe Edgar, as amended by Supplement to Closing Agreement dated October 29, 1999 (collectively, the "Closing Agreement"), a copy of which has been provided to the Secured Parties. Specifically, to the extent that any such Taking is in connection with the MWRA Development (as defined in such Closing Agreement), any *pro tanto* award paid by the MWRA to Sithe Edgar or Sithe Fore River, as successor-in-interest to Sithe Edgar LLC, shall be paid to BECO as provided in such Closing Agreement. In addition, BECO, pursuant to the Closing Agreement, has retained the right to commence an action under Massachusetts General Laws Chapter 79 for damages (in excess of any amounts awarded pursuant to such *pro tanto* award), which damage case may be brought in the name of Sithe Fore River. BECO shall be entitled to receive the proceeds of such action which shall be applied pursuant to Section 2.2.5.1 of the Closing Agreement. However, to the extent that Sithe Fore River receives any payments pursuant to Section 2.2.5.1, such payments shall be applied pursuant to the provisions of Section 3.02(a) and (b) set forth above, with the exception of this Section 3.02(b)(v). The Collateral Agent and the Secured Parties by their acceptance of this Project Company Guarantee agree to sign any document, waiver, release, or countersign any check made payable by BECO in order to effectuate the provisions of such Closing Agreement.

(c) *Records.* (i) Keep proper books of record and account in which full, true and correct entries in conformity with GAAP and all requirements of any Requirement of Law shall be made of all dealings and transactions in relation to its business and activities. (ii) Such Guarantor will at all times cause a complete set of the current and (when available) as built plans (and all supplements thereto) relating to its related Project to be maintained at such Project. (iii) Such Guarantor will also maintain accurate and complete records of all investigations, studies, sampling and testing conducted, and any and all remedial actions taken, by such Guarantor or, to its knowledge and to the extent obtained by such Guarantor, by any Governmental Authority or other Person with respect of any Environmental Matter on or affecting the Project;

(d) *Inspection Rights.* Permit officers and designated representatives of the Collateral Agent, the Administrative Agent, each Lender (but not during performance tests) and the Independent Engineer to visit and inspect any of the properties of such Guarantor, and to examine the books and records of such Guarantor (including, without limitation, the books of record and account of such Guarantor), and discuss the affairs, finances and accounts of such Guarantor with, and be advised as to the same by, its and their officers, directors and independent accountants, all upon reasonable notice and at such reasonable times as the Collateral Agent and the Administrative Agent may desire; *provided,* that any

such inspections, examinations or discussions shall, in the case of any Lender, be coordinated through the Administrative Agent and the Administrative Agent will attempt to consolidate inspection by multiple Lenders;

(e) [Intentionally omitted.]

(f) *Preservation of Existence, Etc.* Cause to be done all things necessary to preserve and keep in full force and effect its limited liability company existence, its good standing in its jurisdiction of formation, its qualification to do business in each other jurisdiction where such qualification is necessary, and, except where failure to maintain the same could not reasonably be expected to have a Project Material Adverse Effect, its patents, trademarks, tradenames, copyrights, franchises and similar rights;

(g) *Maintenance of Properties.* Subject to the exceptions set forth in Section 3.04(d), keep, or cause to be kept, in good working order and condition, ordinary wear and tear excepted, the properties owned or leased by it;

(h) *Good Title.* Subject to the exceptions set forth in Section 3.04(d), preserve and maintain good and valid title to, or leasehold interest in, all of the properties and assets owned or leased by it subject to no Liens other than Permitted Liens;

(i) *Taxes.* File all tax returns when due where required to be filed by it and pay or cause to be paid when due, all Taxes and all charges, betterments, or other assessments relating to the Collateral, and all other lawful governmental and non-governmental claims required to be paid by such Guarantor except to the extent any of the same are subject to a contest;

(j) *Compliance With Laws.* (i) Except to the extent that the failure to do so could not reasonably be expected to have a Project Material Adverse Effect, comply with all Requirements of Law and third party consents and maintain in full force and effect all Governmental Approvals and third party consents necessary for the conduct of its business and the operation of such Guarantor's Project. (ii) Except to the extent that the failure to do so could not reasonably be expected to have a Project Material Adverse Effect, comply with, and ensure compliance by any and all occupants and operators of the related Project with all Requirements of Law, including Environmental Laws;

(k) *Governmental Approvals.* Except to the extent that the failure to do so could not reasonably be expected to have a Project Material Adverse Effect (i) maintain in full force and effect all Governmental Approvals with respect to its related Project then required under any Requirement of Law to have been obtained or made, (ii) obtain all Deferred Project Approvals with respect to its related Project as promptly as practicable but in any event no later than the date required to be obtained under any Requirement of Law and (iii) own, construct, operate and maintain its related Project in compliance with the terms and provisions of all Governmental Approvals;

(l) *Environmental Matters.* Keep its related Project free from any Lien imposed pursuant to Environmental Laws, and pay or cause to be paid when due any and all costs in connection with the foregoing, including without limitation the cost of identifying the nature and extent of the presence of any Hazardous Substances in, on or from the Project or any real property owned or leased by such Guarantor and the cost of delineation, removal, treatment and disposal of any such Hazardous Substances. If such Guarantor fails to do any of the foregoing, then (i) after the occurrence of a Project Event of Default related thereto which is continuing under this Agreement or (ii) in the event any Secured Party sustains or reasonably determines that it may sustain any liability, loss, cost, damage or expense (including attorney's fees and expenses) arising out of the presence of Hazardous Substances in, on or about its related Project, the Administrative Agent or the Collateral Agent may cause such Guarantor's Project to be freed (by removal or otherwise) from such Hazardous Substances and the cost of such remedial action (including attorney's, consultants' and laboratories' fees and expenses) shall be added to the Obligations of such Guarantor pursuant to this Agreement and secured by the Security Documents. Such Guarantor will give the Collateral Agent and the Administrative Agent and employees reasonable access to its Project to effect the foregoing;

(m) [Intentionally omitted.]

(n) *Revenue Account.* Transfer and deposit, or cause to be transferred and deposited, all Project Revenues received by, or on behalf of, such Guarantor from whatever sources to the Revenue Account (as defined in the Depositary Agreement) or, with respect to the Development Project Companies prior to the Completion Date with respect to such Development Project, the Construction Account (as defined in the Depositary Agreement). Notwithstanding the foregoing, the Mystic Station Net Revenues shall be transferred and deposited in the Mystic Station Revenue Account (as defined in the Depositary Agreement) prior to the Second Completion Date;

(o) *Regulatory Status.* Take all commercially reasonable actions (a) to maintain status at all times as an "exempt wholesale generator," and (b) to cause its related Project to be at all times an "eligible facility," unless the failure to take such actions could not reasonably be expected to have a Project Material Adverse Effect;

(p) *Inspection Rights of Consultants.* (i) Provide each of the Independent Engineer and the Insurance Consultant with all information reasonably requested and exercise due care to ensure that any such information is accurate in all material respects and does not omit any information necessary to make such material not materially misleading. (ii) Permit the Independent Engineer to attend performance tests and, upon reasonable notice, meetings regarding construction and completion of its related Project;

(q) *Replacement of Auditors.* Appoint and maintain as the Auditors another of the "Big Five" accounting firms in the event that Deloitte & Touche LLP should cease to be the Auditors of such Guarantor for any reason;

(r) *Performance of Obligations.* Perform all of its obligations under the terms of each agreement or instrument by which it or any of its properties is bound or to which it is a party, including without limitation all Project Documents in respect of its related Project;

(s) *Consents* Obtain executed consents, in form and substance reasonably satisfactory to the Administrative Agent, to the assignment of each material Additional Project Document entered into after the Closing Date from each other Person party thereto;

(t) *Casualty Event.* If a Casualty Event shall occur with respect to its related Project, diligently pursue all rights to compensation in respect of such Casualty Event;

(u) *Default under Project Document.* If a Default or Event of Default occurs under any Material Project Document or Additional Project Document with respect to its related Project, pursue, in consultation with the Administrative Agent, all rights and remedies of such Guarantor in respect of such Default or Event of Default;

(v) *Operation of the Projects.* Operate and maintain such Project in accordance with the terms of this Agreement, the Transaction Documents and the Governmental Approvals;

(w) *Operator Information.* To the extent that the Operator of its related Project provides monthly reports, promptly provide the same to the Administrative Agent.

(x) *Additional Property; Easements.* To the extent and at such time as such Guarantor acquires additional property, easements and rights-of-way, such Guarantor shall promptly cause such property, easements and rights-of-way to be subjected to the Lien of the Security Documents. At the request of the Collateral Agent, such Guarantor will execute and deliver all necessary amendments to the Security Documents with respect thereto and file and record all Governmental Approvals necessary or advisable

to enable the Collateral Agent to obtain a first priority perfected Lien in such additional property, easements and rights-of-way;

(y) *Risk Management Policy.* Comply in all material respects with the Risk Management Policy.

(z) *Firm Gas Transportation.* Commencing on the Completion Date with respect to the Fore River Project, Sithe Fore River shall procure (in its own name or through actions taken by Sithe Power Marketing) either directly from Algonquin or through capacity releases in the secondary market, no later than October 1st of each calendar year, firm gas transportation services for at least 70,000 MMBtu per day on the Algonquin mainline with respect to at least the six-month period commencing October 1st through March 31st of such calendar year; *provided, however,* that such obligation shall terminate upon the commencement of firm gas transportation services under the HubLine Service Agreement.

(aa) *Insurance.*

(i) Keep its present and future properties and business insured against loss or damage in such a manner and to the same extent as required in *Schedule 3.02(aa)* relating to such Guarantor. On or prior to the dates required pursuant to *Schedule 3.02(aa)*, such Guarantor shall submit to the Administrative Agent certificates of insurance relating to the insurance required thereby relating to such Project;

(ii) With respect to each Development Project Company, cause the Contractor of its related Project to keep the insurances described in Part A of *Schedule 3.02(aa)* relating to such Project. On or prior to the dates required pursuant to *Schedule 3.02(aa)* such Development Project Company will cause the Contractor to submit to the Administrative Agent certificates of insurance relating to the insurance required by Part A of *Schedule 3.02(aa)* relating to such Project;

(iii) Perform all of its obligations under the terms of each policy of insurance listed on *Schedule 3.02(aa)* with respect to its related Project; and

(iv) The provisions of this Section 3.02(aa) shall be deemed to be supplemental to, but not duplicative of, the provisions of any of the Security Documents that require the maintenance of insurance. In the event that any insurance whatsoever is purchased, taken or otherwise obtained by such Guarantor with respect to its related Project otherwise than as required hereunder or if not properly endorsed to the Collateral Agent as the sole loss payee or beneficiary or otherwise made upon the terms required in this Section, without limitation to any provision of the Security Documents, such insurance shall be considered assigned hereunder to the Collateral Agent with the right of the Collateral Agent to make, settle, compromise and liquidate any and all claims made thereunder, without prejudice to the exercise of any other rights and remedies that the Collateral Agent may have under any of the Loan Documents or under any Requirement of Law.

(bb) *Operating Budget.*

(i) Adopt, with respect to (X) each Development Project, on or before the Project Completion Date for each such Project and (Y) Mystic Station, no later than 60 days following Closing, an operating plan and budget in substantially the form attached hereto as *Exhibit C*, which shall include all Operating Expenses for each such Project for the period from such date to the conclusion of the then current calendar year and provide a copy of such operating plan and budget at such time to the Collateral Agent and the Administrative Agent. No less than sixty (60) days prior to each calendar year thereafter, such Guarantor will submit to the Administrative Agent an operating plan and budget for the ensuing calendar year (each such operating plan and budget is herein called an "*Operating Budget*"). The Non-Variable Operating Expenses set forth in each Operating Budget shall not become effective until approved by the Administrative Agent pursuant

to clause (ii) below. Any proposed capital expenditures during any year by such Project shall be submitted to the Administrative Agent for approval together with the operating plan and budget.

(ii) Deliver to the Administrative Agent an Operating Budget not less than sixty (60) days in advance of each calendar year together with an Officer's Certificate of such Guarantor stating that to such officer's knowledge, such Operating Budget contains a reasonable estimate of the Non-Variable Operating Expenses for the period covered thereby; *provided*, that with respect to any proposed Operating Budget, if the Administrative Agent fails to expressly approve or disapprove in writing the Non-Variable Operating Expenses contained in such Operating Budget by the beginning of the calendar year in which such proposed Operating Budget to be used, such proposed Non-Variable Operating Expenses shall be deemed approved. No expenditures for capital improvements outside of the Operating Budget shall be deemed approved; express written approval by the Administrative Agent is required (once so approved, an "*Approved Capital Expenditure*" for such calendar year). If the Administrative Agent shall have accepted certain Non-Variable Operating Expenses contained in an Operating Budget submitted to the Administrative Agent, any such approved Non-Variable Operating Expenses shall become effective. Any remaining Non-Variable Operating Expense contained in such Operating Budget not specifically approved by the Administrative Agent shall be deemed, for such ensuing calendar year, to equal the lesser of (x) the amount set forth in respect of such Non-Variable Operating Expense in the Operating Budget of the relevant Project for the preceding calendar year and (y) the amount set forth in respect of such Non-Variable Operating Expense in the Closing Base Case, in each case adjusted for actual inflation, *provided, however*, if such Non-Variable Operating Expense was not included as a type of Operating Expense in the Closing Base Case then, until approved (in which case the foregoing provisions of this sentence shall apply), such Non-Variable Operating Expense shall be deemed, for such ensuing calendar year, to equal the amount set forth in respect of such Non-Variable Operating Expense in the Operating Budget of the relevant Project for the preceding calendar year.

(iii) If during any calendar year, such Guarantor proposes to exceed the aggregate amount of Non-Variable Operating Expenses contained in the applicable Operating Budget by more than 10%, such Guarantor shall propose an amendment to such Operating Budget to the Administrative Agent and such amendment shall become effective upon its approval. At the time such Guarantor submits such proposal, such Guarantor shall certify the purpose of such amendment and that such amendment is reasonably necessary or advisable for the operation and maintenance of its Project.

(iv) If during any calendar year, such Guarantor proposes to exceed the aggregate amount of Non-Variable Operating Expenses contained in the applicable Operating Budget by more than 15%, such Guarantor shall propose an amendment to such Operating Budget to the Administrative Agent and such amendment shall become effective upon approval of the Technical Committee. At the time such Guarantor submits such proposal, such Guarantor shall certify the purpose of such amendment and that such amendment is reasonably necessary or advisable for the operation and maintenance of its Project.

(cc) *Further Assurances.* Take all such further actions and execute all such further documents and instruments as the Administrative Agent may at any time reasonably determine to be desirable to further carry out and consummate the transactions contemplated by the Transaction Documents or to maintain and preserve the Liens of the Security Documents, including such necessary actions to perfect or protect the priority of the Lien of the Collateral Agent on the Collateral under the Security Documents.

SECTION 3.03. *Additional Covenants of Development Project Companies.* In addition to the covenants in Section 3.02 above, each Development Project Company hereby agrees with the Collateral

Agent and each Lender that, so long as there are outstanding Obligations or Commitments, such Development Project Company shall, unless the Required Lenders shall otherwise consent in writing:

(a) *Project Budget.* Not reallocate Project Costs except as permitted pursuant to Section 2.01(b) of the Credit Agreement.

(b) *Construction and Completion of the Projects.* Duly construct and complete, or cause the construction and completion of, its related Project in accordance with the specifications set forth in the EPC Agreement for its related Project;

(c) *Performance Tests.* Permit the Administrative Agent and the Independent Engineer to witness and verify the Performance Tests (as defined in the EPC Agreements) and such Development Project Company shall give the Administrative Agent and the Independent Engineer not less than thirty (30) days prior written notice of the expected date of the Performance Tests and not less than ten (10) days prior written notice (to such Development Project Company's knowledge) of the exact date(s) of the Performance Tests. If, upon completion of the Performance Tests, such Development Project Company is of the belief that the Performance Tests have been satisfied, it shall so notify the Administrative Agent and the Independent Engineer and shall deliver a copy of all the test results requested by the Administrative Agent or the Independent Engineer supporting such conclusion, accompanied by supporting data and conclusions, evidencing such Development Project Company's belief that it has satisfied its obligations with respect to the Performance Tests. If the Performance Tests have been satisfactorily completed, the Independent Engineer shall so certify in writing to the Administrative Agent; and

(d) *Contractor Information.* To the extent that the Contractor of its related Project provides monthly reports, promptly provide the same to the Administrative Agent.

SECTION 3.04. *Negative Covenants.* Each Guarantor hereby agrees with the Collateral Agent and each Lender that, so long as there are outstanding Obligations or Commitments, such Guarantor shall not, unless the Required Lenders shall otherwise consent in writing:

(a) *Permitted Debt.* Create, incur, assume, suffer to exist or otherwise become or remain directly or indirectly liable with respect to any Debt, other than the following ("*Project Company Permitted Debt*"):

(i) liabilities under the Loan Documents and Project Documents with respect to its related Project to which such Guarantor is a party;

(ii) liabilities for Project Costs and Financing Costs for its related Project;

(iii) (a) with respect to Sithe Fore River, Capital Lease Liabilities not to exceed, in the aggregate, $20,000,000, (b) with respect to Sithe Mystic Development, Capital Lease Liabilities not to exceed, in the aggregate, $40,000,000, and (c) with respect to Sithe Mystic, Capital Lease Liabilities not to exceed, in the aggregate, $15,000,000, in each case, from the date of determination through the earlier of (x) the expiration date of the applicable capitalized lease(s) and (y) the Maturity Date;

(iv) any Debt of such Guarantor set forth in *Schedule 3.04(a)*, which is outstanding on the Closing Date;

(v) (A) Permitted Borrower Debt which is on-lent to such Guarantor and (B) subordinated loans made available to such Guarantor by the Borrower;

(vi) surety bonds, performance bonds or similar arrangements with third-party sureties, indemnitors or similar persons obtained or made in connection with a good faith contest;

(vii) trade accounts payable and other Debt for the acquisition of goods, services or rights in the ordinary course of business;

(viii) endorsement of negotiable instruments for collection; and

(ix) unsecured Debt incurred in connection with Permitted Hedging Transactions in relation to its related Project;

(b) *Liens.* Create, incur, assume or suffer to exist, directly or indirectly, on any of its property or assets, whether now owned or hereafter acquired, any Liens except for:

(i) Liens granted to the Collateral Agent for the benefit of the Secured Parties pursuant to the Security Documents or permitted under the Loan Documents, which Liens shall be perfected first priority security interests subject only to other Project Company Permitted Liens;

(ii) Liens for Taxes not yet delinquent or which is the subject of a Contest;

(iii) Liens arising from judgments or awards so long as an appeal is being prosecuted in good faith with adequate reserves being maintained therefor;

(iv) Liens, deposits or pledges to secure statutory obligations or performance bids, tenders, contracts or leases, or for purposes of like general nature in the ordinary course of business;

(v) mechanics', materialmen's and other statutory Liens arising in the ordinary course of business or for the payment of Project Costs, Financing Costs or other costs associated with the ownership, construction, operation and maintenance of its related Project, to the extent that the same are insured by the then-current title insurance policy issued in connection with each Project;

(vi) Liens securing Project Company Permitted Debt described under clauses (i) (only with respect to liabilities incurred under Loan Documents), (iii) (capital leases), (iv) (outstanding on the Closing Date) and (v)(B) (subordinated loans from Borrower) of Section 3.04(a) above;

(vii) Liens securing Permitted Borrower Debt described under clauses (i) (Loan Documents), (ii) (outstanding on the Closing Date), (iii) (pari passu indebtedness associated with Additional Project) and (iv) (Swap Agreements) of Section 7.02(a) of the Credit Agreement;

(viii) Liens arising under Shared Use Agreements;

(ix) Liens, encumbrances or other exceptions set forth in the title policies or an endorsement thereto delivered to the Lenders, or otherwise disclosed to the Lenders on or before the Closing Date; and

(x) other easements, licenses, Liens and encumbrances incident to the conduct of such Guarantor's Permitted Business that are not incurred in connection with the obtaining of any loan, advance or credit and that do not in the aggregate materially impair the use of its property for the purposes of its business;

(c) *Dividends.* Declare or pay any dividends or distributions, or return any capital, or authorize or make any other distribution, payment or delivery of property or cash, other than to the Borrower;

(d) *Sales of Assets, Etc.* Convey, lease, sell, transfer or otherwise dispose of all or substantially all of its business or property, (whether in one transaction or a series of transactions) whether now or hereafter acquired, except (i) concurrently with or after the payment in full of the Obligations, (ii) the sale or other disposition of capacity, energy, ancillary services or fuel, whether or not pursuant to a long-term contract, *provided*, that such assets are not necessary for the operation of such related Project, (iii) the sale or other disposition after the date hereof of emissions credits, *provided*, such emission credits are not required for the operation of such related Project under existing Bilateral Contracts (as defined in the Power Marketing Agreement) to be performed within the calendar year in

which the proposed sale is to be consummated and net profits received by such Project (or allocable to such Project) from such permitted sale or other disposition in respect of emissions credits relating to future years' operations ("*Net Emissions Profits*") shall be applied in accordance with Section 3.02(a) hereof; Net Emissions Profits will be determined at the end of each calendar year based on the aggregate sales and repurchases of emission credits during that year relating to future years, (iv) the sale of worn out or obsolete equipment in the ordinary course of business, (v) with the prior written approval of the Independent Engineer, the sale of assets which are replaced with like assets, such sales not to exceed $10,000,000 in the aggregate and (vi) other sales of non-material assets that are less than $3,000,000 per sale and $10,000,000 in the aggregate;

(e) *Mergers, Etc.* Merge or consolidate into or with any Person, or liquidate, wind-up or dissolve (or suffer any liquidation or dissolution), discontinue its business (whether in one transaction or a series of transactions); *provided*, that such Guarantor may merge with or into any other Project Company or any other wholly-owned Subsidiary of the Borrower so long as the surviving company assumes the obligations of such Guarantor under the Loan Documents;

(f) *Acquisitions, Subsidiaries, Etc.* (i) Acquire by purchase or otherwise any property or assets of, or stock or equity interest or other evidence of beneficial ownership of, any Person except pursuant to the Transaction Documents and except purchases of inventory, equipment, materials and supplies in the ordinary course of such Guarantor's business, (ii) enter into any partnership or joint venture; or (iii) create or acquire any Subsidiary, except for Subsidiaries created or acquired in connection with Additional Projects, *provided*, that such Subsidiaries created or acquired in connection with the Additional Projects shall not be acquired or created until each such Subsidiary has executed and delivered to the Administrative Agent a guarantee in substantially the form of this Guarantee, security documents and all necessary documents, certificates and instruments reasonably requested by the Administrative Agent in form and substance substantially similar to the Loan Documents to which the Guarantors are currently a party; *provided, further*, that all pre-financing development activities involving such Additional Projects not be undertaken by any such Subsidiary or if undertaken by any such Subsidiary shall be funded utilizing cash contributed by Sithe or Sithe New England.

(g) *Investments in Other Persons.* Lend money or credit or make advances or contributions to any Person, or directly or indirectly purchase or acquire any stock, obligations or securities of, or any other interest in, make any capital contribution to any Person or make any investments, except:

(i) short-term bank deposits, government obligations, money market funds and other similar short-term investments;

(ii) maintenance of the Accounts and the Permitted Investments of the funds on deposit therein; and

(iii) Permitted Investments;

(h) *Transactions with Affiliates.* Enter into any transaction or series of related transactions, whether or not in the ordinary course of business, with any Affiliate, other than (i) transactions pursuant to the Transaction Documents in effect on the Closing Date; (ii) transactions scheduled or provided for in the Project Documents; (iii) the reimbursement of Pre-Closing Project Costs to the extent permitted pursuant to Section 7.02(f)(i)(B) of the Credit Agreement; (iv) the incurrence and repayment of Permitted Debt and the grant of security interests in connection therewith; (v) payments to the Borrower; (vi) transactions on terms and conditions at least as favorable as could be obtained in a comparable arm's-length transaction in the ordinary course of business with a Person not an Affiliate; (vii) with the prior written approval of the Arrangers or the Technical Committee, such consent not to be unreasonably withheld; (viii) transactions which are not material to the transactions contemplated by the Loan Documents; and (ix) transactions in which the only parties are two or more of the Borrower, the Guarantors or the owner of any Additional Project.

(i) *Business.* Enter into or engage in any business other than Permitted Business;

(j) *Additional Agreements.* Enter into any agreement (other than the Loan Documents as in effect on the Closing Date) which restricts the ability of such Guarantor to (i) enter into amendments or modifications of the Transaction Documents, (ii) enter into waivers of material Transaction Documents, (iii) sell, transfer or otherwise dispose of its assets, (iv) create, incur, assume or suffer to exist any Lien upon any of its property and (v) create, incur, assume, suffer to exist or otherwise become liable with respect to any Debt;

(k) *Compliance with ERISA.* With respect to any Plan, (i) fail to satisfy the minimum funding requirements of ERISA or the Code; (ii) take any action, or omit to take any action which could give rise to a nonexempt prohibited transaction (as such term is defined in Section 4975 of the Code or Section 406 of ERISA) that is reasonably likely to subject the Lenders to any material tax or penalty under Section 4975 of the Code or Section 502(i) of ERISA; or (iii) engage in any transactions prohibited by ERISA or have any liabilities, in each case, which could reasonably expected to have a Material Adverse Effect;

(l) *Material Project Documents.* Cancel, waive or terminate, or agree to or permit any amendment, assignment or modification of, any Material Project Document with respect to its related Project, unless such amendment, waiver, modification, cancellation, termination or assignment would not reasonably be expected to have a Project Material Adverse Effect or such Guarantor obtains prior written consent of the Technical Committee to such amendment, waiver, modification, cancellation, termination or assignment;

(m) *Profits, Management, Etc.* Enter into any partnership, profit-sharing, royalty agreement or other similar arrangement whereby such Guarantor's income or profits are, or might be, shared with any other Person (other than Sithe Power Marketing), or enter into any management contract or similar arrangement whereby its business or operations are managed by any other Person (other than Sithe Power Marketing, Sithe Boston Power Services, Sithe New England Power Services and Sithe);

(n) *Abandonment.* Abandon the development, construction or operation of its related Project which shall be evidenced by such Guarantor's cessation of such activity for a period of thirty (30) consecutive days;

(o) *Organizational Documents.* Amend or modify, in any material fashion, its certificate of formation or limited liability company agreement;

(p) *Guaranty Obligations.* Create, incur, assume, guarantee or remain liable on any Guaranty Obligations except to the extent any such Guaranty Obligation (i) constitutes Project Company Permitted Debt; or (ii) is in favor of the Lenders pursuant to this Guarantee or the Loan Documents;

(q) *Margin Stock.* Purchase or carry any Margin Stock (as defined in Regulation U);

(r) *Name Change.* Change its name or location without 15 days' prior written notice to the Collateral Agent and the Administrative Agent;

(s) *Issuance of Shares, Securities, Etc.* Issue or permit the issuance of any shares of membership interests of such Guarantor unless after giving effect thereto all such membership interests shall have been pledged to the Collateral Agent pursuant to the terms of a pledge agreement substantially similar to the Borrower Pledge Agreement. Such Guarantor shall not issue or have outstanding any securities convertible into or exchangeable for its membership interests or issue or grant or have outstanding any rights to subscribe for or to purchase, or any options or warrants for the purchase of, or any agreements, arrangements or understandings providing for the issuance (contingent or otherwise) of, or any calls, commitments or claims of any character relating to, its membership interests;

(t) *Bank Accounts.* Maintain bank accounts other than the Accounts each of which shall be maintained with the Collateral Agent;

(u) *Distributions.* Whether directly or indirectly, create or otherwise cause or suffer to exist any encumbrance or restriction on its ability to declare or pay dividends or distributions to, repay or prepay any Debt owed to, make loans or advances to, or otherwise transfer assets to or invest in, the Borrower or any other Guarantor, except for any such encumbrance or restriction arising under or by reason of the Loan Documents;

(v) *Tax Status; Investment Company.* (i) Elect or cause itself to be treated as a corporation for U.S. federal or state income tax purposes or (ii) take any action which could cause it to be in violation of the Investment Company Act of 1940, as amended;

(w) *Replacement Price Index.* Sithe Mystic Development shall not agree to a replacement price index under Section 4.5 of the Gas Sale and Purchase Agreement without the prior written consent of the Technical Committee, which shall not be unreasonably withheld; and

(x) *Risk Management Policy.* Cancel or terminate, or agree to or permit any amendment or modification of, the Risk Management Policy (to the extent applicable to it) except to the extent action has been taken with respect to the Risk Management Policy as permitted under Section 7.02(l) of the Credit Agreement;

SECTION 3.05. *Additional Negative Covenants with respect to the Development Project Companies.* In addition to the negative covenants in Section 3.04 above, each Development Project Company hereby agrees with the Collateral Agent and each Lender that, so long as there are outstanding Obligations or Commitments, such Development Project Company shall not, unless the Required Lenders shall otherwise consent in writing:

(a) *EPC Agreement.* Assign or convey any of its right, title or interest under the EPC Agreement to which it is a party except as permitted by the Loan Documents;

(b) [Intentionally Omitted].

(c) *Change Orders.* Become bound to any Change Order that, (A) (i) with respect to Sithe Fore River, increases the Project Costs of the Fore River Project by more than $5,000,000, (ii) with respect to Sithe Mystic Development, increases the Project Costs of the Mystic 8&9 Project by more than $10,000,000, (B) when aggregated with all previous Change Orders in respect of both Development Projects since the Closing Date, exceeds $25,000,000 or (C) result in an extension of the Performance Test Completion Deadline or results in any amendment, modification or supplement to the Minimum Performance Standards, Performance Guarantees, Performance Tests, Performance Guarantee Liquidated Damages, Delay Liquidated Damages (as each such term is defined in the EPC Agreements) or the conditions pursuant to which any such payment is required to be made in each case whether directly, indirectly, by modification of the definition of "force majeure" or any other provision in the EPC Agreements, or otherwise, and could not otherwise result in a Project Material Adverse Effect, unless, in each case, either (A) (i) such Development Project Company provides the Independent Engineer with twenty-one (21) days to examine any proposed change order before becoming bound thereby, and (ii) the Independent Engineer notifies such Development Project Company during such 21-day period that such change order, in the Independent Engineer's reasonable opinion (x) will not cause a shortfall in the funding available for completion of Project Costs (unless such shortfall is covered by support reasonably acceptable to the Administrative Agent), (y) will not affect the completion or commercial operation of the related Project in a manner that could reasonably be expected to have a Project Material Adverse Effect and (z) is reasonably and necessarily made, or (B) the Technical Committee approves such Change Order notwithstanding failure of the Independent Engineer to give the notice described in clause (ii) hereunder; and

(d) *Project Budget; Construction Schedule.*

(i) Make any payments or expenditures prior to the Project Completion Date, except those contemplated by the Project Budget for its related Project or otherwise agreed upon by the Technical Committee in their reasonable judgment in consultation with the Independent Engineer. Notwithstanding the foregoing, such Development Project Company may reallocate amounts within the Project Budget in accordance with Section 2.01(b) of the Credit Agreement and utilize Pre-Completion Revenues to pay pre-Completion Operating Expenses in accordance with Section 4.01(d) of the Depositary Agreement; or

(ii) Amend or supplement, directly or indirectly, the Project Budget for its related Project without (A) first submitting to the Administrative Agent a copy of such proposed amendment or supplement and (B) obtaining the prior written consent of the Technical Committee, which consent shall not be unreasonably withheld or delayed. Notwithstanding the foregoing, such Development Project Company may reallocate amounts within the Project Budget in accordance with Section 2.01(b) of the Credit Agreement; or

(iii) Amend or supplement the Construction Schedule for its related Project without (A) first submitting the Administrative Agent a copy of such proposed amendment or supplement and (B) obtaining the prior written consent of the Technical Committee, which consent shall not be unreasonably withheld or delayed.

(e) *Introduction of Refurbished Capital Parts.* Consent, pursuant to Section 3.2 of the applicable LTSA, to the introduction by MHIA of any refurbished capital part originating from a facility other than a Project, without the prior approval of the Technical Committee. The Technical Committee shall endeavor to respond to any such request as soon as practicable.

SECTION 3.06. *Reporting Obligations.* Each Guarantor hereby agrees with the Collateral Agent and each Lender, that so long as there are outstanding Obligations or Commitments, unless the Required Lenders shall otherwise consent in writing, such Guarantor will furnish to the Administrative Agent:

(a) *Financial Statements.* (i) Promptly upon completion thereof and in any event within 120 days after the end of each fiscal year of such Guarantor, any audited annual financial statements prepared during the term of this Guarantee. (ii) Promptly upon completion thereof and in any event within 60 days after the end of each of the first three fiscal quarters of each fiscal year of such Guarantor, any unaudited quarterly financial statements prepared during the term of this Guarantee.

(b) *Officer's Certificates.* At the time of the delivery of the financial statements under Subsection (a) above, a certificate of an Authorized Officer of such Guarantor which certifies (i) that such financial statements fairly present the financial condition and the results of operations of such Guarantor on the dates and for the periods indicated in accordance with GAAP, subject, in the case of interim financial statements, to normally recurring year-end adjustments and (ii) that such Authorized Officer has reviewed the terms of the Loan Documents and has made, or caused to be made under his or her supervision, a review in reasonable detail of the business and financial condition of such Guarantor during the accounting period covered by such financial statements, and that as a result of such review such Authorized Officer has concluded that no Project Default, Borrower Default, Project Event of Default or Borrower Event of Default, as applicable, has occurred during the period commencing at the beginning of the accounting period covered by the financial statements accompanied by such certificate and ending on the date of such certificate or, if any Project Default, Borrower Default, Project Event of Default or Borrower Event of Default, has occurred, specifying the nature and extent thereof and, if continuing, the action such Guarantor proposes to take in respect thereof.

(c) [Intentionally Omitted.]

(d) *Additional Project Documents.* Promptly following the entering into and obtaining thereof, all Additional Project Documents entered into and obtained by such Guarantor since the Closing Date and not theretofore furnished to the Administrative Agent.

(e) *Management Letters.* Promptly after receipt thereof, copies of any "management letter" or other material report received by such Guarantor from the Auditor.

(f) *Notices under Project Documents.* Promptly and in any event within ten (10) Business Days after receipt or delivery thereof by such Guarantor, a copy of each notice or document given or received by such Guarantor in relation to any suspension, default or prospective default or payment of liquidated damages under any Material Project Document; *provided, however,* that if such notice or document requires any action to be taken by such Guarantor within a shorter period, such notice or document shall be furnished to the Administrative Agent no later than within such shorter period.

(g) *Deferred Project Approvals.* Promptly after receipt thereof, copies of any Deferred Project Approvals obtained by such Guarantor, together with such documents relating thereto as the Administrative Agent shall reasonably request.

(h) *Certain Events.* Promptly after such Guarantor obtains knowledge thereof, written notice of:

(i) the occurrence of any (i) Borrower Default or Borrower Event of Default or (ii) Project Default or Project Event of Default of which an Authorized Officer of such Guarantor has knowledge specifying the nature thereof and the action which such Guarantor is taking and proposes to take with respect to the same;

(ii) any dispute relating to its Project, any Project Document, Additional Project Document or Governmental Approval between any of such Guarantor and any other Project Party of Governmental Authority that could reasonably be expected to have a Project Material Adverse Effect;

(iii) any event of force majeure or similar event under any Material Project Document;

(iv) any revocation, termination, withdrawal, suspension, modification or withholding of, or receipt of any notice regarding the foregoing relating to, any Governmental Approval;

(v) receipt of any written notice from any Governmental Authority with respect to the acquisition by condemnation, expropriation or otherwise of such Guarantor, any Collateral, or any part of such Guarantor's business or assets;

(vi) the receipt by such Guarantor of any communication (written or oral), whether from a Governmental Authority or other Person which alleges that such Guarantor is not in compliance with applicable Environmental Laws or Governmental Approvals with respect to Environmental Laws where such noncompliance could reasonably be expect to have a Project Material Adverse Effect;

(vii) any Environmental Matter pending or threatened against such Guarantor that could reasonably be expected to have a Project Material Adverse Effect;

(viii) any Environmental Discharge that could form the basis of any Environmental Matter against such Guarantor that could reasonably be expected to have a Project Material Adverse Effect;

(ix) any pending or threatened litigation, action, suit, investigation or proceedings by or before any Governmental Authority or arbitrator involving such Guarantor involving (A) an amount in dispute in excess of (i) $5,000,000 in respect of any one such proceeding or (ii) $10,000,000 in respect of all such proceedings; or (B) any injunctive or equitable relief;

(x) any dispute between such Guarantor and any Governmental Authority involving (A) an amount in dispute in excess of (i) $5,000,000 in respect of any one such dispute or (ii) $10,000,000 in respect of all such disputes; or (B) any injunctive or equitable relief;

(xi) the occurrence of any Casualty Event affecting the Project in excess of $5,000,000;

(xii) any default under any of the Material Project Document or Additional Project Documents specifying the nature thereof and the action which such Guarantor is taking and proposes to take with respect to the same;

(xiii) any cancellation of or material change in the terms, coverage or amounts of the insurance for such Guarantor or a change in the commercial availability of any such insurance for such Guarantor that could reasonably be expected to have a Project Material Adverse Effect; and

(xiv) any Performance Test conducted pursuant to such Guarantor's EPC Agreement.

(i) *Other Information.* From time to time, reports, statements, lists of property and such other information or documents (financial or otherwise) as the Administrative Agent may reasonably request.

ARTICLE IV

PROJECT EVENTS OF DEFAULT

SECTION 4.01. *Project Events of Default.* If any of the following events shall occur and be continuing with respect to a Guarantor after the expiration of the grace period, if any, applicable thereto, such event shall constitute a "*Project Event of Default*" with respect to the affected Guarantor:

(a) *Failure to Make Payments.* Such Guarantor shall fail to pay any Guaranteed Obligations within five (5) Business Days after the same shall become due (such five-day period not to be in addition to, but shall be inclusive of the cure period set forth in Section 8.01(a)(i) of the Borrower Credit Agreement) or to make mandatory payments as and when required pursuant to Section 3.02(a);

(b) *Breach of Representation or Warranty*. Any representation or warranty made by such Guarantor in any Loan Document or in any certificate delivered pursuant thereto shall prove to be false or misleading when made or deemed made if (i) as a result of such falsity or misrepresentation, a Project Material Adverse Effect occurs or could reasonably be expected to occur and (ii) such falsity, misrepresentation or Project Material Adverse Effect is not cured or vitiated prior to the 45th day after the date on which such misrepresentation occurred;

(c) *Breach of Covenants by Such Guarantor.* Other than as described in clause (a) above, such Guarantor shall fail to perform or observe any covenant or obligation arising under any Loan Document to which it is a party, including this Guarantee, *provided*, that in the case of affirmative covenants (other than covenants set forth in Sections 3.02(b) (application of proceeds), (f) (existence), (h) (title) (only with respect to material properties and material assets), (n) (Revenue Account), (y) (risk management policy), (aa) (insurance) and Section 3.06 (h)(i) (notice of default)), unless such failure has been cured or remedied within a 30 days after such Guarantor becomes aware of such breach, or if such failure is not susceptible of being remedied within 30 days, such longer period not to exceed 90 additional days, *provided*, that as to such extension, such Guarantor shall at all times be diligently attempting to remedy such failure and such extension of time would not reasonably be expected to have a Project Material Adverse Effect;

(d) *Default Under Other Agreements.* (i) The principal amount of any unsecured Debt (other than the Obligations) of such Guarantor in excess of $10,000,000 (or its equivalent in another currency) shall be declared due and payable, or required to be prepaid other than by a regularly required repayment, prior to the stated maturity thereof. (ii) Such Guarantor shall default in the payment when due (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise) of any amount owing in respect of any secured Debt (other than the Obligations) in the aggregate principal

amount of $10,000,000 or more; or such Guarantor shall default in the performance or observance of any obligation or condition with respect to any such Debt or any other event shall occur or condition exist, if the effect of such default, event or condition is to accelerate the maturity of any such Debt or to permit (without regard to any required notice or lapse of time) the holder or holders thereof, or any trustee or the Administrative Agent for such holders, to accelerate the maturity of any such Debt, or any such Debt shall become or be declared to be due and payable prior to its stated maturity other than as a result of a regularly scheduled payment;

(e) *Bankruptcy, Etc.* An Event of Bankruptcy shall occur with respect to such Guarantor;

(f) *Dissolution.* Any order, judgment, or decree shall be entered against such Guarantor decreeing its involuntary dissolution or split up and such order shall remain undischarged and unstayed for a period in excess of thirty (30) days; or such Guarantor shall otherwise dissolve or cease to exist;

(g) *Abandonment.* Such Guarantor shall have abandoned the development, construction or operation of its Project, such abandonment to be evidenced by such Guarantor's cessation of such activity for a period of 30 consecutive days;

(h) *Judgments.* One or more judgments or decrees shall be entered by a court of competent jurisdiction against such Guarantor (i) in an aggregate amount in excess of $10,000,000 and (A) any such judgments or decrees shall not be stayed, satisfied or discharged within sixty (60) days or (B) enforcement proceedings shall be commenced by any creditor on such judgment or decrees or (ii) providing for injunctive or other equitable relief the effect of which relief could reasonably be expected to have a Project Material Adverse Effect;

(i) *Security Documents.* Any of the Security Documents shall for any reason cease to be in full force and effect, or shall cease to give the Collateral Agent the Liens, rights, powers and privileges purported to be created thereby on any material Collateral held by such Guarantor (unless such failure has been cured or remedied within ten (10) days from the date of such cessation);

(j) *EPC Agreement; Other Material Project Document.*

(i) (A) With respect to either Development Project Company, the EPC Agreement of such Development Project Company ceases to be in full force and effect (except in accordance with its terms), (B) a material provision of such EPC Agreement ceases to be valid or (C) occurrence of a material default by the Contractor under such EPC Agreement, in each case at any time prior to the expiration of all warranty periods under such EPC Agreement, if such cessation, invalidity or material default has or could reasonably be expected to have a Project Material Adverse Effect and is not cured (in the case of clause (A), with a replacement EPC Agreement reasonably acceptable to the Technical Committee) prior to the 90th day after such cessation, invalidity or material default.

(ii) (A) A default by such Guarantor or any Principal Project Participant under any of the other Material Project Documents to which such Guarantor is party, and such default is not remedied within the applicable grace period and could reasonably be expected to have a Project Material Adverse Effect, or (B) any such Material Project Document ceases to be in full force and effect (except in accordance with its terms), such cessation has or could reasonably be expected to have a Project Material Adverse Effect and such document is not replaced within ninety (90) days (so long as the Borrower is diligently pursuing such replacement) with an agreement reasonably acceptable to the Technical Committee;

(k) *Loan Documents.* Any Loan Document to which such Guarantor is a party shall cease to be valid and binding and in full force and effect; *provided* that no such event shall be a Project Event of Default if, within thirty (30) days of such occurrence, such Guarantor enters into an alternate agreement which is satisfactory to the Administrative Agent;

(l) *Compliance with ERISA.* Such Guarantor shall fail to perform or observe the covenant set forth in Section 3.04(k) and such failure could reasonably be expect to have a Project Material Adverse Effect;

(m) *Exempt Wholesale Generator.* Such Guarantor shall cease to be an EWG (*provided*, that such event shall not be a Project Event of Default if such Guarantor is no longer required under any Requirement of Law to hold such status in order to be exempt from PUHCA);

(n) *Regulatory Status.* Such Guarantor shall become subject to regulation as (i) an investment company (under the Investment Company Act of 1940, as amended) or (ii) a "holding company," or a "public utility company" (within the meaning of the Public Utility Holding Company Act of 1935, as amended).

(o) *Governmental Approvals.* Any Required Project Approval or other Government Approval then required to have been obtained by such Guarantor for the development, construction or operation of its Project, execution or performance of a Transaction Document shall be revoked, terminated, withdrawn, suspended, modified or withheld or shall cease to be in full force and effect and such revocation, termination, suspension, modification or cessation (i) has or could reasonably be expected to have a Project Material Adverse Effect and (ii) is not effectively cured prior to the later of sixty (60) days after the occurrence of such revocation, termination, suspension, modification or cessation (or one hundred twenty (120) additional days if such Guarantor is diligently pursuing such cure);

(p) *Change of Control.* A Change of Control shall occur as to such Guarantor; or

(q) *Date Certain.* If such Guarantor is a Development Project Company, its Project shall not have achieved Project Completion on or before the Date Certain.

ARTICLE V

MISCELLANEOUS

SECTION 5.01. *Amendments, Etc.* No amendment or waiver of any provision of this Guarantee nor consent to any departure by any of the Guarantors therefrom shall in any event be effective unless the same shall be in writing and signed by the Collateral Agent (acting pursuant to direction consistent with Section 10.01 of the Credit Agreement) and each Guarantor, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

SECTION 5.02. *Addresses for Notices.* All notices and other communications provided for hereunder shall be in writing or by telex or facsimile transmission and, if to any Guarantor, mailed, telexed, given by facsimile transmission or delivered to them in care of Sithe Energies, Inc. at 335 Madison Avenue, New York, New York 10017, Attention: Treasurer, Telephone No. (212) 351-0061, Facsimile No. (212) 351-0813, with copies to the General Counsel, Sithe Energies, Inc., 335 Madison Avenue, New York, New York 10017, Facsimile No. (212) 351-0019, and if to the Collateral Agent, mailed, telexed, given by facsimile transmission or delivered to it, addressed to it at BNP PARIBAS, 787 Seventh Avenue, New York, New York 10019, Attention: Project Finance—Portfolio Administration, Greg Miller/Sean Finnegan, Telephone No. (212) 841-2131/2310, Facsimile No. (212) 841-3219/2203, or as to each party at such other address as shall be designated by such party in a written notice to each other party complying as to delivery with the terms of this Section. Any notice, if mailed and properly addressed with postage prepaid, shall be deemed given when received; any notice, if transmitted by telex, shall be deemed given when transmitted (answerback confirmed), and if transmitted by facsimile transmission or delivery, shall be deemed given when received.

SECTION 5.03. *No Waiver; Remedies.* No failure on the part of the Collateral Agent or any Lender to exercise, and no delay in exercising, any right hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right hereunder preclude any other or further exercise thereof or the exercise of any other right. The remedies herein provided are cumulative and not exclusive of any remedies provided by law or equity.

SECTION 5.04. *Right to Set-Off.* Upon the occurrence and during the continuance of any Borrower Default of the nature referred to in Section 8.01(a) of the Credit Agreement or, with the consent of the Lenders, any Borrower Event of Default, the Collateral Agent and each Lender are each hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set-off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by the Collateral Agent or such Lender, as the case may be, to or for the credit or the account of any Guarantor against any and all of the Guaranteed Obligations of the Guarantors now or hereafter existing under this Guarantee, irrespective of whether the Collateral Agent shall have made any demand under this Guarantee. The Collateral Agent agrees promptly to notify the Guarantors after any such set-off and application made by the Collateral Agent, *provided*, that the failure to give such notice shall not affect the validity of such set-off and application. The rights of the Collateral Agent or such Lender, as the case may be, under this Section are in addition to other rights and remedies (including, without limitation, other rights of set-off) which the Collateral Agent or any of the Lenders may have.

SECTION 5.05. *Contribution Obligations among Guarantors.* In order to provide for just and equitable contribution among the Guarantors, the Guarantors agree, among themselves, that in the event any payment or distribution is made by a Guarantor (a "*Funding Guarantor*") under this Guarantee, such Funding Guarantor shall be entitled to a contribution from the other Guarantors for all such payments or distributions, or damages and expenses incurred by such Funding Guarantor in discharging any Guaranteed Obligations. Each Guarantor which is not a Funding Guarantor shall be liable to a Funding Guarantor with respect to any such payments or distributions, or damages and expenses, in an aggregate amount equal to (a) the ratio of (i) the net worth of such Guarantor, as determined in accordance with the most recent balance sheet of such Guarantor at the time of such payment by a Funding Guarantor, to (ii) the aggregate net worth of all Guarantors, similarly determined, multiplied by (b) the amount which the Funding Guarantor paid on account of the Guaranteed Obligations. In the event that at any time there exists more than one Funding Guarantor, then payment from the other Guarantors pursuant to this Section shall be in an aggregate amount equal in proportion to the total amount of money paid for or on account of the Guaranteed Obligations by the Funding Guarantors pursuant to this Guarantee. If the Funding Guarantor is required to make any payment hereunder, such Funding Guarantor shall also be entitled to a right of subrogation in respect of such payment from the other Guarantors. Notwithstanding anything in this Section to the contrary, the agreements in this Section are to establish the relative rights of contribution of the Guarantors and shall not modify the joint and several nature of the obligations of each Guarantor owed to the for the benefit of the Secured Parties or impair the rights of the Collateral Agent for the benefit of the Secured Parties to hold any of the Guarantors liable for payment of the full amount of all Guaranteed Obligations.

SECTION 5.06. *Continuing Guarantee.* This Guarantee is a continuing guaranty and shall (a) remain in full force and effect until final payment in full of the Guaranteed Obligations and all other amounts payable under this Guarantee, subject to reinstatement in accordance with Section 2.2 hereof, (b) be jointly and severally binding upon each of the Guarantors, their successors and assigns, and (c) inure to the benefit of and be enforceable by the Collateral Agent for its benefit and the benefit of the Secured Parties and their respective successors, transferees and assigns; *provided, however*, that no Guarantor may assign or transfer any of its obligations hereunder without the prior written consent of the Collateral Agent and each of the Secured Parties.

SECTION 5.07. *Severability.* Any provision of this Guarantee which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such

---

prohibition or unenforceability without invalidating the remaining provisions of this Guarantee or affecting the validity or enforceability of such provisions in any other jurisdiction.

SECTION 5.08. *Governing Law.* THIS GUARANTEE SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE OF NEW YORK, WITHOUT GIVING EFFECT TO THE CONFLICT OF LAWS PRINCIPLES THEREOF (EXCEPT SECTIONS 5-1401 AND 5-1402 OF THE NEW YORK GENERAL OBLIGATIONS LAW). EACH OF THE PARTIES HERETO (I) IRREVOCABLY SUBMITS TO THE NON-EXCLUSIVE JURISDICTION OF ANY NEW YORK STATE COURT OR FEDERAL COURT SITTING IN THE BOROUGH OF MANHATTAN, THE CITY OF NEW YORK IN ANY ACTION ARISING OUT OF ANY LOAN DOCUMENT, (II) AGREES THAT ALL CLAIMS IN SUCH ACTION MAY BE DECIDED IN SUCH COURT, (III) WAIVES, TO THE FULLEST EXTENT IT MAY EFFECTIVELY DO SO, THE DEFENSE OF AN INCONVENIENT FORUM AND (IV) CONSENTS TO THE SERVICE OF PROCESS BY MAIL. A FINAL JUDGMENT IN ANY SUCH ACTION SHALL BE CONCLUSIVE AND MAY BE ENFORCED IN OTHER JURISDICTIONS. NOTHING HEREIN SHALL AFFECT THE RIGHT OF ANY PARTY TO SERVE LEGAL PROCESS IN ANY MANNER PERMITTED BY LAW OR AFFECT ITS RIGHT TO BRING ANY ACTION IN ANY OTHER COURT.

SECTION 5.09. *Loan Document; Etc.* This Guarantee is a Loan Document executed pursuant to the Credit Agreement and shall (unless otherwise expressly indicated herein) be construed, administered, and applied in accordance with the terms and provisions of the Credit Agreement.

SECTION 5.10. *Waiver of Jury Trial.* EACH GUARANTOR HEREBY KNOWINGLY, VOLUNTARILY, AND INTENTIONALLY WAIVES ANY RIGHTS IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION BASED HEREON, OR ARISING OUT OF, UNDER, OR IN CONNECTION WITH THIS GUARANTY OR ANY COURSE OF CONDUCT, COURSE OF DEALING, STATEMENTS (WHETHER VERBAL OR WRITTEN), OR ACTIONS OF THE COLLATERAL AGENT, THE LENDERS, OR ANY OF THE GUARANTORS. THIS PROVISION IS A MATERIAL INDUCEMENT FOR THE COLLATERAL AGENT ENTERING INTO THIS GUARANTY.

SECTION 5.11. *Non-Recourse.* The provisions of Section 10.13 of the Credit Agreement are hereby incorporated by reference, with the same effect as if such provision where set forth herein in its entirety.

IN WITNESS WHEREOF, each of the Guarantors has caused this Guarantee to be duly executed and delivered by its officer thereunto duly authorized as of the date first above written.

SITHE MYSTIC LLC

By:

Name: Sandra Manilla
Title: Vice President and Treasurer

SITHE FORE RIVER DEVELOPMENT, LLC

By:

Name: Sandra Manilla
Title: Vice President and Treasurer

SITHE MYSTIC DEVELOPMENT LLC

By:

Name: Sandra Manilla
Title: Vice President and Treasurer

BNP PARIBAS, as Collateral Agent

By:

Name: Dan Cozine
Title: Managing Director

By:

Name: Christophe Bernard
Title: Associate

Signature Page to
Project Company Guarantee

EXECUTION VERSION

PROJECT COMPANY GUARANTEE

by

SITHE MYSTIC LLC,
SITHE FORE RIVER DEVELOPMENT, LLC, and
SITHE MYSTIC DEVELOPMENT LLC,
each as a Guarantor

in favor of

BNP PARIBAS,

as Collateral Agent

Dated as of
January 31, 2001

Table of Contents

SCHEDULES

EXHIBITS

QuickLinks

Exhibit 10-2

QuickLinks -- Click here to rapidly navigate through this document

Exhibit 10-41

EXECUTION COPY

AGREEMENT
REGARDING VARIOUS MATTERS INVOLVING OR AFFECTING
RATES FOR ELECTRIC SERVICE OFFERED
BY COMMONWEALTH EDISON COMPANY

Dated as of March 3, 2003

AGREEMENT
REGARDING VARIOUS MATTERS INVOLVING OR AFFECTING
RATES FOR ELECTRIC SERVICE OFFERED
BY COMMONWEALTH EDISON COMPANY

Table of Contents

[Exhibits omitted from this filing.]

AGREEMENT
REGARDING VARIOUS MATTERS INVOLVING OR AFFECTING
RATES FOR ELECTRIC SERVICE OFFERED
BY COMMONWEALTH EDISON COMPANY

THIS AGREEMENT REGARDING VARIOUS MATTERS INVOLVING OR AFFECTING RATES FOR ELECTRIC SERVICE OFFERED BY COMMONWEALTH EDISON COMPANY (this "*Agreement*") has been reached by the parties indicated on the signature pages below (collectively, the "*Parties*").

Preliminary Statement

The Parties have discussed approaches to various matters involving or affecting rates for electric service offered by Commonwealth Edison Company ("*ComEd*" or "*Company"*). These discussions have led to the development of a framework for achieving and implementing a result that the Parties believe to be a reasonable and equitable approach to their respective concerns and interests and that will affirmatively benefit users of electricity and the public interest accordingly. The Parties desire (i) to memorialize that framework and the result to be achieved and (ii) to set forth a coordinated procedure for handling and accomplishing the filings and proceedings necessary to implement that result. Various of the Parties believe that implementation of the provisions of this Agreement will promote the development of economic competition in the supply of electricity, will promote energy efficiency and the use of renewable resources and will introduce more stability and certainty with respect to the pricing and costs of that electricity. Thus, the Parties, intending to be legally bound and acknowledging the benefit to be derived from the mutual promises contained herein, agree as follows:

1. *Definitions*

In addition to the capitalized terms defined elsewhere in this Agreement, certain capitalized terms shall have the meanings given those terms in the Appendix to this Agreement.

2. *Market Value Index*

(a) *General Adjustments*

The Proposed MVI Methodology (and the HEP, MEP or other default rate methodology, if applicable) shall be adjusted as follows:

- In the calculation of the Hourly Prices for the MVEC, the zeroes or negative values in the PJM data shall be replaced by the average of the positive values just before and just after any zero or negative values;

- ComEd will allocate its adjustment to the MVEC component related to sales and marketing costs in proportion to the kWh usage for a customer class instead of in proportion to the number of customers in the class;

- ComEd's rates for delivery services will be used as the basis for the delivery services credit in the CTC formula; and all CTCs, including CTCs subject to multi-year MVECs, will be adjusted to reflect changes in Rate RCDS and FERC-approved changes in Transmission rates as provided in ComEd's Rider TS—Transmission Service;

- The Proposed MVI Methodology shall be adjusted to reflect changes, if any, in the transmission loss calculation from the ComEd open access transmission tariff to the PJM open access transmission tariff; and

- On and after PJM Day 2, an increase of 0.45 mils/kWh will be made to all annual and multi-year MVECs, including MVECs that have already been set. In addition, ComEd shall exclude from the calculation of Rider TS Transmission Services Charge PJM congestion

management fees and administrative fees under current Schedules 9-1, 9-2, 9-3, 9-4, 9-5 and 9-6 of PJM's Open Access Transmission Tariff or successor schedules that provide for recovery of the same administrative charges assessed to ComEd for transmission services used to serve customers taking service under Rider PPO-MI, Rider ISS, and Rider MEP.

ComEd shall advocate before PJM and all relevant regulatory agencies that wholesale power purchase agreements with firm liquidated damages provisions shall continue to be accepted for purposes of securing network transmission service after PJM Day 1 up to PJM Day 2.

(b) *Capacity Adjustments*

The following capacity adjustments will be made to the Proposed MVI Methodology, on or after PJM Day 2:

(i) If ComEd is using an MVI methodology based on firm liquidated damages transactions into a load zone that has no mandatory capacity requirement, then an incremental capacity adjustment will be made based on the applicable capacity auction value less 0.25 mils/kWh to all annual and multi-year MVECs, including MVECs that have already been set (*provided*, *however*, that the adjustment will never be negative—*i.e.*, if the applicable capacity auction value is equal to or less than 0.25 mils/kWh, there will be no adjustment).

(ii) If ComEd is using an MVI methodology that utilizes market data for traded electricity products which have defined delivery points within an operating RTO and such RTO has a mandatory capacity requirement, then a full capacity adjustment will be made based on the applicable capacity auction value to all annual and multi-year MVECs, including MVECs that have already been set.

(iii) In any case, a prospective-only adjustment for capacity will be made to the two multi-year MVEC/CTC lock-in options elected by customers in 2003 (*i.e.*, the two-year MVEC lock-in option for the period from June 2003 through May 2005 and the 43-month MVEC lock-in option for the period from June 2003 through December 31, 2006). That adjustment will be based on PJM's annual capacity auction for 2004[1] and will be reduced by 0.25 mils/kWh to reflect, for the purposes of this Agreement, a value for capacity already included in the MVI methodology used for those two MVEC lock-in options (*provided*, *however*, that the combination of the PJM capacity auction value and the 0.25 mils/kWh reduction will not result in a negative adjustment—*i.e.*, if the PJM capacity auction value is equal to or less than 0.25 mils/kWh, there will be no adjustment).

---

1 If PJM's 2004 capacity auction includes a three-year product, that auction value will be used as the basis for the adjustment applicable to the 6/03-12/06 43-month MVEC/CTC set (less 0.25 mils).

The Parties (other than the GCI Parties) will advocate before PJM that PJM hold a capacity auction each January and that such auction include a three-year capacity product. The GCI Parties shall not oppose the efforts of the other Parties described in the preceding sentence. All Parties will support or not oppose ComEd's efforts to join PJM.

(c) *Zone Pricing*

It is the intent of the Parties (other than the GCI Parties) to advocate with PJM and all relevant regulatory agencies, that for load purposes, the current ComEd control area be treated as a single load zone; and the GCI Parties shall not oppose the efforts of the other Parties described in this sentence. If adequate market data, meaning volume no less than 70% of the volumes accounted for by the Cinergy contracts relied upon for the calculations carried out for Period A in 2003, becomes available to establish reliable, transparent forward prices for a ComEd trading hub as defined by PJM, it is the intent of the parties to recommend further modifications to the MVI methodology to incorporate use of that market data, so long as a reasonable estimation of the basis differential between the ComEd trading hub and the ComEd load zone is included in the methodology. The Parties recognize such a

change to the MVI methodology requires approval by the Illinois Commerce Commission (the "*ICC*" or "*Commission*"); and the Parties (other than the GCI Parties) agree to support such proposal before the Commission, and the GCI Parties shall not oppose the efforts of the other Parties described in this sentence. If there is not sufficient data that reflects the forward market price for a ComEd trading hub as defined by PJM, the delivery point used in the current methodology ("into Cinergy") will be used in the MVI methodology. In such a case, the basis differential will be modified to provide a reasonable estimation of the difference in prices from the "into Cinergy" trading hub, and the ComEd load zone. The Parties (other than the GCI Parties) will jointly request PJM to provide such reasonable estimation of such difference in prices and the basis differential mentioned above; and the GCI Parties shall not oppose the efforts of the other Parties described in this sentence. If PJM fails to do so, then ComEd will provide such estimation and such basis differential. ComEd shall not have multiple load zone MVECs unless multiple load zones are imposed by PJM or a regulatory agency.

(d) *Procedure*

MVECs for ComEd's Applicable Period A will be published on April 21 in 2003 and February 1 in 2004, 2005 and 2006. The MVEC/CTC set on February 1, 2006, will be a 7-month set that will apply from June 2006 through December 31, 2006. All otherwise eligible customers will have 75 days after MVECs are published to sign up for ComEd's Applicable Period A PPO or RES service under a multi-year MVEC/CTC. The following two procedural exceptions will be permitted during the 75-day window in 2003 only in order to ensure that customers have an adequate amount of time to evaluate their options:

(1) ComEd will permit a RES-supplied customer to convert from the 2003 annual MVEC/CTC to its selected multi-year MVEC/CTC lock-in option on the customer's next regularly scheduled meter reading date after the 75-day window, *provided* that ComEd receives notice from the customer of its option election within the 75-day window, and

(2) ComEd will permit a customer taking service under the PPO for 2003 Period A to terminate its PPO contract and begin RES-supplied service, *provided* that ComEd receives notice from the customer of this election within the 75-day window. The customer may select RES-supplied service under either an annual MVEC/CTC or, if available to the customer, a multi-year MVEC/CTC. The customer's RES-supplied service shall begin on the next regularly scheduled meter reading date after ComEd receives the notice and after the 7-day Direct Access Service Request switching rules are followed.

ComEd shall perform individual CTC calculations for customers with demands of 400 kW and above (except for Rider GCB customers with demands less than 3 MW). Annual and multi-year CTC calculations for customers with demands of 400 kW and above will be available April 21, 2003.

(e) *Annual MVEC/CTC Set*

ComEd shall add 2.25 mils/kWh to the Proposed MVI Methodology as part of this Agreement. This change (as modified by the adjustments, if any, to be made under Section 2(f) and 2(g) below) will be made effective with the commencement of the 2003 Applicable Period A and will also be utilized in 2003 Applicable Period B and thereafter throughout the mandatory transition period (*i.e.*, through December 31, 2006).

(f) *Multi-Year MVEC/CTC Set*

(i) ComEd shall offer the following multi-year MVEC/CTC lock-in options to all customers who are eligible (including customers taking service under Rider GCB) for individually calculated

CTCs. ComEd shall provide on the indicated Offer Date an MVEC/CTC lock-in option for the indicated period(s) with the indicated additional adder(s):

Offer Date — 1st Business Day Following	MVEC/CTC Period	Period MBP = Monthly Billing Period	Adder
April 21, 2003	24-months	June 2003 MBP through May 2005 MBP	0.5 mil/kWh (total of 2.75 mil/kWh)
April 21, 2003	43-months	June 2003 MBP through December 31, 2006	1.0 mil/kWh (total of 3.25 mil/kWh)
February 1, 2004	31-months	June 2004 MBP through December 31, 2006	0.5 mil/kWh (total of 2.75 mil/kWh)
February 1, 2005	19-months	June 2005 MBP through December 31, 2006	None (total of 2.25 mils/kWh)

The customer must elect service under these lock-in options within 75 days of the date the applicable MVEC/CTC set is published. The lock-in options set forth in the first two rows of the foregoing table will also be available one time to all customers subject to class-based CTCs who were receiving RES-flowed electricity on December 31, 2002.

(ii) ComEd shall use the same methodology for establishing MVECs under the preceding Section 2(f)(i) as it uses for establishing one-year MVECs (except as modified below). ICE and Platt's forwards coinciding with the applicable period of the multi-year lock-in option shall be the source of data (unless replaced or supplemented by other data sources in the future). Where monthly data is not available for future years, calendar data will be used to establish annual prices that will be shaped using available monthly data from earlier years.

(iii) The Parties (other than the GCI Parties) agree that:

- it is just and reasonable for customers who elect service under any of the multi-year MVEC/CTC lock-in options listed in the table in Section 2(f)(i) above, as a result of such election, to forego any other right such customer may have had to take service under ComEd's bundled rates or power purchase option ("*PPO*") during the term of the multi-year MVEC/CTC lock-in option agreement and

- the PPO shall not be available as a source of supply for customer loads served under multi-year MVEC/CTC lock-in option agreements.

Customers that elect multi-year MVECs/CTCs lock-in options must confirm that they are foregoing these rights. The GCI Parties shall not oppose the concepts set forth in this Section 2(f)(iii).

(iv) ComEd shall allow customers under a multi-year MVEC/CTC lock-in option agreement to take service under Rate HEP or MEP (if otherwise available), or other default rate, if available, if their supplier defaults or submits a "drop" Direct Access Service Request to ComEd. In the event of a supplier default, the customer shall retain the right to take service under Rider ISS for up to three billing periods while seeking another supplier. However, only if the Rider ISS customer returns to RES service during those three billing periods will the customer retain such customer's originally elected multi-year MVEC/CTC lock-in option for the duration of its term.

(g) *Triggers*

The Parties accept the following "triggers" for a change in adders from those set forth in Sections 2(e) and 2(f) above (it being understood that megawatt-hours of consumption of all customers being served by RESs affiliated with ComEd shall be excluded from the calculations below which are relevant to the "triggers"). The calculations relevant to the triggers referred to below will be released by ComEd as soon as practical after the first business day of January in 2004, 2005, and 2006, but not later that February 1. In addition, ComEd will submit to the ICC Staff for verification the methodology used to determine each of the 2002 Base Consumption and 2003, 2004, and 2005 Annual Consumption figures.

(i) If the 2003 Annual Consumption is at least 10% less than the 2002 Base Consumption, then the adder for the 31-month MVEC/CTC lock-in option for the June 2004 monthly billing period through December 31, 2006 will be increased by 1.0 mil (*i.e.*, from 2.75 mils to 3.75 mils). Regardless of the 2003 Annual Consumption, if the 2004 Annual Consumption is at least 20% less that the 2002 Base Consumption, then the adder for the 19-month MVEC/CTC lock-in option for the June 2005 monthly billing period through December 31, 2006 will be increased by 1.0 mil (*i.e.*, from 2.25 mils to 3.25 mils).

(ii) If the 2003 Annual Consumption is at least 20% greater than the 2002 Base Consumption, then the 2004 annual MVEC adder will be decreased by 0.5 mils (*i.e.*, from 2.25 mils to 1.75 mils) and the adder applicable to the 31-month MVEC/CTC lock-in option for the June 2004 monthly billing period through December 31, 2006 also will be decreased by 0.5 mils (*i.e.*, from 2.75 mils to 2.25 mils). Regardless of the 2003 Annual Consumption, if the 2004 Annual Consumption is at least 28% greater than the 2002 Base Consumption, then the 2005 annual MVEC adder will be decreased by 0.5 mils (*i.e.*, from 2.25 mils to 1.75 mils) and the 19-month MVEC/CTC lock-in option for the June 2005 monthly billing period through December 31, 2006 also be decreased by 0.5 mils (*i.e.*, a decrease from 2.25 mils to 1.75 mils). Regardless of the 2003 Annual Consumption and 2004 Annual Consumption, if the 2005 Annual Consumption is at least 33% greater than the 2002 Base Consumption, then the adder for the 7-month MVEC/CTC lock-in option for the June 2006 monthly billing period through December 31, 2006 will be decreased by 0.5 mils (*i.e.*, from 2.25 mils to 1.75 mils).

(iii) If the differences between the 2002 Base Consumption, on the one hand, and the 2003 Annual Consumption, 2004 Annual Consumption, and 2005 Annual Consumption, respectively, on the other hand, are within the percentages identified above (*e.g.*, for 2004, if the 2003 Annual Consumption is between 10% less than and 20% greater than the 2002 Base Consumption, for 2005, if the 2004 Annual Consumption is between 20% less than and 28% greater than the 2002 Base Consumption, or for 2006, if the 2005 Annual Consumption is less than 33% greater than the 2002 Base Consumption), then the adders provided in Sections 2(e) and 2(f) above will apply without adjustment.

(iv) Set forth below are charts that depict the adders to be applied for each year and each MVEC/CTC lock-in option through the transition period, along with possible adjustments for consumption, as set forth above:

	APRIL '03	FEB '04	FEB '05	FEB '06
1 YR ADDER	2.25 mils	2.25 mils	2.25 mils	2.25 mils
TRIGGER (Y/N)	NO	YES	YES	YES
ADDER W/TRIGGER	N/A	Down only to 1.75 mil	Down only to 1.75 mil	Down only to 1.75 mil
2 YR ADDER	2.75 mils	N/A	N/A	N/A
TRIGGER (Y/N)	NO	N/A	N/A	N/A
ADDER W/TRIGGER	N/A	N/A	N/A	N/A

END OF TERM ADDER	3.25 mils	2.75 mils	2.25 mils	N/A
TRIGGER (Y/N)	NO	YES	YES	N/A
ADDER W/TRIGGER	N/A	2.25—3.75 mils	1.75—3.25 mils	N/A

Trigger Mechanism	APRIL '03	FEB '04	FEB '05	FEB '06
April '03	NONE			
FEB '04				
NARFP › 120% of base		Annual ***and*** End of Term 31-month adders both reduced by 0.5 mil to 1.75 and 2.25 mils		
NARFP ‹ 90% of base		End of Term 31-month adder increased by 1.0 mil to 3.75 mils.		
FEB '05				
NARFP › 128% of base			Annual ***and*** End of Term 19-month adders both reduced by 0.5 mil to 1.75 mils.	
NARFP ‹ 80% of base			End of Term 19-month adder increased by 1.0 mil to 3.25 mils.	
FEB '06				
NARFP › 133% of base				Annual adder reduced by 0.5

mil to 1.75 mils

"NARFP" = Non-Affiliated RES Flowed Power (annual kWh consumption of non-affiliated RES customers as of the first business day of each year including Rider ISS customers if they were receiving RES-flowed power, other than from a ComEd RES affiliate, immediately prior to being placed on Rider ISS).

"base" = annual Kwh consumption of all NARFP customers as of January 2, 2003.

(h) *No Negative CTCs*

Nothing in this Agreement is intended to alter or waive the provision of 220 ILCS 5/16-102 providing that "the transition charge shall never be less than zero".

3. *Default Rates*

(a) *Rate HEP—Hourly Energy Pricing*

Rate HEP (as modified by proposed amendments that have been refiled on or about November 25, 2002, for consideration in ICC Docket No. 02-0479, pursuant to the Interim Order, as modified to adopt an rate design modeled after Rate IPP, and as further modified to account for other changes to be effected pursuant this Agreement, as reflected in the Exhibits to this Agreement) will remain available to those customers with a demand for electricity of three megawatts or more (and other eligible customers) at least through December 31, 2006.

(b) *Rate MEP—Monthly Energy Pricing*

A monthly energy pricing service will be available to those customers who, as a result of a competitive service declaration, lose their opportunity to return to Rate 6L. The rate will be offered only through December 31, 2006. The Parties agree that the MEP tariff provisions attached as part of Exhibit P (Tariff Provisions, including MEP) accurately reflect the agreement of the Parties in that regard.

4. *Delivery Service Tariff Case*

(a) *Rates through 2006*

(i) The Parties acknowledge that the delivery service (DST) rates set forth in the Exhibit to this Agreement reflect their agreement as to the manner in which delivery service rates are to be determined based upon (i) a 2000 test year revenue requirement of $1,517,000,000 and (ii) 2000 test year sales. The Parties agree that the rates should become effective with the June monthly billing period beginning in 2003 and remain in effect through December 31, 2006, subject to the 15% revenue requirement test described in clause (ii) below.

(ii) The Parties agree that ComEd will report, by April 30, 2005, its state-jurisdictional revenue requirement for the calendar 2004 test year with appropriate 2005 pro-forma adjustments. Development of revenue requirement will generally follow the rules of the ICC contained in 83 Ill. Adm. Code Part 285 as it exists on the date of this Agreement, as described in Exhibit Q (Part 285 Provisions). If the DST revenue based on the 2005 DST rates set forth in the Exhibits to this Agreement as applied to forecasted 2005 billing determinants is more than 15% higher or lower than the reported 2005 DST state-jurisdictional revenue requirement (2004 test year with appropriate 2005 pro-forma adjustments), any Party may petition the ICC to open a proceeding to establish new DST rates effective January 1, 2006, with the applicable burden of proof given the nature of the proceeding. If a Party so petitions the ICC, other Parties may intervene in and oppose or support the petition. For purposes of this proceeding, however, the Parties agree that the DST rate design set forth in the Exhibits to this Agreement will be maintained during the term of this Agreement and is just and reasonable.

(b) *Rates After 2006*

ComEd may file for new delivery service tariff rates having an effective date on or after January 1, 2007.

(c) *No Capital Disallowance*

The Parties agree that no capital disallowance, based on prudence or otherwise, should be made or entered in connection with the proceedings pending in ICC Docket No. 01-0664 relating to the audit of ComEd's test year expenditures or in ICC Docket No. 01-0423 relating to delivery service rates, other than as indicated on Appendix A to Exhibit M (DST Proposed Order) and that the plant to be reflected in the ComEd's delivery services rates, as indicated on said Appendix A, shall be considered prudent, just and reasonable, and used and useful in future rate proceedings.

(d) *DST Proposed Order and Related Documents*

The Parties (other than the GCI Parties) acknowledge that (i) the GCI Parties are reviewing the documents contemplated by this Agreement to be filed in the DST proceeding currently pending in ICC Docket No. 01-0423, consisting of the documents attached to this Agreement as Exhibits J through N (inclusive) and (ii) the GCI Parties may have changes to those documents before they are filed as contemplated by this Agreement. As long as those changes do not change the principles set forth in this Section 4 and are acceptable to ComEd, the Parties authorize ComEd to attach amended forms of those documents, reflecting those changes, in place of the current Exhibits to this Agreement and further authorize ComEd to file such amended documents in ICC Docket No. 01-0423.

5. *1999 Delivery Service Case*

ComEd has filed an appeal of the order entered by the ICC in Ill. C.C. Dkt. 99-0117 that is currently pending in the Illinois Appellate Court as case no. 02020349 (the "*Pending Appeal*"). As part of the coordinated approach to the various matters addressed in this Agreement, the Parties have agreed that ComEd may fully present its appeal, without prejudice, if this Agreement does not become effective as provided in Section 14. If all of the ICC orders required to be entered as a condition of the effectiveness of this Agreement are entered on or before March 21, 2003, then not later than three days after those orders are no longer subject to rehearing, ComEd shall file a motion voluntarily dismissing its appeal in the Pending Appeal.

6. *Rider 25 (Space Heat)*

(a) *CTCs*

The Parties agree that the billing effects of Rider 25 have been and will continue to be incorporated into the determination of CTCs, including individual CTCs for those customers to whom individual CTCs apply, for customers whose bundled service was taken under Rider 25. This will also apply to all customers that are affected by the lowering of individual CTCs to the proposed level of 400 kW.

(b) *PowerPath Web Site*

On or before April 21, 2003, ComEd shall, on the PowerPath web site:

(i) implement a Rider 25 customer flag that indicates those delivery services customers that were previously served under Rider 25; and

(ii) make available Rider 25 meter usage data for those customers that are served under Rider 25.

7. *Provider of Last Resort*

A transition to competition in the sale of electricity in the State of Illinois should be reasonably balanced with customer concerns for reliability and price stability. The following provisions are a balanced approach to those concerns:

(a) *No Challenge to ICC Interim Order*

The Parties shall not appeal or otherwise challenge the ICC's Interim Order dated November 14, 2002, entered in ICC Docket No. 02-0479 ("*Interim Order*") or any final order in that docket containing findings consistent with the Interim Order. Those Parties that have already appealed the Interim Order shall follow the procedures listed in Section 5, above, to effect a dismissal of those appeals ("*Pending POLR Appeal*") as if the term "Pending Appeal" used in that Section referred to those appeals.

(b) *No Challenge to Rate 6L Tariff Filing*

The Parties shall not oppose or otherwise challenge ComEd's tariff filing of November 25, 2002, which made changes to ComEd's Rate 6L tariff provisions to implement the Interim Order.

(c) *Rate HEP*

ComEd's proposed amendments to its Rate HEP (as refiled on November 25, 2002, for consideration in ICC Docket No. 02-0479 pursuant to the Interim Order, as modified to adopt a rate design modeled after Rate IPP, and as further modified to account for other changes to be effected pursuant this Agreement) are reflected in the Exhibits to this Agreement. The Parties shall withdraw any challenges to those amendments and shall not propose other challenges or changes that would go into effect prior to December 31, 2006.

(d) *3 MW or Greater*

The ICC opened a proceeding, ICC Docket No. 03-0056, "to monitor the ongoing development of the marketplace for customers 3MW and greater." Except as noted below in this subsection, the Parties agree, and shall support in the workshop, the concepts that:

- the data recommended by Staff, together with other data reported by ComEd, is sufficient to give the ICC and the Parties what they need to look at the market
- the due date for reports should be extended 15 days
- the reporting requirements established in this proceeding should terminate at the end of the transition period
- the ICC should close the docket (not necessarily terminate the reporting) as soon as the reporting requirements are established so that the monitoring can take place outside the restrictions on Commissioners applicable to a docketed proceeding.

The foregoing shall apply to the GCI Parties except that, in the case of the last bulleted concept, it is understood that the GCI Parties shall only be obligated not to oppose that concept. Any Party may petition to open a specific investigation if it can demonstrate that significant detrimental changes have taken place affecting customer choice in the marketplace for customers with a demand for electricity of three megawatts or more.

(e) *1 MW or Greater*

The Parties shall not oppose a petition to declare competitive the provision of Rate 6L service to customers with a demand for electricity of one megawatt or more that will be filed by ComEd in June 2004 or thereafter, *provided* that the evidence of market conditions referred to in section 16-113(a) of the Public Utilities Act relative to these customers is equivalent to or better than the evidence of those market conditions that existed for customers with a demand for electricity of three megawatts or more that was presented to the Commission in Docket No. 02-0479. This Agreement does not reflect any Party's position regarding the burden of proof necessary to declare a tariffed service competitive pursuant to Section 16-113(a) of the Public Utilities Act.

Customers who are taking service under Rider GCB—Governmental Consolidated Billing shall be exempt from any such one megawatt competitive declaration. ComEd shall give notice so that Rider GCB-eligible customers will have time to get onto that Rider prior to the competitive declaration and, thus, get the advantage of the exemption.

8. *Power Purchase Agreement*

(a) *Full Requirements Power Purchase Agreement*

ComEd will enter into a power purchase agreement (the "*ExGen PPA*") with Exelon Generation Company, LLC ("*Exelon Generation*") for the period from PJM Day 2 through December 31, 2006, whereunder Exelon Generation will supply ComEd's full requirements for power for such period. The Parties have reviewed the final version of the ExGen PPA, which will be executed *if* this Agreement becomes effective, and shall not challenge at any time ComEd's entry into, or the terms and conditions of, the ExGen PPA before any regulatory agency or court with jurisdiction.[2]

2 If the final power purchase agreement executed by ComEd and ExGen deviates in any significant way from this final version, the Parties reserve their rights to challenge that agreement.

Notwithstanding the foregoing, if in any proceeding(s) before any regulatory agency or court of competent jurisdiction addressing ComEd's entry into, or the terms and conditions of the ExGen PPA, a party (including the Staff of the ICC) raises issues other than ComEd's entry into, or the terms and conditions of the ExGen PPA, including, but not limited to, issues relating to the post-December 31, 2006 power purchasing practices of ComEd or any other Illinois utility ("*Non-PPA Issues*"), the Parties may participate fully in such proceeding(s) to address those Non-PPA Issues.

(b) *Decommissioning*

The Parties (other than the GCI Parties) agree that the ExGen PPA does not provide implicit or explicit recovery of nuclear decommissioning costs. Therefore, the Parties (other than the GCI Parties) agree that nuclear decommissioning costs shall continue to be recovered by ComEd from retail customers through Rider 31 for the years 2005 and 2006 in an amount of $73 million per year (as trued up and reconciled pursuant to Rider 31), subject to the terms of the Commission's December 20, 2000, Order in ICC Docket No. 00-0361 (providing, in Section 11C of that Order, that ComEd's recovery of decommissioning costs in 2005 and 2006 will be linked to the amount of energy ComEd purchases from Exelon Generation's nuclear plants previously owned by ComEd). The GCI Parties shall not oppose the concepts stated in this subsection.

9. *Program and Research Funding*

(a) *Program Funding*

ComEd shall provide the indicated funding for each of the following programs. Such funding shall be made in four equal installments with the first installment due within ten days of the effectiveness of this Agreement (as provided in Section 14) and each of the three subsequent installment due on or before the 20th of January in each succeeding year.

(i) $24 million to be used for programs, including energy and environmental programs; $21 million to be used in programs administered by the City of Chicago and $3 million to be used in programs administered by the County of Cook.

(ii) $16 million to be used as determined by the Citizens Utility Board, the City of Chicago and the State's Attorney for Cook County (the "*Cook County State's Attorney*"), including for such purposes as a residential refrigerator recycling program, a compact fluorescent light bulb program, an air-conditioner (window unit) swap program, and residential consumer education and research. This program shall be administered by the Citizens Utility Board.

(b) *Research Funding*

ComEd shall provide the indicated funding for the following research programs. Such funding shall be paid within ten days of the effectiveness of this Agreement (as provided in Section 14).

(i) $1 million to be used as determined by the Citizens Utility Board, the City of Chicago and the Cook County State's Attorney, including for the study, development and presentation of post-transition electricity supply/procurement mechanisms.

(ii) $300,000 to be used as determined by the County of Cook, including a rate optimization study.

(c) *Emergency Generator Fund*

ComEd shall provide $11 million for a reimbursement fund for BOMA Chicago and its member buildings as of December 31, 2002, for the expenses of BOMA/Chicago and the expenses incurred by its member buildings in order to comply with the emergency generator or alternative minimum requirements of the 2000 amendments to the Chicago Electrical Code, distributed on a basis to be determined by BOMA/Chicago. Such payment shall be made in two equal installments, with the first being made on May 15, 2003 and the second being made on December 15, 2003. BOMA/Chicago agrees to use its best efforts to encourage recipients to participate in a curtailment program.

10. *Rider GCB—Governmental Consolidated Billing*

There is a dispute (among ComEd and GCI) regarding who is eligible to take service under Rider GCB. ComEd will not contest the GCI definition—that additional entities can be eligible for Rider GCB so long as they become parties to the pre-existing "Alliance" agreement to which the City of Chicago is currently a party—and will provide service to additional entities, including Cook County should the County participate, under Rider GCB who sign on to the "Alliance" agreement; and the City of Chicago shall vote to include Cook County as an "Alliance" member, *provided* that the Local Government Electric Power Alliance does not extend the "Alliance" agreement to entities that will be put on Rider GCB and that taken together would have an aggregate non-coincident peak load

(load to be measured as reasonably anticipated as of the time of signing the Alliance agreement) in excess of 75 MW; and *provided further* that the preceding proviso shall not prevent an extension of the "Alliance" agreement to entities that will not be placed on Rider GCB.

11. *CTA Rate Issues*

ComEd agrees the Chicago Transit Authority ("*CTA*") can leave its current service contract to take service under the PPO or from an ARES and, after giving notice as required by Rider PPO, Rate RCDS, or such other rate as is applicable, come back to its current service contract. ComEd confirms that it interprets Rate RCDS to include the non-rate provisions contained in the CTA's current service contract.

12. *Green Power*

ComEd shall create, offer and implement, in partnership with the City of Chicago, a renewable energy based program designed to meet the following percentage of in-City residential load (using previous year's sales figures for bundled service): 2004—1% and 2006—3%. The program to be developed may include renewable resources, including, but not limited to, landfill gas and wind. The program to be developed for in-City residential load shall not be used to argue against enactment of State legislation establishing a renewable portfolio standard.

13. *Street Lighting*

ComEd will work with the City of Chicago to provide information related to ComEd's charges for street lighting so that the City may determine its charges under the tariff vis-à-vis alternatives.

---

14. *Approval and Support, and Effectiveness of, this Agreement*

(a) *Support*

The Parties acknowledge that they view this Agreement as a package. The Parties shall:

(i) fully support the terms set forth in this Agreement, except as otherwise noted with respect to the GCI Parties,

(ii) use reasonable commercial efforts to prepare and file all necessary testimony, pleadings, proposed orders and other filings with applicable regulatory and judicial bodies in all proceedings in which they are or become a party in order to implement the provisions of this Agreement,

(iii) use reasonable commercial efforts (a) to obtain any necessary approval by the ICC of the tariffs attached as Exhibit P (Tariff Provisions, including MEP) to this Agreement, (b) to secure the dismissal of the Pending Appeal and the Pending POLR Appeal and (c) in the case of ComEd, to make the payments referenced in Section 9, in a coordinated fashion.

Without limiting the generality of the foregoing, the Parties concur that the tariffs, motions, testimony, affidavits and proposed orders attached to this Agreement accurately reflect the terms of this Agreement. ComEd shall execute and/or file with the ICC those tariffs, motions, testimony, affidavits and proposed orders, and the other Parties shall execute and file the corresponding supporting pleadings in the proceedings in which they are a party.

The Parties (other than the GCI Parties) shall not challenge or raise claims inconsistent with this Agreement (including challenges to, or complaints about, or proposed modifications to, the MVEC/CTC methodology or rates set according to this Agreement) in any proceeding before any court, regulatory agency, or other forum, and that they shall not directly or indirectly initiate or support any action at the ICC or a court that would have the effect of reducing ComEd's tariffed revenues before January 1, 2007, (*e.g.*, by increasing the MVEC, reducing CTCs, or reducing tariffed rates); *provided*, *however*, that the Parties will have the rights reserved in Section 4(a)(ii) regarding petitioning the ICC to open a proceeding to establish new DST rates effective January 1, 2006 (and supporting or opposing such a petition); and, *provided further* that, pursuant to Section 4(c) above, the plant to be reflected in ComEd's delivery services rates, as indicated on Appendix A to Exhibit M (DST Proposed Order), shall be considered prudent, just and reasonable, and used and useful.

It is understood that the GCI Parties have statutory obligations that require them to monitor and regulate specified conduct and activities, such as competitive practices, employment practices, environmental practices and consumer protection.[3] This Agreement shall not be construed as limiting the GCI Parties in the discharge of their obligations. In addition, the Parties may contest any filing by ComEd that would increase ComEd's tariffed revenues in a manner not consistent with this Agreement—*e.g.*, through the use of an MVEC/CTC methodology that is not modified as contemplated in this Agreement.

---

3 Those statutory obligations include without limitation the Public Utilities Act, the Consumer Fraud and Deceptive Practices Act, the Environmental Laws and Regulations, the federal and state Antitrust laws, Employment law and Employment Discrimination Law, the state and federal Civil Rights Laws, state and local tax laws, the laws of Eminent Domain, the Illinois Criminal Code and any other law, statute and ordinance under which the governmental agency or unit is so authorized to act.

(b) *Effectiveness*

This Section 14 and Sections 5 (second sentence only), 15 and 19 shall be effective upon execution by all Parties. The remaining provisions of this Agreement shall become effective ten days following, and the effectiveness of their terms is expressly conditioned upon, the receipt of all necessary orders

---

(*i.e.*, from the ICC) in final, enforceable form (not subject to rehearing and not subject to a stay or a pending motion for a stay), approving the relevant terms of this Agreement without modification, deletion, or conditions.

In the event that (i) the ICC has not approved all of the tariffs and adopted all of the proposed orders attached hereto or has not entered final orders, as contemplated herein, in ICC Docket Nos. 02-0479 (HEP), 02-0671 (MVI), 01-0423 (DST Rate Case), by March 21, 2003, and (ii) the relevant Parties have not filed their motions to dismiss the Pending Appeal and the Pending POLR Appeal within three days after the orders of the ICC referenced above are no longer subject to rehearing, then this Agreement (other than Sections 5 (second sentence only) and 19, which shall remain effective) shall not become effective, and shall terminate and be of no further force or effect.

(c) *Post-Effectiveness Support*

Except as otherwise provided for the GCI Parties, each Party shall support and defend the terms of this Agreement in any forum in which those terms are challenged. In the event that, subsequent to the effectiveness of this Agreement, any material provision of this Agreement, or an order approving a material provision of this Agreement, is found invalid or unenforceable or is overturned or modified or deleted by a court or the ICC or another tribunal, then this Agreement (other than Sections 5 (second sentence only) and 19) shall become void on a going-forward basis fifteen days after the order or decision is entered, unless amended by all the Parties in accordance with Section 17 to ratify the continued effectiveness of this Agreement. Notwithstanding any such voidness, the GCI Parties shall not be required to refund any payments referred to in Section 9 that they have received prior to that time except to the extent that their actions are responsible for such voidness.

15. *Conditional Rehearing Requests*

In light of the conditional nature of this Agreement as described in Section 14, and to provide the flexibility needed to obtain all of the ICC orders, approvals, appellate court withdrawals and other actions required to effect this Agreement, the Parties agree that, on the 30th day following the entry of final orders in Docket Nos. 02-0479, 01-0423, 02-0656, 02-0671, 02-0672 and 02-0834, each Party with standing in those proceedings shall file a conditional application for rehearing in each such proceeding for which rehearing is possible. Such conditional applications shall state that, if the actions necessary to effect this Agreement as described in Section 14 are completed and not changed, then such conditional applications shall automatically be withdrawn and have no effect. Such conditional applications shall also state that, if any action necessary to effect this Agreement as described in Section 14 are not completed as of the 20th day following the date on which such conditional applications are filed, then the Parties request that the ICC grant the applications, revoke the orders and approvals issued by the ICC that are the subject of this Agreement, and re-institute the subject proceedings with the record in each proceeding as it existed prior to the entry of the orders and approvals requested by the Parties in their Motions and Stipulations in each proceeding, including withdrawn testimony, if any.

16. *Public Interest*

The Parties agree that the terms and conditions of this Agreement, in their totality, are in the public interest and that the public will affirmatively benefit and be convenienced as a result of this Agreement.

17. *Amendment*

No amendment or waiver of any provision of this Agreement, nor consent to any departure therefrom, shall be effective unless the same shall be in writing and signed by all of the Parties, and then such amendment or waiver shall be effective only in the specific instance and for the specific purpose for which given.

---

18. *Governing Law and Forum Selection*

This Agreement shall be governed by and interpreted in accordance with the laws of the State of Illinois. Any disputes among the Parties regarding the enforcement of this Agreement shall be resolved through the commencement of appropriate action in the Circuit Court of Cook County.

19. *Agreement*

(a) *No Admissions*

This Agreement (including its exhibits) is entered to facilitate the implementation of various matters so as to avoid the time, expense and uncertainty of litigation. This Agreement and the attached exhibits (including any drafts thereof and any correspondences, other communications or discussions related thereto) shall not constitute, and they shall not be construed or interpreted to constitute, an admission of any kind by any Party with respect to any legal or factual issue in any of the proceedings, appeals or issues being addressed under this Agreement (or the attached exhibits) or with respect to any other proceeding or dispute. This Agreement and the attached exhibits (including any drafts thereof and any correspondences, other communications or discussions related thereto) shall not be offered or entered into evidence by any Party in any proceeding before the ICC or any other administrative agency or in any court, except in connection with the proceedings related to the performance, implementation or enforcement of this Agreement. The matters memorialized in this Agreement shall be construed as an indivisible whole. No part of this Agreement may be construed as placing a valuation on any of the individual appeals or claims that are the subject of this Agreement.

(b) *No Precedental Value*

This Agreement and the attached exhibits (including any drafts thereof and any correspondences, other communications or discussions related thereto) shall not have any precedental value in proceedings that address ComEd's rates, tariffs or power procurement practices after the transition period that ends December 31, 2006 (with the exception of Section 4(c) above, which provides that the plant requested in ComEd's 2001 delivery service rate case to be reflected in ComEd's delivery services rates shall be considered prudent, just and reasonable, and used and useful in future rate proceedings). The ExGen PPA referred to in Section 8 shall not have any precedental value in proceedings that address ComEd's rates, tariffs or power procurement practices after the transition period that ends December 31, 2006. Section 7 of this Agreement shall not have any precedental value in proceedings that address ComEd's rates, tariffs or power procurement practices after the transition period that ends December 31, 2006.

If the entirety of this Agreement does not become effective as contemplated by Section 14, then it and the attached exhibits (including any drafts thereof and any correspondences, other communications or discussions related thereto) shall not have any precedental value or constitute any evidence of any Party's position or willingness to accept a particular approach or result.

(c) *Effectiveness of this Section*

This Section 19 shall become effective upon the execution of this Agreement and shall remain effective notwithstanding any failure of the remaining provisions of this Agreement to become effective.

20. *Post-Transition Procurement*

The GCI Parties agree to participate with ComEd in an informal or formal process to study the development of post-transition electricity supply/procurement mechanisms.

21. *Headings; Interpretation*

Section, Appendix and Exhibit titles and headings in this Agreement are inserted for convenience of reference only and are not intended to be a part of, or to affect the meaning or interpretation of,

---

this Agreement. This Agreement (including the Appendix and Exhibits) was negotiated by the Parties with the benefit of legal representation and any rule of construction or interpretation otherwise requiring this Agreement to be construed or interpreted against any Party shall not apply to any construction or interpretation of this Agreement or the attached Appendix or Exhibits.

22. *Execution*

This Agreement may be executed in any number of counterparts and by different Parties in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

23. *Authority*

Each of the undersigned individuals (other than the individual signing on behalf of the City of Chicago, who makes no such representation or warranty) represents and warrants that he or she has the right and authority to enter into this Agreement and to bind the Party on whose behalf he or she has signed.

24. *Entire Agreement*

This Agreement (including certain memoranda of understanding dated the date hereof) contains the entire and complete agreement of the Parties as to the matters set forth herein and supersedes any and all prior agreements (including the Agreement Regarding Various Matters Involving or Affecting Rates For Electric Service Offered by Commonwealth Edison Company dated as of February 28, 2003 among certain of the Parties) with respect to those matters.

25. *Successors and Assigns*

This Agreement shall inure to the benefit of and be binding upon the Parties and their respective successors and assigns.

26. *Third Party Beneficiaries*

Nothing in this Agreement, either expressed or implied, is intended or shall be interpreted to give or confer any rights or remedies upon or to any person or entity other than the Parties.

Dated this 3rd day of March, 2003.

Commonwealth Edison Company

By:	______________________	By:	______________________
By:	______________________	By:	______________________
By:	______________________	By:	______________________
By:	______________________	By:	______________________
By:	______________________	By:	______________________
By:	______________________	By:	______________________
By:	______________________	By:	______________________
By:	______________________	By:	______________________

By: ______________________ By: ______________________

By: ______________________ By: ______________________

By: ______________________ By: ______________________

By: ______________________ By: ______________________

APPENDIX

DEFINITIONS

"GCI Parties" means the City of Chicago, Illinois and the State's Attorney of Cook County, and the Citizens Utility Board.

"Customer Transition Charge" or *"CTC"* shall mean generally the "transition charge" defined in Section 16-102 of the Public Utilities Act (220 ILCS 5/16-102) and specifically the charge referred to in ComEd's tariff Rate CTC—Customer Transition Charge and Rider CTC-MY—Customer Transition Charges—Multi-Year (Experimental).

"Market Value Index" or *"MVI"* shall mean generally "an exchange traded or other market traded index, options or futures contract or contracts applicable to the market in which the utility sells, and the customers in its service area buy, electric power and energy" in the determination of the market value for electric power and energy as described in Section 16-112(a)(i) of the Public Utilities Act (220 ILCS 5/16-112(a)(i)).

"Market Value Energy Charge(s)" or *"MVEC(s)"* shall mean the charges defined in the Market Value Energy Charges section of ComEd's tariff Rider PPO—Power Purchase Option (Market Index).

"PJM" shall mean PJM Interconnection, LLC, or another or successor region transmission organization responsible for the administration of transmission in the ComEd service area.

"PJM Day 1" shall mean the date on which ComEd transfers control of its transmission assets to PJM.

"PJM Day 2" shall mean the date on which ComEd becomes integrated into the PJM market.

"Proposed MVI Methodology" shall mean the annual and multi-year MVI methodology as included in tariff revisions filed by ComEd on October 1, 2002, which are currently under investigation in ICC in Docket No. 02-0671.

"2002 Base Consumption" shall mean 10,588 GWH. This is the total annual megawatt-hours consumption for the most recent 12 billing months of all customers receiving RES-flowed electricity from RESs unaffiliated with ComEd as of January 2, 2003 (for purposes of the calculations in Section 2(g) only, customer load on Rider ISS will be considered to be, and counted as, RES-flowed electricity if the customer was receiving RES-flowed electricity, other than from a ComEd RES affiliate, immediately prior to being placed on Rider ISS).

"2003 Annual Consumption" shall mean the total annual megawatt-hours consumption for the most recent 12 billing months of all customers receiving RES-flowed electricity from RESs unaffiliated with ComEd as of the first business day of January 2004 (for purposes of the calculations in Section 2(g) only, customer load on Rider ISS will be considered to be, and counted as, RES-flowed electricity if the customer was receiving RES-flowed electricity, other than from a ComEd RES affiliate, immediately prior to being placed on Rider ISS).

"2004 Annual Consumption" shall mean the total annual megawatt-hours consumption for the most recent 12 billing months of all customers receiving RES-flowed electricity from RESs unaffiliated with ComEd as of the first business day of January 2005 (for purposes of the calculations in Section 2(g)only, customer load on Rider ISS will be considered to be, and counted as, RES-flowed electricity if the customer was receiving RES-flowed electricity, other than from a ComEd RES affiliate, immediately prior to being placed on Rider ISS).

"2005 Annual Consumption" shall mean the total annual megawatt-hours consumption for the most recent 12 billing months of all customers receiving RES-flowed electricity from RESs unaffiliated with ComEd as of the first business day of January 2006 (for purposes of the calculations in Section 2(g) only, customer load on Rider ISS will be considered to be, and counted as, RES-flowed electricity if the customer was receiving RES-flowed electricity, other than from a ComEd RES affiliate, immediately prior to being placed on Rider ISS).

QuickLinks

Exhibit 10-41

QuickLinks -- Click here to rapidly navigate through this document

Exhibit 10-41-1

EXECUTION COPY

AMENDMENT
Dated as of March 10, 2003
to
Agreement Regarding Various Matters Involving or Affecting Rates for Electric Service Offered by Commonwealth Edison Company Dated as of March 3, 2003

THIS AMENDMENT (this "*Amendment*") is entered into this 10th day of March among the parties indicated on the signature pages below (collectively, the "*Parties*").

Preliminary Statement

The Parties are parties to an Agreement Regarding Various Matters Involving or Affecting Rates for Electric Service Offered by Commonwealth Edison Company Dated as of March 3, 2003 (the "*Original Agreement*"), which the Parties desire to amend. Thus, the Parties, intending to be legally bound and acknowledging the benefit to be derived from the mutual promises contained herein, agree as follows:

1. *Extension of Effectiveness Deadline*.

The Parties have agreed to extend the deadline for effectiveness of the Original Agreement from March 21, 2003 until March 28, 2003. As a result, the reference to "March 21, 2003" in Sections 5 (1999 Delivery Service Case) and 14(b) (Approval and Support, and Effectiveness of, this Agreement—Effectiveness) shall be changed to read "March 28, 2003".

2. *Extension of MVEC Date*.

The Parties have agreed to extend the MVEC dates in the Original Agreement from April 21, 2003 until April 28, 2003. As a result, the references to "April 21, 2003" in the text of Section 2(d) (Market Value Index—Procedure) and in the table in Section 2(f) (Multi-Year MVEC/CTC Set) shall be changed to read "April 28, 2003."

3. *Original Agreement*.

The Original Agreement, as amended by this Amendment, is hereby confirmed in all respects.

4. *Execution*.

This Amendment may be executed in any number of counterparts and by different Parties in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

5. *Authority*.

Each of the undersigned individuals (other than the individual signing on behalf of the City of Chicago, who makes no such representation or warranty) represents and warrants that he or she has the right and authority to enter into this Amendment and to bind the Party on whose behalf he or she has signed.

[signature pages follow]

[Signature page to Amendment Dated as of March 10, 2003 to
Agreement Regarding Various Matters Involving or Affecting Rates for Electric Service Offered
by Commonwealth Edison Company
Dated as of March 3, 2003]

Dated this 10th day of March, 2003.

Commonwealth Edison Company

By:	______________	By:	______________
By:	______________	By:	______________
By:	______________	By:	______________

By:

By:

By:

By:

By:

By:

By:

By:

By:

By:

By:

By:

By:

By:

By:

By:

By:

By:

QuickLinks

Exhibit 10-41-1

QuickLinks -- Click here to rapidly navigate through this document

EXHIBIT 21.1

Subsidiaries of Exelon Corporation

Subsidiary	Jurisdiction of Incorporation
Commonwealth Edison Company	Illinois
Exelon Energy Delivery Company, LLC	Delaware
Exelon Generation Company, LLC	Pennsylvania
Exelon Ventures Company, LLC	Delaware
PECO Energy Company	Pennsylvania
PECO Energy Transition Trust	Delaware

QuickLinks

QuickLinks -- Click here to rapidly navigate through this document

Exhibit 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (File Nos. 333-57640 and 333-84446), on Form S-4 (File No. 333-37082) and on Form S-8 (File Nos. 333-61390 and 333-49780) of Exelon Corporation and Subsidiary Companies of our report dated January 29, 2003, except for Note 23 for which the date is February 20, 2003, relating to the financial statements, which appears in the Annual Report to Shareholders, which is incorporated by reference in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report dated January 29, 2003 relating to the financial statement schedule, which appears in this Form 10-K.

PricewaterhouseCoopers LLP

Chicago, Illinois
March 21, 2003

QuickLinks -- Click here to rapidly navigate through this document

Exhibit 23.2

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (File Nos. 33-6879, 33-51379, 333-99363 and 333-99363-01) and on Form S-8 (File No. 333-33847) of Commonwealth Edison Company and Subsidiary Companies of our report dated January 29, 2003, except for Note 19 for which the date is March 17, 2003, relating to the financial statements and financial statement schedule, which appears in this Form 10-K.

PricewaterhouseCoopers LLP

Chicago, Illinois
March 21, 2003

QuickLinks

QuickLinks -- Click here to rapidly navigate through this document

Exhibit 23-3

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (File Nos. 33-54935 and 333-99361) of PECO Energy Company and Subsidiary Companies of our report dated January 29, 2003 relating to the financial statements and financial statement schedule, which appears in this Form 10-K.

PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania
March 21, 2003

Exhibit 24-1

POWER OF ATTORNEY

KNOWN ALL MEN BY THESE PRESENTS that I, Edward A. Brennan, do hereby appoint John W. Rowe and Randall E. Mehrberg, or either of them, attorney for me and in my name and on my behalf to sign the annual Securities and Exchange Commission report on Form 10-K for 2002 of Exelon Corporation, together with any amendments thereto, to be filed with the Securities and Exchange Commission, and generally to do and perform all things necessary to be done in the premises as fully and effectually in all respects as I could do if personally present.

/s/ EDWARD A. BRENNAN

Edward A. Brennan

DATE: March 20, 2003

QuickLinks

QuickLinks -- Click here to rapidly navigate through this document

Exhibit 24-2

POWER OF ATTORNEY

KNOWN ALL MEN BY THESE PRESENTS that I, Carlos H. Cantu, do hereby appoint John W. Rowe and Randall E. Mehrberg, or either of them, attorney for me and in my name and on my behalf to sign the annual Securities and Exchange Commission report on Form 10-K for 2002 of Exelon Corporation, together with any amendments thereto, to be filed with the Securities and Exchange Commission, and generally to do and perform all things necessary to be done in the premises as fully and effectually in all respects as I could do if personally present.

/s/ CARLOS H. CANTU

Carlos H. Cantu

DATE: March 20, 2003

QuickLinks -- Click here to rapidly navigate through this document

Exhibit 24-3

POWER OF ATTORNEY

KNOWN ALL MEN BY THESE PRESENTS that I, M. Walter D'Alessio, do hereby appoint John W. Rowe and Randall E. Mehrberg, or either of them, attorney for me and in my name and on my behalf to sign the annual Securities and Exchange Commission report on Form 10-K for 2002 of Exelon Corporation, together with any amendments thereto, to be filed with the Securities and Exchange Commission, and generally to do and perform all things necessary to be done in the premises as fully and effectually in all respects as I could do if personally present.

/s/ M. WALTER D'ALESSIO

M. Walter D'Alessio

DATE: March 20, 2003

QuickLinks

Exhibit 24-3

Exhibit 24-4

POWER OF ATTORNEY

KNOWN ALL MEN BY THESE PRESENTS that I, Nicholas DeBenedictis, do hereby appoint John W. Rowe and Randall E. Mehrberg, or either of them, attorney for me and in my name and on my behalf to sign the annual Securities and Exchange Commission report on Form 10-K for 2002 of Exelon Corporation, together with any amendments thereto, to be filed with the Securities and Exchange Commission, and generally to do and perform all things necessary to be done in the premises as fully and effectually in all respects as I could do if personally present.

/s/ NICHOLAS DEBENEDICTIS

Nicholas DeBenedictis

DATE: March 20, 2003

Exhibit 24-5

POWER OF ATTORNEY

KNOWN ALL MEN BY THESE PRESENTS that I, Bruce DeMars, do hereby appoint John W. Rowe and Randall E. Mehrberg, or either of them, attorney for me and in my name and on my behalf to sign the annual Securities and Exchange Commission report on Form 10-K for 2002 of Exelon Corporation, together with any amendments thereto, to be filed with the Securities and Exchange Commission, and generally to do and perform all things necessary to be done in the premises as fully and effectually in all respects as I could do if personally present.

/s/ BRUCE DEMARS

Bruce DeMars

DATE: March 19, 2003

Exhibit 24-6

POWER OF ATTORNEY

KNOWN ALL MEN BY THESE PRESENTS that I, G. Fred DiBona, do hereby appoint John W. Rowe and Randall E. Mehrberg, or either of them, attorney for me and in my name and on my behalf to sign the annual Securities and Exchange Commission report on Form 10-K for 2002 of Exelon Corporation, together with any amendments thereto, to be filed with the Securities and Exchange Commission, and generally to do and perform all things necessary to be done in the premises as fully and effectually in all respects as I could do if personally present.

/s/ G. FRED DIBONA

G. Fred DiBona

DATE: March 19, 2003

QuickLinks

QuickLinks -- Click here to rapidly navigate through this document

Exhibit 24-8

POWER OF ATTORNEY

KNOWN ALL MEN BY THESE PRESENTS that I, Richard H. Glanton, do hereby appoint John W. Rowe and Randall E. Mehrberg, or either of them, attorney for me and in my name and on my behalf to sign the annual Securities and Exchange Commission report on Form 10-K for 2002 of Exelon Corporation, together with any amendments thereto, to be filed with the Securities and Exchange Commission, and generally to do and perform all things necessary to be done in the premises as fully and effectually in all respects as I could do if personally present.

/s/ RICHARD H. GLANTON

Richard H. Glanton

DATE: March 20, 2003

QuickLinks

Exhibit 24-8

QuickLinks -- Click here to rapidly navigate through this document

Exhibit 24-10

POWER OF ATTORNEY

KNOWN ALL MEN BY THESE PRESENTS that I, Edgar D. Jannotta, do hereby appoint John W. Rowe and Randall E. Mehrberg, or either of them, attorney for me and in my name and on my behalf to sign the annual Securities and Exchange Commission report on Form 10-K for 2002 of Exelon Corporation, together with any amendments thereto, to be filed with the Securities and Exchange Commission, and generally to do and perform all things necessary to be done in the premises as fully and effectually in all respects as I could do if personally present.

/s/ EDGAR D. JANNOTTA

Edgar D. Jannotta

DATE: March 19, 2003

QuickLinks

QuickLinks -- Click here to rapidly navigate through this document

Exhibit 24-11

POWER OF ATTORNEY

KNOWN ALL MEN BY THESE PRESENTS that I, John M. Palms, do hereby appoint John W. Rowe and Randall E. Mehrberg, or either of them, attorney for me and in my name and on my behalf to sign the annual Securities and Exchange Commission report on Form 10-K for 2002 of Exelon Corporation, together with any amendments thereto, to be filed with the Securities and Exchange Commission, and generally to do and perform all things necessary to be done in the premises as fully and effectually in all respects as I could do if personally present.

/s/ JOHN M. PALMS

John M. Palms

DATE: March 19, 2003

QuickLinks

Exhibit 24-11

QuickLinks -- Click here to rapidly navigate through this document

Exhibit 24-12

POWER OF ATTORNEY

KNOWN ALL MEN BY THESE PRESENTS that I, John W. Rogers, Jr., do hereby appoint John W. Rowe and Randall E. Mehrberg, or either of them, attorney for me and in my name and on my behalf to sign the annual Securities and Exchange Commission report on Form 10-K for 2002 of Exelon Corporation, together with any amendments thereto, to be filed with the Securities and Exchange Commission, and generally to do and perform all things necessary to be done in the premises as fully and effectually in all respects as I could do if personally present.

/s/ JOHN W. ROGERS, JR.

John W. Rogers, Jr.

DATE: March 20, 2003

QuickLinks

Exhibit 24-12

QuickLinks -- Click here to rapidly navigate through this document

Exhibit 24-13

POWER OF ATTORNEY

KNOWN ALL MEN BY THESE PRESENTS that I, Ronald Rubin, do hereby appoint John W. Rowe and Randall E. Mehrberg, or either of them, attorney for me and in my name and on my behalf to sign the annual Securities and Exchange Commission report on Form 10-K for 2002 of Exelon Corporation, together with any amendments thereto, to be filed with the Securities and Exchange Commission, and generally to do and perform all things necessary to be done in the premises as fully and effectually in all respects as I could do if personally present.

/s/ RONALD RUBIN

Ronald Rubin

DATE: March 18, 2003

Exhibit 24-14

POWER OF ATTORNEY

KNOWN ALL MEN BY THESE PRESENTS that I, Richard L. Thomas, do hereby appoint John W. Rowe and Randall E. Mehrberg, or either of them, attorney for me and in my name and on my behalf to sign the annual Securities and Exchange Commission report on Form 10-K for 2002 of Exelon Corporation, together with any amendments thereto, to be filed with the Securities and Exchange Commission, and generally to do and perform all things necessary to be done in the premises as fully and effectually in all respects as I could do if personally present.

/s/ RICHARD L. THOMAS

Richard L. Thomas

DATE: March 19, 2003

QuickLinks -- Click here to rapidly navigate through this document

Exhibit 99.2

Certificate Pursuant to Section 1350 of Chapter 63 of Title 18 United States Code

The undersigned officer hereby certifies, as to the Report on Form 10-K of Exelon Corporation for the year ended December 31, 2002, that (i) the report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) the information contained in the report fairly presents, in all material respects, the financial condition and results of operations of Exelon Corporation.

Date: March 21, 2003	/s/ JOHN W. ROWE
	John W. Rowe Chairman, President and Chief Executive Officer

QuickLinks -- Click here to rapidly navigate through this document

Exhibit 99.3

Certificate Pursuant to Section 1350 of Chapter 63 of Title 18 United States Code

The undersigned officer hereby certifies, as to the Report on Form 10-K of Exelon Corporation for the year ended December 31, 2002, that (i) the report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) the information contained in the report fairly presents, in all material respects, the financial condition and results of operations of Exelon Corporation.

Date: March 21, 2003	/s/ ROBERT S. SHAPARD
	Robert S. Shapard Executive Vice President and Chief Financial Officer

QuickLinks -- Click here to rapidly navigate through this document

Exhibit 99.4

Certificate Pursuant to Section 1350 of Chapter 63 of Title 18 United States Code

The undersigned officer hereby certifies, as to the Report on Form 10-K of Commonwealth Edison Company for the year ended December 31, 2002, that (i) the report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) the information contained in the report fairly presents, in all material respects, the financial condition and results of operations of Commonwealth Edison Company.

Date: March 21, 2003	/s/ PAMELA B. STROBEL
	Pamela B. Strobel Chair

QuickLinks

Exhibit 99.4

QuickLinks -- Click here to rapidly navigate through this document

Exhibit 99.5

Certificate Pursuant to Section 1350 of Chapter 63 of Title 18 United States Code

The undersigned officer hereby certifies, as to the Report on Form 10-K of Commonwealth Edison Company for the year ended December 31, 2002, that (i) the report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) the information contained in the report fairly presents, in all material respects, the financial condition and results of operations of Commonwealth Edison Company.

Date: March 21, 2003	/s/ ROBERT S. SHAPARD
	Robert S. Shapard Executive Vice President and Chief Financial Officer Exelon Corporation

Exhibit 99.6

Certificate Pursuant to Section 1350 of Chapter 63 of Title 18 United States Code

The undersigned officer hereby certifies, as to the Report on Form 10-K of PECO Energy Company for the year ended December 31, 2002, that (i) the report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) the information contained in the report fairly presents, in all material respects, the financial condition and results of operations of PECO Energy Company.

Date: March 21, 2003	/s/ PAMELA B. STROBEL
	Pamela B. Strobel Chair

QuickLinks

QuickLinks -- Click here to rapidly navigate through this document

Exhibit 99.7

Certificate Pursuant to Section 1350 of Chapter 63 of Title 18 United States Code

The undersigned officer hereby certifies, as to the Report on Form 10-K of PECO Energy Company for the year ended December 31, 2002, that (i) the report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) the information contained in the report fairly presents, in all material respects, the financial condition and results of operations of PECO Energy Company.

Date: March 21, 2003	/s/ ROBERT S. SHAPARD
	Robert S. Shapard Executive Vice President and Chief Financial Officer Exelon Corporation

QuickLinks -- Click here to rapidly navigate through this document

Exhibit 99.8

Certificate Pursuant to Section 1350 of Chapter 63 of Title 18 United States Code

The undersigned officer hereby certifies, as to the Report on Form 10-K of Exelon Generation Company, LLC for the year ended December 31, 2002, that (i) the report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) the information contained in the report fairly presents, in all material respects, the financial condition and results of operations of Exelon Generation Company, LLC.

Date: March 21, 2003	/s/ OLIVER D. KINGSLEY JR.
	Oliver D. Kingsley Jr. Chief Executive Officer and President

QuickLinks -- Click here to rapidly navigate through this document

Exhibit 99.9

Certificate Pursuant to Section 1350 of Chapter 63 of Title 18 United States Code

The undersigned officer hereby certifies, as to the Report on Form 10-K of Exelon Generation Company, LLC for the year ended December 31, 2002, that (i) the report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) the information contained in the report fairly presents, in all material respects, the financial condition and results of operations of Exelon Generation Company, LLC.

Date: March 21, 2003	/s/ ROBERT S. SHAPARD
	Robert S. Shapard Executive Vice President and Chief Financial Officer Exelon Corporation