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PECO ENERGY CO
Form 424B3
August 27, 2002

Filed Pursuant to Rule 424(b)(3)
Registration Statement No. 333-97401

\$250,000,000

PECO Energy Company
[LOGO]
Peco/R/
An Exelon Company

Offer to Exchange
\$250,000,000 5.95% First and Refunding Mortgage Bonds Due 2011 (Exchange Bonds)
Which have been registered under the Securities Act

For Any and All Outstanding
\$250,000,000 5.95% First and Refunding Mortgage Bonds Due 2011
Which have not been so registered

TERMS OF THE EXCHANGE OFFER

- . The exchange offer expires at 5:00 p.m., Eastern Time, on September 26, 2002, unless extended by us in our sole discretion, subject to applicable law.
- . The terms of the exchange bonds are identical to the original bonds, except that the exchange bonds are registered under the Securities Act and the transfer restrictions and registration rights applicable to the original bonds do not apply to the exchange bonds.
- . All original bonds that are validly tendered and not validly withdrawn will be exchanged.
- . Tenders of original bonds may be withdrawn at any time prior to expiration of the exchange offer.
- . We do not intend to apply for listing of the exchange bonds on any securities exchange or to arrange for them to be quoted on any quotation system.
- . The exchange offer is subject to customary conditions, including the condition that the exchange offer not violate applicable law or any applicable interpretation of the staff of the Securities and Exchange Commission.
- . We will not receive any proceeds from the exchange offer.
- . You will not incur any material United States Federal income tax consequences from your participation in the exchange offer.

Each broker-dealer that receives exchange bonds for its own account pursuant to the exchange offer must acknowledge that it will deliver a prospectus in connection with any resale of those exchange bonds. The letter of transmittal states that by so acknowledging and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act. This prospectus, as it may be amended or supplemented from

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time to time, may be used by a broker-dealer in connection with resales of exchange bonds received in exchange for original bonds where the original bonds were acquired by the broker-dealer as a result of market-making activities or other trading activities.

Until the Expiration Date (as defined herein), all broker-dealers that effect transactions in these securities may be required to deliver a prospectus. This is in addition to the broker-dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotment of subscriptions. We have agreed that, starting on the Expiration Date and ending on the close of business one year after the Expiration Date, we will make this prospectus available to any broker-dealer for use in connection with any such resale. See "Plan of Distribution."

Please see "Risk Factors" beginning on page 8 for a discussion of factors you should consider in connection with the exchange offer.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the exchange bonds or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is August 27, 2002.

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When we refer to "original bonds," we are referring to the \$250,000,000 5.95% First and Refunding Mortgage bonds due 2011, which were not registered under the Securities Act. When we refer to "exchange bonds," we are referring to the \$250,000,000 5.95% First and Refunding Mortgage Bonds due 2011, which have been registered under the Securities Act and are to be exchanged for the original bonds.

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When we refer to the term "bonds" or "bonds," we are referring to both the original bonds and the exchange bonds to be issued in the exchange offer. When we refer to "holders" of the bonds, we are referring to those persons who are the registered holders of bonds on the books of the registrar appointed under the indenture. Unless the context otherwise indicates, all references to "we," "us" or "our" in this prospectus mean PECO Energy Company, a Pennsylvania corporation, and its consolidated subsidiaries.

No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus. You must not rely on any unauthorized information or representations. This prospectus is an offer only of the exchange bonds to be issued in exchange for the original bonds, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus is current only as of its date.

WHERE TO FIND MORE INFORMATION

In connection with the exchange offer, we have filed with the Securities and Exchange Commission (the "SEC") a registration statement under the Securities Act of 1933, as amended (the "Securities Act"), which offers to exchange the original bonds for exchange bonds. As permitted by SEC rules, this prospectus omits information included in the registration statement. For a more complete understanding of this exchange offer, you should refer to the registration statement, including its exhibits.

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The public may read and copy any reports or other information that we file with the SEC at the SEC's public reference room, Room 1024 at Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549, or at the SEC's regional offices located at 233 Broadway, New York, New York 10279, and Suite 900, 175 W. Jackson Boulevard, Chicago, Illinois 60604. 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 and at the web site maintained by the SEC at <http://www.sec.gov>. You may also obtain a copy of the exchange offer registration statement at no cost by writing us at the following address:

PECO Energy Company
Attn: Investor Relations
10 South Dearborn Street, 36th Floor
P.O. Box 805379
Chicago, IL 60680-5379

To obtain timely delivery, securities holders must request the information no later than five business days before the date securities holders intend to make their exchange decision.

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PROSPECTUS SUMMARY

The following information is qualified in its entirety by the more detailed information and financial statements appearing elsewhere in this prospectus. An investment in the exchange bonds involves certain risks relating to our business, prospects, financial condition and results of operations and certain other risks relating to the terms of the exchange bonds. These risks are

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described in "Risk Factors" beginning on page 8.

Summary of the Exchange Offer

The Exchange Offer..... We are offering to exchange an aggregate of \$250,000,000 principal amount of exchange bonds of one series, due 2011 for the \$250,000,000 5.95% First and Refunding Mortgage Bonds due 2011. The original bonds may be exchanged only in minimum denominations of \$1,000 and multiples thereof.

The Original Bonds..... The original bonds were issued and sold on October 30, 2001 in a transaction not requiring registration under the Securities Act. At the time we issued the original bonds, we entered into a registration rights agreement which obligates us to make this exchange offer.

Required Representations.... In order to participate in the exchange offer, you will be required to make representations in a letter of transmittal, including that:

- . you are not affiliated with us;
- . you are not a broker-dealer who bought your original bonds directly from us;
- . you will acquire the exchange bonds in the ordinary course of business; and
- . you have not agreed with anyone to distribute the exchange bonds.

If you are a broker-dealer that purchased original bonds for your own account as part of market-making or trading activities, you must represent to us that you have agreed with us or our affiliates not to distribute the exchange bonds. If you make this representation, you need not make the last representation provided for above. Each broker-dealer that receives exchange bonds for its own account in exchange for original bonds, where the original bonds were acquired by the broker-dealer as a result of market-making activities or other trading activities, must acknowledge that it will deliver a prospectus in connection with any resale of exchange bonds. See "Plan of Distribution."

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Resale of the Exchange Bonds We are making the exchange offer in reliance on the position of the staff of the Division of Corporation Finance of the SEC outlined in certain interpretive letters issued to other companies in other transactions. We believe that the exchange bonds acquired in this exchange offer may be freely traded without compliance with the provisions of the Securities Act that

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call for registration and delivery of a prospectus, except as described in the following paragraph.

The exchange bonds will be freely tradable only if the holders meet the conditions described under "Required Representations" above. If you are a broker-dealer that purchased original bonds for your own account as part of market-making or trading activities, you must deliver a prospectus when you sell the exchange bonds. We have agreed in the registration rights agreement relating to the original bonds to allow you to use this prospectus for this purpose during the one-year period following the Expiration Date, subject to our right under some circumstances to restrict your use of this prospectus. See "The Exchange Offer--Resales of Exchange Bonds."

Broker-dealers that acquired original bonds directly from us may not rely on the staff of the Division of Corporation Finance's interpretations and must comply with the registration and prospectus delivery requirements of the Securities Act, including being named as a selling security holder, in order to resell the original bonds or the exchange bonds.

- Accrued Interest on the Exchange Bonds..... The exchange bonds will bear interest at an annual rate of 5.95%. Any interest that has accrued on the original bonds before their tender in this exchange offer will be payable on the exchange bonds on the first interest payment date after the conclusion of this exchange offer.
- Procedures for Exchanging Bonds..... The procedures for exchanging original bonds involve notifying the exchange agent before the Expiration Date of your intention to do so. These procedures are described in this prospectus under the heading "The Exchange Offer--Procedures for Tendering Original Bonds."
- Expiration Date..... 5:00 p.m., Eastern Time, on September 26, 2002, unless the exchange offer is extended ("Expiration Date").
- Exchange Date..... We will notify the exchange agent of the date of acceptance of the original bonds for exchange.
- Withdrawal Rights..... If you tender your original bonds for exchange in this exchange offer and later wish to withdraw them, you may do so at any time before 5:00 p.m., Eastern Time, on the Expiration Date.
- Acceptance of Original Bonds and Delivery of Exchange Bonds..... We will accept any original bonds that are properly tendered for exchange before 5:00 p.m., Eastern Time, on the Expiration Date. The exchange bonds will be delivered promptly after

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the Expiration Date.

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Tax Consequences..... You will not incur any material United States Federal income tax consequences from your participation in this exchange offer. The exchange of bonds will not constitute a taxable exchange for U.S. Federal income tax purposes. For a discussion of other U.S. Federal income tax consequences resulting from the exchange and the acquisition, ownership and disposition of the exchange bonds, see "Certain United States Federal Income Tax Considerations."

Use of Proceeds..... We will not receive any cash proceeds from this exchange offer.

Exchange Agent..... Wachovia Bank, National Association is serving as the exchange agent. Its address and telephone number are provided in this prospectus under the heading "The Exchange Offer--Exchange Agent."

Effect on Holders of Original Bonds..... Any original bonds that remain outstanding after this exchange offer will continue to be subject to restrictions on their transfer. The original bonds may not be offered or sold in the U.S. for the account of or benefit of U.S. persons within the meaning of the Securities Act, except pursuant to an exemption from or in a transaction not subject to, the registration requirements of the Securities Act. After this exchange offer, holders of original bonds will not (with limited exceptions) have any further rights under the registration rights agreement. Any market for original bonds that are not exchanged could be adversely affected by the consummation of this exchange offer.

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Summary of the Exchange Bonds

This exchange offer applies to \$250,000,000 aggregate principal amount of the original bonds. The terms of the exchange bonds will be the same as the original bonds, except that the exchange bonds will not contain language restricting their transfer, and holders of the exchange bonds generally will not be entitled to further registration rights under the registration rights agreement. The exchange bonds will be issued under the same mortgage indenture as the original bonds and under a supplemental mortgage indenture substantially similar to the supplemental mortgage indenture under which the original bonds were issued.

The following summary of the mortgage does not purport to be complete and is subject to, and is qualified in its entirety by reference to, all provisions of the mortgage. Certain terms used in this section are defined in the mortgage. Copies of the First and Refunding Mortgage and the ninety-seven supplemental

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mortgage indentures are on file with the SEC. A copy of the supplemental mortgage indenture relating to the bonds may be obtained by contacting us as described under "Where You Can Find More Information."

Issuer..... PECO Energy Company

Securities Offered..... \$250,000,000 5.95% First and Refunding Mortgage Bonds due 2011 ("exchange bonds"), which have been registered under the Securities Act. The original bonds were and the exchange bonds will be issued under our First and Refunding Mortgage dated May 1, 1923, as amended and supplemented by ninety-seven supplemental mortgage indentures and as proposed to be further amended and supplemented by a supplemental mortgage indenture relating to the exchange bonds (herein sometimes referred to collectively as the "mortgage"). Wachovia Bank, National Association is the trustee under the mortgage ("trustee") as successor to First Union National Bank.

Interest Payment Dates..... May 1 and November 1 of each year, beginning May 1, 2002, until the principal is paid or made available for payment. Interest on the exchange bonds will accrue from the most recent date to which interest has been paid on the original bonds. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months.

Maturity..... November 1, 2011

Optional Redemption..... We may, at our option, redeem the exchange bonds in whole or in part at any time at a price equal to the greater of:

100% of the principal amount of the exchange bonds being redeemed plus accrued interest to the redemption date; or

as determined by the Quotation Agent, 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 at the Adjusted Treasury Rate plus 30 basis points, plus accrued interest to the redemption date. See "Description of Exchange Bonds--Redemption at Our Option."

The redemption price will be calculated assuming a 360-day year consisting of twelve 30-day months.

We will mail notice of any redemption at least 30 days but not more than 45 days before the redemption date to each registered holder of the exchange bonds to be redeemed.

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Unless we default 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.

See "Description of the Exchange Bonds" for certain definitions used in this summary.

Security..... The exchange bonds will be secured equally with all other bonds outstanding or hereafter issued under the mortgage (sometimes referred to herein as the "mortgage bonds") by the lien of the mortgage. The lien of the mortgage, subject to (1) minor exceptions and certain excepted encumbrances that are defined in the mortgage and (2) the trustee's prior lien for compensation and expenses, constitutes a first lien on substantially all of our properties. The mortgage does not constitute a lien on any property owned by our subsidiaries. Our properties consist principally of electric transmission and distribution lines and substations, gas distribution facilities and general office and service buildings.

We may not issue securities which will rank ahead of the mortgage bonds as to security. We may acquire property subject to prior liens. If such property is made the basis for the issuance of additional bonds after we acquire it, all additional bonds issued under the prior lien must be pledged with the trustee as additional security under the mortgage.

Form..... The exchange bonds will be book-entry only and registered in the name of a nominee of DTC.

Summary Information About PECO Energy Company

The following summary contains basic information about PECO Energy Company. It may not contain all of the information that may be important to you in making a decision to exchange your original bonds for the exchange bonds. You should read this entire prospectus, and the documents to which we refer, before making your decision.

PECO ENERGY COMPANY

We are a subsidiary of Exelon Corporation ("Exelon") and are engaged principally in the purchase, transmission, distribution and sale of electricity to residential, commercial, industrial and wholesale customers and in the purchase, distribution and sale of natural gas to residential, commercial and industrial customers. We deliver electricity to approximately 1.5 million customers and natural gas to approximately 440,000 customers.

Our traditional retail service territory covers 2,107 square miles in southeastern Pennsylvania. We provide electric delivery service in an area of

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1,972 square miles, with a population of approximately 3.6 million, including 1.6 million in the City of Philadelphia. Natural gas service is supplied in a 1,475 square mile area in southeastern Pennsylvania adjacent to Philadelphia, with a population of 1.9 million.

Pursuant to the Pennsylvania Electricity Generation Customer Choice and Competition Act (the "Competition Act"), the Commonwealth of Pennsylvania 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, we have served as the local distribution company providing electric distribution services to all customers in our service territory and bundled electric service to provider-of-last-resort customers, which are customers who do not or cannot choose an alternate electric generation supplier.

As a result of deregulation, Exelon undertook a corporate restructuring to separate its unregulated generation and other competitive businesses from its regulated energy delivery businesses. As part of the corporate restructuring, effective January 1, 2001, our unregulated operations were transferred to separate subsidiaries of Exelon. The transferred assets and liabilities related to nuclear, fossil and hydroelectric generation and wholesale services and unregulated gas and electric sales activities, and administrative, information technology and other support for all other business activities of Exelon and its subsidiaries. In connection with the restructuring, we entered into a power purchase agreement with Exelon Generation Company, LLC ("Exelon Generation"), a wholly owned subsidiary of Exelon, to supply us with all of our electric load requirements for customers through 2010.

As a public utility under the Pennsylvania Public Utility Code, we are subject to regulation by the Pennsylvania Public Utility Commission ("PUC"), including regulation as to electric distribution rates, retail gas rates, issuances of securities and certain other aspects of our operations. As a subsidiary of Exelon, a registered holding company under the Public Utility Holding Company Act of 1935 ("PUHCA"), we are subject to a number of restrictions under PUHCA. As an electric utility under the Federal Power Act, we are also subject to regulation by the Federal Energy Regulatory Commission ("FERC") as to transmission rates and certain other aspects of our business, including interconnections and sales of transmission related assets.

Our principal executive offices are located at 2301 Market Street, Philadelphia, PA 19101-8699 and our telephone number is (215) 841-4000.

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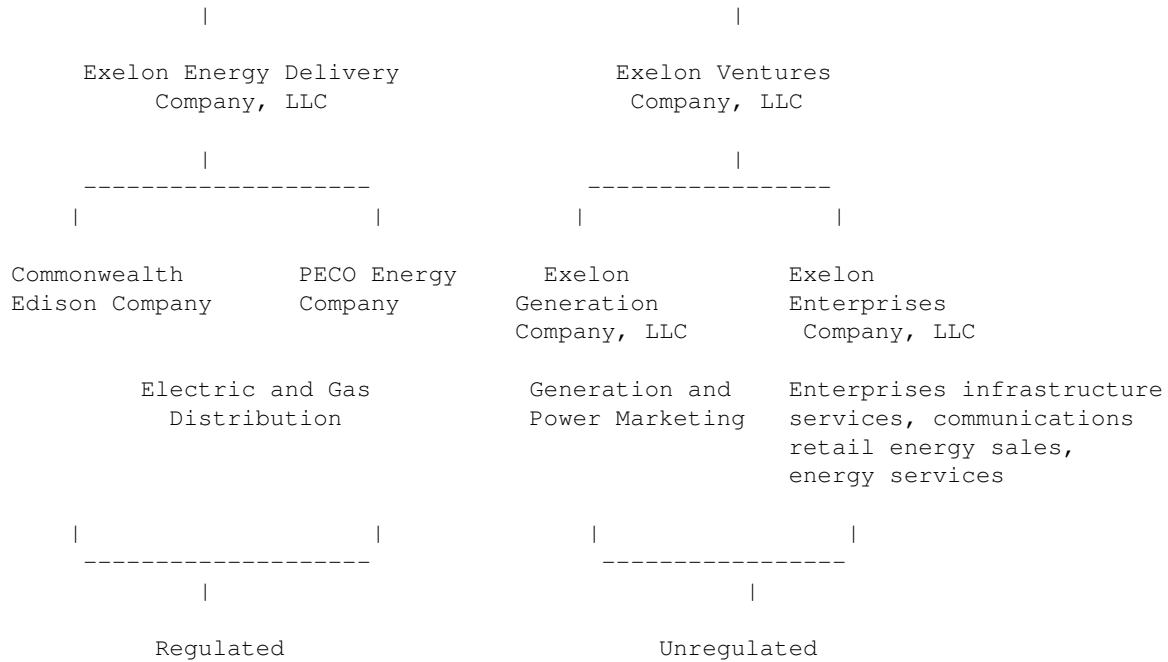
CORPORATE STRUCTURE

We were incorporated in Pennsylvania in 1929. We are an indirect wholly owned subsidiary of Exelon, a public utility holding company. Exelon is the result of the merger in October 2000 between us and Unicom Corporation ("Unicom"), the former parent company of Commonwealth Edison Company ("ComEd"). As part of a corporate restructuring of Exelon effective January 1, 2001, our power generation assets and wholesale power marketing business, as well as ComEd's power generation assets and wholesale power marketing business, were transferred to Exelon Generation.

Exelon Corporation

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RISK FACTORS

In addition to the information contained elsewhere in this prospectus, you should carefully consider the risks described below. Each of the following factors could have a material adverse effect on our business and could result in a loss or a decrease in the value of your investment.

The rates we charge for electric distribution and retail gas are regulated by the Pennsylvania Public Utility Commission; failure to obtain adequate and timely rate relief could negatively affect our business.

We are a public utility under the Pennsylvania Public Utility Code and, as a result, the PUC regulates our electric distribution rates and retail gas rates and also matters such as the issuance of securities and certain other aspects of our operations. Substantially all of our retail revenues are subject to regulation by the PUC. The rates are set by the PUC and are effective until a new rate case is brought. Limited categories of costs, principally the cost of gas, are recovered through adjustment charges that are periodically set to reflect actual costs. If our costs to serve customers exceed the amount included in our adjustment charges, there will be a negative effect on our cash flow.

We are subject to the risks inherent in the utility business and our cash flow and earnings could be adversely affected by increased customer demand for energy, a failure to deliver on the part of our suppliers or, after our long-term contracts expire, high prices and volatile markets for purchased electricity.

The utility business involves many operating risks. If our operating expenses exceed the levels recovered from retail customers for an extended period of time our cash flow and earnings would be negatively affected. In addition, after our power purchase agreement with our affiliate Exelon Generation expires in 2010, our results could be affected by increases in purchased power costs. In addition, our provider-of-last-resort obligation may

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continue past the expiration of this contract, which, depending upon the volatility of the market for electricity at the time, could affect our operating expenses and therefore results. Factors that could cause purchased power costs to increase include, but are not limited to:

- . increases in demand due to, for example, weather, customer growth or customer obligations;
- . below normal energy available on the market;
- . increases in purchases in wholesale markets at prices above the amount recovered in retail rates;
- . extended outages of any thermal or other generating facilities or the transmission lines that deliver energy to load centers; and
- . failure to perform on the part of any party from which we purchase capacity or energy.

Our financial performance depends on our operation of our facilities.

Failures of equipment or facilities in our distribution system may cause interruption of the electric services we provide, which could adversely affect our business. Failures of equipment or facilities could result in lost revenues, additional costs and possible claims against us for damages incurred by customers as a result of the outage. Our efforts to repair or replace equipment may not be successful or we may be unsuccessful in making necessary improvements to our transmission and distribution system, causing other outages, having an adverse affect on our business.

If our operating expenses exceed the levels recovered from retail customers for an extended period of time our cash flow and earnings would be negatively affected

Our business may be adversely affected by regulatory changes in the electric power and natural gas industries.

Transmission and distribution of electricity remain regulated industries, while in many states, including the Commonwealth of Pennsylvania, electricity generation has been deregulated. The regulation of the electric power and natural gas industries, however, continues to undergo substantial changes at both the federal and state level.

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These changes have significantly affected the whole industry and the manner in which its participants conduct their businesses. Future changes in laws and regulations, including changes resulting from market volatility and increased security concerns, may have an effect on our business in ways that we cannot predict.

Our revenues will be affected by rate reductions and rate caps currently in effect and any that may be imposed in the future. The rate caps limit our ability to recover increased expenses and the costs of investments in new transmission and distribution facilities through rates. As a result, our future results of operations will depend on our ability:

- . to deliver electricity and gas to our customers cost-effectively, particularly in light of the current caps on rates;

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- . to realize cost savings; and
- . to manage our provider of last resort responsibilities.

Our financial performance depends on our ability to predict our load requirements.

Under electric restructuring legislation in Pennsylvania, we are required to provide generation and distribution services as the "provider-of-last-resort" to customers who cannot or do not choose alternate suppliers or who choose to return to our utility after taking service elsewhere. This obligation may continue past the expiration of our power purchase agreement with Exelon Generation in 2010. Because the choice of electricity generation supplier lies with the customer, it is difficult for us to predict and plan for the level of customers and associated energy demand. If these obligations remain unchanged, we 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 come back to us as a "last resort" option. A significant over- or under-estimation of such reserves may cause us to take a commodity price risk. We continue to be obligated to provide a reliable delivery system under cost-based rates.

Recession, acts of war or terrorism could negatively impact our business.

The consequences of a prolonged recession and adverse market conditions may include the continued uncertainty of energy prices--which could increase our provider-of-last-resort obligations--and uncertainty in the capital and commodity markets. We cannot predict the impact of any continued economic downturn, uncertain capital and commodity markets or fluctuating energy prices on our business. The impact, however, could have a material adverse effect on our financial condition, results of operations and net cash flows.

Like other operators of major industrial facilities, our transmission and distribution facilities may be targets of terrorist activities that could result in disruption of our ability to distribute some portion of our electricity and gas. Any such disruption could result in a significant decrease in revenues and/or significant additional costs to repair, which could have a material adverse impact on our financial condition, results of operation and net cash flows.

We are subject to control by Exelon.

We are ultimately controlled by Exelon and, therefore, Exelon controls decisions regarding our business and has control over our management and affairs. In circumstances involving a conflict of interest between Exelon, on the one hand, and our creditors, on the other, Exelon could exercise its power to control us in a manner that would benefit Exelon to the detriment of our creditors, including the holders of the exchange bonds.

Conflicts of interest may arise between us and our affiliate.

We rely on purchases from our affiliate Exelon Generation under long-term contracts in order to supply electricity to our customers. Conflicts of interest may arise if we need to enforce the terms of agreements between us and Exelon Generation. Decisions concerning the interpretation or operation of these agreements could be made from perspectives other than the interests solely of our company or its creditors, including the holders of the exchange bonds.

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We are subject to regulation by FERC.

We also provide wholesale 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. FERC continues to propose regulations regarding evolving wholesale markets. Further regulation by FERC in this area could affect our business in ways we cannot predict.

There is no public market for the exchange bonds.

Following the completion of this exchange offer, the exchange bonds will be freely tradable by most holders. See "The Exchange Offer." We do not intend to list the exchange bonds on any United States or foreign securities exchange. We can give no assurances concerning the liquidity of any market that may develop for the exchange bonds, the ability of any investor to sell the exchange bonds, or the price at which investors would be able to sell their exchange bonds. If a market for the exchange bonds does not develop, investors may be unable to resell the exchange bonds for an extended period of time, if at all. Consequently, investors may not be able to liquidate their investment readily, and lenders may not readily accept the exchange bonds as collateral for loans.

If you fail to exchange the original bonds, they will remain subject to transfer restrictions.

Any original bonds that remain outstanding after this exchange offer will continue to be subject to restrictions on their transfer. After this exchange offer, holders of original bonds will not (with limited exceptions) have any further rights under the exchange and registration rights agreement. Any market for original bonds that are not exchanged could be adversely affected by the conclusion of this exchange offer.

Late deliveries of the original bonds and other required documents could prevent a holder from exchanging its bonds.

Holders are responsible for complying with all exchange offer procedures. Issuance of exchange bonds in exchange for original bonds will only occur upon completion of the procedures described in this prospectus under the heading "The Exchange Offer--Procedures for Tendering Original bonds." Therefore, holders of original bonds who wish to exchange them for exchange bonds should allow sufficient time for completion of the exchange procedure. We are not obligated to notify you of any failure to follow the proper procedure.

If you are a broker-dealer, your ability to transfer the bonds may be restricted.

A broker-dealer that purchased original bonds for its own account as part of market-making or trading activities must deliver a prospectus when it sells the exchange bonds. Our obligation to make this prospectus available to broker-dealers is limited. Consequently, we cannot guarantee that a proper prospectus will be available to broker-dealers wishing to resell their exchange bonds.

FORWARD-LOOKING STATEMENTS

This prospectus includes "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. All statements, other

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than statements of historical facts, included in this prospectus that address activities, events or developments that we expect or anticipate will or may occur in the future, including such matters as our projections, future capital expenditures, business strategy, competitive strengths, goals, expansion, market and industry developments and the growth of our businesses and operations, are forward-looking statements. These statements are based on assumptions and analyses made by us in light of our experience and our perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. These statements involve a number of risks and uncertainties, many of which are beyond our control. The following are among the most important factors that could cause actual results to differ materially from the forward-looking statements:

- . the significant considerations and risks discussed in this prospectus;
- . general and local economic, market or business conditions;
- . fluctuations in demand for electricity, capacity and ancillary services in the markets in which we operate;
- . uncertain obligations due to customers' right to choose generation suppliers;
- . changes in laws or regulations that are applicable to us;
- . environmental constraints on construction and operation; and
- . access to capital.

Consequently, all of the forward-looking statements made in this prospectus are qualified by these cautionary statements and we cannot assure you that the results or developments anticipated by us will be realized or, even if realized, will have the expected consequences to or effects on us or our business prospects, financial condition or results of operations. You should not place undue reliance on these forward-looking statements in making your investment decision. We expressly disclaim any obligation or undertaking to release publicly any updates or revisions to these forward-looking statements to reflect events or circumstances that occur or arise or are anticipated to occur or arise after the date hereof. In making an investment decision regarding the exchange bonds, we are not making, and you should not infer, any representation about the likely existence of any particular future set of facts or circumstances.

USE OF PROCEEDS

The exchange offer is being made in accordance with requirements of the registration rights agreement. We will not receive any cash proceeds from the issuance of the exchange bonds in the exchange offer. In exchange for issuing the exchange bonds as described in this prospectus, we will receive an equal principal amount of original bonds, which will be canceled.

The net proceeds from the sale of the original bonds, together with available cash balances, were used to repay \$250 million aggregate principal amount of our First and Refunding Mortgage Bonds, 5 5/8% Series due November 1, 2001.

CAPITALIZATION

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The following table sets forth our capitalization as of June 30, 2002. This table should be read in conjunction with our consolidated financial statements and related notes for the quarter ended June 30, 2002, included in this prospectus.

	As of June 30, 2002
	(\$ in millions)
Short-term debt (a).....	\$1,085

Capitalization:	
Long-term debt (b):	
Transition bonds (c).....	\$4,132
First mortgage bonds.....	509
Other long-term debt.....	228
Preferred securities.....	284
Shareholders' equity.....	385

Total capitalization.....	\$5,538
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- (a) Includes current maturities of long-term debt of \$910 million, of which \$280 million are transition bonds.
 - (b) Includes unamortized debt discounts and premiums. Excludes current maturities.
 - (c) Transition bonds represent bonds issued by our subsidiary to securitize a portion of our stranded cost recovery.

SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA

The following table sets forth our selected historical consolidated financial data. The historical consolidated income statement data for the years ended December 31, 2001, December 31, 2000 and December 31, 1999 have been derived from our audited financial statements included elsewhere in this prospectus. The historical consolidated balance sheet data as of December 31, 2001 and 2000 have been derived from our audited financial statements included elsewhere in this prospectus. As part of Exelon's restructuring, effective January 1, 2001, our unregulated generation and other competitive businesses and related assets and liabilities were transferred to separate subsidiaries of Exelon. The restructuring has had a significant impact on our assets, liabilities and equity and our results of operations. Our results of operations and assets and liabilities prior to January 2001 do not reflect the restructuring. The information set forth below should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") and the Consolidated Financial Statements and accompanying Notes to Consolidated Financial Statements included elsewhere in this prospectus.

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	Years Ended December 31,					June 30,
	1997	1998	1999	2000	2001	2002 (Unaudited)
	-----					-----
	(\$ in millions)					
Income Statement Data						
Operating revenues.....	\$ 4,601	\$ 5,325	\$ 5,478	\$ 5,950	\$ 3,965	\$ 2,015
Operating income.....	1,006	1,268	1,373	1,222	999	461
Net income on common stock.....	(1,514)	500	570	497	415	177
Cash Flow Data						
Cash interest paid (a).....	\$ 406	\$ 385	\$ 350	\$ 431	\$ 416	\$ 193
Capital expenditures.....	490	415	491	549	264	123
Cash flows from operating activities.	1,068	1,499	895	756	828	468
Cash flows from investing activities.	(604)	(521)	(886)	(894)	(235)	(122)
Cash flows from financing activities.	(460)	(963)	(3)	133	(579)	(306)

	As of December 31,					As of
	1997	1998	1999	2000	2001	June 30, 2002
	-----					-----
	(\$ in millions)					
Balance Sheet Data						
Property, plant and equipment, net...	\$ 4,671	\$ 4,804	\$ 5,004	\$ 5,158	\$ 4,047	\$ 4,098
Total assets.....	12,357	12,048	13,087	14,776	10,745	10,717
Long-term debt (b).....	3,853	2,920	5,969	6,002	5,438	4,869
Preferred securities.....	582	580	321	302	284	284
Common shareholders' equity.....	2,727	3,057	1,773	1,638	323	385

Ratio of Earnings to Fixed Charges

	Years Ended December 31,					Twelve Months Ended
	1997	1998	1999	2000	2001	June 30, 2002
	-----					-----
	2.56	3.38	3.37	2.70	2.46	2.49

(a) Includes cash interest paid of none, none, \$107 million, \$268 million, \$315 million and \$145 million in connection with transition bonds for the years ended December 31, 1997, 1998, 1999, 2000 and 2001 and the six months ended June 30, 2002, respectively.

(b) Excludes current maturities of \$247 million, \$362 million, \$128 million, \$553 million, \$548 million and \$910 million as of December 31, 1997, December 31, 1998, December 31, 1999, December 31, 2000, December 31, 2001 and June 30, 2002, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

On October 20, 2000, we 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

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business. As part of the restructuring, our non-regulated operations and related assets and liabilities, representing the generation and enterprises business segments, were transferred to separate subsidiaries of Exelon. As a result, beginning January 2001, our operations have consisted of retail electricity distribution and transmission business in southeastern Pennsylvania and our natural gas distribution business located in the Pennsylvania counties surrounding the City of Philadelphia. The estimated impact of the restructuring reflects the effects of removing the generation and enterprises operations and obtaining energy and capacity from Exelon Generation under the terms of the Power Purchase Agreement for the year ended December 31, 2000.

RESULTS OF OPERATIONS

Three Months Ended June 30, 2002 Compared to Three Months Ended June 30, 2001

	Three Months Ended June 30,			
	2002	2001	Variance	% Change
	----	----	-----	-----
	(in millions)			
OPERATING REVENUES.....	\$995	\$ 906	\$ 89	9.8%
OPERATING EXPENSES				
Purchased Power.....	405	315	90	28.6%
Fuel.....	53	79	(26)	(32.9)%
Operating and Maintenance.....	131	126	5	4.0%
Depreciation and Amortization.....	109	99	10	10.1%
Taxes Other Than Income.....	63	41	22	53.7%
	-----	-----	-----	
Total Operating Expense.....	761	660	101	15.3%
	-----	-----	-----	
OPERATING INCOME.....	234	246	(12)	(4.9)%
	-----	-----	-----	
OTHER INCOME AND DEDUCTIONS				
Interest Expense.....	(92)	(119)	27	(21.4)%
Distributions on Company-Obligated Mandatorily Redeemable Preferred Securities of a Partnership which holds Solely Subordinated Debentures of the Company.....	(2)	(2)	--	--
Other, net.....	2	4	(2)	(50.0)%
	-----	-----	-----	
Total Other Income and Deductions.....	(92)	(117)	25	(21.4)%
	-----	-----	-----	
INCOME BEFORE INCOME TAXES.....	142	129	13	10.1%
INCOME TAXES.....	49	44	5	11.4%
	-----	-----	-----	
NET INCOME.....	93	85	8	9.4%
Preferred Stock Dividends.....	(2)	(3)	1	(33.3)%
	-----	-----	-----	
NET INCOME ON COMMON STOCK.....	\$ 91	\$ 82	\$ 9	11.0%
	=====	=====	=====	

Net income on common stock increased \$9 million, or 11% for the quarter ended June 30, 2002 as compared to the same 2001 period. The increase was a result of higher additional volume, favorable rate adjustments and lower interest expense on debt partially offset by increased depreciation and amortization expense.

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Our electric sales statistics are as follows:

Deliveries--(in GWh)	For the three months ended June 30,		
	2002	2001	% Change

Bundled Deliveries (1)			
Residential.....	2,115	1,673	26.4%
Small Commercial & Industrial.....	1,881	1,312	43.4%
Large Commercial & Industrial.....	3,927	3,172	23.8%
Public Authorities & Electric Railroads	200	181	10.5%
	-----	-----	
	8,123	6,338	28.2%
	-----	-----	
Unbundled Deliveries (2)			
Residential.....	557	848	(34.3)%
Small Commercial & Industrial.....	2	524	(99.6)%
Large Commercial & Industrial.....	13	732	(98.2)%
Public Authorities & Electric Railroads	--	2	(100.0)%
	-----	-----	
	572	2,106	(72.8)%
	-----	-----	
Total Retail Deliveries.....	8,695	8,444	3.0%
	=====	=====	

-
- (1) Bundled service reflects deliveries to 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 Competitive Transition Charge ("CTC") charge.
 - (2) Unbundled service reflects customers electing to receive electric generation service from an alternative energy supplier.

Electric Revenue (in millions)	For the three months ended June 30,			
	2002	2001	Variance	% Change

Bundled Revenue (1)				
Residential.....	\$278	\$222	\$ 56	25.2%
Small Commercial & Industrial.....	224	157	67	42.7%
Large Commercial & Industrial.....	288	224	64	28.6%
Public Authorities & Electric Railroads	19	17	2	11.8%
	-----	-----	-----	
	809	620	189	30.5%
	-----	-----	-----	
Unbundled Revenue (2)				
Residential.....	42	67	(25)	(37.3)%
Small Commercial & Industrial.....	--	28	(28)	(100.0)%
Large Commercial & Industrial.....	1	19	(18)	(94.7)%

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Public Authorities & Electric Railroads	--	--	--	--
	----	----	----	
	43	114	(71)	(62.3)%
	----	----	----	
Total Electric Retail Revenues.....	852	734	118	16.1%
Wholesale and Miscellaneous Revenue (3)	59	60	(1)	(1.7)%
	----	----	----	
Total Electric Revenue.....	\$911	\$794	\$117	14.7%
	=====	=====	=====	

-
- (1) Bundled service reflects deliveries to 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) Revenue from customers receiving generation from an alternate supplier includes a distribution charge and a CTC charge.
 - (3) Wholesale and miscellaneous revenues include sales, transmission revenue, sales to municipalities and other wholesale energy sales.

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The changes in electric retail revenues for the quarter ended June 30, 2002, as compared to the same 2001 period, are as follows:

	Variance

	(in millions)
Customer Choice.....	\$ 85
Rate Changes.....	13
Weather.....	1
Other Effects.....	19

Electric Retail Revenue	\$118
	=====

Customer Choice. All our customers have a 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 us.

As of June 30, 2002, the customer load served by alternate suppliers was 991 MW or 12.8% as compared to 1,102 MW or 14.5% as of June 30, 2001. For the quarter ended June 30, 2002, the percent of our total retail deliveries for which we were the electric supplier was 93.4% in 2002, an 18.3% increase as compared to 75.1% in 2001. As of June 30, 2002, the number of customers served by alternate suppliers was 308,866 or 20.2% as compared to June 30, 2001 of 400,972 or 26.4%. The increases in the customer load and the percentage of MWh served by us, and the decrease in the number of customers served by alternative suppliers primarily resulted from customers selecting or returning to us as their electric generation supplier.

In February 2002, we were notified by New Power Company ("New Power") 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 us in the second quarter of 2002. Pursuant to a tariff filing approved by the PUC, we will serve those returned customers

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at the discount energy rates on generation 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 us it planned to withdraw from serving all of its customers in Pennsylvania, including approximately 15,000 of our non-CDS customers, and to return those customers to us in September 2002.

Rate Changes. The increase in revenues attributable to rate changes primarily reflects a \$13 million increase due to an increase in the gross receipts tax rate effective January 1, 2002.

As permitted by the Pennsylvania Electric Competition Act, the Pennsylvania Department of Revenue has 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. The RNR adjustment increases the gross receipts tax rate, which will increase our annual revenues and tax obligations by approximately \$50 million in 2002. In January 2002, the PUC approved the adjustment to the gross receipts tax rate, which was implemented effective January 1, 2002. The RNR adjustment is under appeal.

Weather. The demand for electricity and gas services 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 sales of electricity and gas. Conversely, mild weather reduces demand.

The weather impact was favorable compared to the prior year as a result of warmer summer weather.

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Other Effects. Other items affecting revenue during the quarter ended June 30, 2002 include:

- . Volume. Exclusive of weather impacts, higher delivery volume affected our revenue by \$24 million compared to the same 2001 period.
- . Other. The payment of \$7 million to Exelon Generation related to nuclear decommissioning cost recovery under an agreement effective September 2001, which reduced our revenue compared to the prior year.

Our gas sales statistics for the quarter ended June 30, 2002 as compared to the same 2001 period are as follows:

	For the three months ended June 30,		
	2002	2001	Variance
	-----	-----	-----
Deliveries in million cubic feet (mmcf)	14,286	13,781	505
Revenue (in millions).....	\$ 84	\$ 112	\$(28)

The changes in gas revenue for the quarter ended June 30, 2002, as compared to the same 2001 period, are as follows:

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	Variance

	(in millions)
Rate Changes	\$(28)
Weather.....	--
Volume.....	(1)
Other.....	1

Gas Revenue.	\$(28)
	====

Rate Changes. The unfavorable variance in rates is attributable to an adjustment of the purchased gas cost recovery by the PUC effective in December 2001. The average rate per million cubic feet for all customers for the quarter ended June 30, 2002 was 28% lower than the same 2001 period. Our gas rates are subject to periodic adjustments by the PUC designed to recover or refund 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.

Weather. The weather impact was neutral during the quarter ended June 30, 2002 compared to the same 2001 period.

Volume. Exclusive of weather impact, delivery volume was consistent for the quarter ended June 30, 2002 compared to the same 2001 period.

Purchased Power and Fuel Expense

Purchased power and fuel expense for the quarter ended June 30, 2002 increased \$64 million as compared to the same 2001 period. The increase in fuel and purchased power expense was primarily attributable to \$73 million from customers in Pennsylvania selecting or returning to us as their electric generation supplier, \$9 million primarily attributable to higher delivery volume and higher PJM ancillary charges of \$8 million. These increases were partially offset by \$28 million from lower gas prices.

Operating and Maintenance Expense

O&M expense for the quarter ended June 30, 2002 increased \$5 million, or 4%, as compared to the same 2001 period. The increase in O&M expense was primarily attributable to \$5 million related to the deployment of automated meter reading technology and \$3 million related to an increased allocation of corporate expense.

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Depreciation and Amortization Expense

Depreciation and amortization expense for the quarter ended June 30, 2002 increased \$10 million, or 10%, as compared to the same 2001 period. The increase was primarily attributable to \$9 million of additional amortization of our CTC and an increase of \$1 million related to depreciation expense associated with additional plant in service. The additional amortization of the CTC is in accordance with our original settlement under the Competition Act.

Taxes Other Than Income

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Taxes other than income for the quarter ended June 30, 2002 increased \$22 million, or 54%, as compared to the same 2001 period. The increase was primarily attributable to additional gross receipts tax related to additional revenues and an increase in the gross receipts tax rate on electric revenue effective January 1, 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 \$27 million, or 21% in the quarter ended June 30, 2002 as compared to the same 2001 period. The decrease was primarily attributable to lower interest expense on long-term debt of \$22 million as a result of principal payments and lower interest rates and interest expense related to a loan from an affiliate in 2001 of \$2 million.

Other Income and Deductions

Other income and deductions excluding interest charges remained consistent in the quarter ended June 30, 2002 as compared to the same 2001 period.

Income Taxes

The effective tax rate was substantially unchanged at 34.5% for the quarter ended June 30, 2002 as compared to 34.1% for the same 2001 period.

Preferred Stock Dividends

Preferred stock dividends for the quarter ended June 30, 2002 were consistent as compared to the same 2001 period.

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Six Months Ended June 30, 2002 Compared to Six Months Ended June 30, 2001

	Six Months Ended June 30,			
	2002	2001	Variance	% Change
	(in millions)			
OPERATING REVENUES.....	\$2,015	\$1,957	\$ 58	3.0%
OPERATING EXPENSES				
Purchased Power.....	756	598	158	26.4%
Fuel.....	188	284	(96)	(33.8)%
Operating and Maintenance.....	267	258	9	3.5%
Depreciation and Amortization.....	221	200	21	10.5%
Taxes Other Than Income.....	122	84	38	45.2%
	1,554	1,424	130	9.1%
OPERATING INCOME.....	461	533	(72)	(13.5)%
OTHER INCOME AND DEDUCTIONS				
Interest Expense.....	(187)	(227)	40	(17.6)%
Distributions on Company-Obligated Mandatorily Redeemable Preferred Securities of a Partnership which holds Solely				

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Subordinated Debentures of the Company.....	(5)	(5)	--	--
Other, net.....	2	18	(16)	(88.9)%
	-----	-----	-----	
Total Other Income and Deductions.....	(190)	(214)	24	(11.2)%
	-----	-----	-----	
INCOME BEFORE INCOME TAXES.....	271	319	(48)	(15.0)%
INCOME TAXES.....	90	112	(22)	(19.6)%
	-----	-----	-----	
NET INCOME.....	181	207	(26)	(12.6)%
Preferred Stock Dividends.....	(4)	(5)	1	(20.0)%
	-----	-----	-----	
NET INCOME ON COMMON STOCK.....	\$ 177	\$ 202	\$ (25)	(12.4)%
	=====	=====	=====	

Net income on common stock decreased \$25 million, or 12% for the six months ended June 30, 2002 as compared to the same 2001 period. The decrease was a result of lower margins due to the unplanned return of certain residential, commercial and industrial customers, milder weather, increased depreciation and amortization expense, partially offset by favorable rate adjustments.

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Our electric sales statistics are as follows:

	For the six months ended June 30,		
Deliveries - (in GWh)	2002	2001	% Change
-----	-----	-----	-----
Bundled Deliveries (1)			
Residential.....	4,171	4,132	0.9%
Small Commercial & Industrial.....	3,638	2,313	57.3%
Large Commercial & Industrial.....	7,278	5,703	27.6%
Public Authorities & Electric Railroads	393	374	5.1%
	-----	-----	
	15,480	12,522	23.6%
	-----	-----	
Unbundled Deliveries (2)			
Residential.....	1,348	1,375	(2.0)%
Small Commercial & Industrial.....	99	1,416	(93.0)%
Large Commercial & Industrial.....	116	1,921	(94.0)%
Public Authorities & Electric Railroads	--	7	(100.0)%
	-----	-----	
	1,563	4,719	(66.9)%
	-----	-----	
Total Retail Deliveries.....	17,043	17,241	(1.1)%
	=====	=====	

-
- (1) Bundled service reflects deliveries to 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 service reflects customers electing to receive electric generation service from an alternative energy supplier.

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Electric Revenue (in millions)	For the six months ended June 30,			
	2002	2001	Variance	% Change
Bundled Revenue (1)				
Residential.....	\$ 522	\$ 503	\$ 19	3.8%
Small Commercial & Industrial.....	413	264	149	56.4%
Large Commercial & Industrial.....	532	407	125	30.7%
Public Authorities & Electric Railroads	37	34	3	8.8%
	-----	-----	-----	
	1,504	1,208	296	24.5%
	-----	-----	-----	
Unbundled Revenue (2)				
Residential.....	96	103	(7)	(6.8%)
Small Commercial & Industrial.....	5	68	(63)	(92.6%)
Large Commercial & Industrial.....	3	54	(51)	(94.4%)
Public Authorities & Electric Railroads	--	1	(1)	(100.0%)
	-----	-----	-----	
	104	226	(122)	(54.0%)
	-----	-----	-----	
Total Electric Retail Revenues.....	1,608	1,434	174	12.1%
Wholesale and Miscellaneous Revenue (3)	114	116	(2)	(1.7%)
	-----	-----	-----	
Total Electric Revenue.....	\$1,722	\$1,550	\$ 172	11.1%
	=====	=====	=====	

-
- (1) Bundled service reflects deliveries to 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) Revenue from customers receiving generation from an alternate supplier includes a distribution charge and a CTC charge.
 - (3) Wholesale and miscellaneous revenues include sales, transmission revenue, sales to municipalities and other wholesale energy sales.

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The changes in electric retail revenues for the six months ended June 30, 2002, as compared to the same 2001 period, are as follows:

	Variance

	(in millions)
Customer Choice.....	\$165
Rate Changes.....	39
Weather.....	(18)
Other Effects.....	(12)

Electric Retail Revenue	\$174
	=====

Customer Choice. As of June 30, 2002, the customer load served by alternate suppliers was 991 MW or 12.8% as compared to 1,102 MW or 14.5% as of June 30,

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2001. For the six months ended June 30, 2002, the percent of our total retail deliveries for which we were the electric supplier was 90.9% in 2002, an 18.2% increase as compared to 72.7% in 2001. As of June 30, 2002, the number of customers served by alternate suppliers was 308,866 or 26.4% as compared to June 30, 2001 of 400,972 or 26.4%. This increase in the customer load and the percentage of MWh served by us, and the decrease in the number of customers served by alternative suppliers primarily resulted from customers selecting or returning to us as their electric generation supplier.

Rate Changes. The increase in revenues attributable to rate changes primarily reflects the expiration of a 6% reduction in our electric rates during the first quarter of 2001 and a \$26 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.

Weather. The weather impact was unfavorable compared to the prior year primarily as a result of warmer winter weather. Heating degree-days decreased 15% for the six months ended June 30, 2002 compared to the same 2001 period.

Other Effects. Other items affecting revenue during the six months ended June 30, 2002 include:

Volume. Exclusive of weather impacts, higher delivery volume increased our revenue by \$7 million compared to the same 2001 period.

Other. The payment of \$14 million to Exelon Generation related to nuclear decommissioning cost recovery under an agreement effective September 2001 which reduced our revenue compared to the prior year and an \$11 million settlement of CTCs by a large customer in the first quarter of 2001.

Our gas sales statistics for the six months ended June 30, 2002 as compared to the same 2001 period are as follows:

	2002	2001	Variance
	-----	-----	-----
Deliveries in million cubic feet (mmcf)	45,643	48,011	(2,368)
Revenue (in millions).....	\$ 293	\$ 407	\$ (114)

The changes in gas revenue for the six months ended June 30, 2002, as compared to the same 2001 period, are as follows:

	Variance

	(in millions)
Rate Changes	\$ (63)
Weather.....	(30)
Volume.....	(22)
Other.....	1

Gas Revenue.	\$(114)
	=====

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Rate Changes. The unfavorable variance in rates is attributable to an adjustment of the purchased gas cost recovery by the PUC effective in December 2001. The average rate per million cubic feet for all customers for the six months ended June 30, 2002 was 24% lower than the same 2001 period.

Weather. The unfavorable weather impact is attributable to warmer winter weather during the six months ended June 30, 2002 as compared to the same 2001 period. Heating degree-days decreased 15% in the six months ended June 30, 2002 compared to the same 2001 period.

Volume. Exclusive of weather impacts, lower delivery volume affected revenue by \$22 million in the six months ended June 30, 2002 compared to the same 2001 period. Total deliveries to retail customers decreased 5% in the six months ended June 30, 2002 compared to the same 2001 period, primarily as a result of slower economic conditions in 2002 offset by increased customer growth.

Purchased Power and Fuel Expense

Purchased power and fuel expense for the six months ended June 30, 2002 increased \$62 million as compared to the same 2001 period. The increase in fuel and purchased power expense was primarily attributable to \$150 million from customers in Pennsylvania selecting or returning to us as their electric generation supplier and higher PJM ancillary charges of \$17 million. These increases were partially offset by \$63 million from lower gas prices, \$30 million as a result of unfavorable weather conditions and \$22 million primarily attributable to lower delivery volume primarily related to gas.

Operating and Maintenance Expense

O&M expense for the six months ended June 30, 2002 increased \$9 million, or 4%, as compared to the same 2001 period. The increase in O&M expense was primarily attributable to \$12 million related to the deployment of automated meter reading technology and \$9 million related to an increased allocation of corporate expense. These increases were partially offset by \$6 million of incremental storm costs in 2001 and \$4 million associated with a write-off of excess and obsolete inventory in 2001.

Depreciation and Amortization Expense

Depreciation and amortization expense for the six months ended June 30, 2002 increased \$21 million, or 11%, as compared to the same 2001 period. The increase was primarily attributable to \$17 million of additional amortization of our CTC and an increase of \$4 million related to depreciation expense associated with additional plant in service. The additional amortization of the CTC is in accordance with our original settlement under the Competition Act.

Taxes Other Than Income

Taxes other than income for the six months ended June 30, 2002 increased \$38 million, or 45%, as compared to the same 2001 period. The increase was primarily attributable to additional gross receipts tax related to additional revenues and an increase in the gross receipts tax rate on electric revenue effective January 1, 2002.

Interest Charges

Interest charges decreased \$40 million, or 18% in the six months ended June 30, 2002 as compared to the same 2001 period. The decrease was primarily

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attributable to lower interest expense on long-term debt of \$32 million as a result of principal payments, lower interest rates and an \$8 million reduction in interest expense due to lower interest rates on a loan from ComEd in 2001.

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Other Income and Deductions

Other income and deductions excluding interest charges decreased \$16 million, or 89% in the six months ended June 30, 2002 as compared to the same 2001 period. The decrease in other income and deductions was primarily attributable to lower interest income of \$6 million in 2002. The decrease was also attributable to a gain on the settlement of an interest rate swap of \$6 million and the favorable settlement of a customer contract of \$3 million, both of which occurred in 2001.

Income Taxes

The effective tax rate was 33.2% for the six months ended June 30, 2002 as compared to 35.1% for the same 2001 period. The decrease in the effective tax rate was primarily attributable to a reduction in state income taxes.

Preferred Stock Dividends

Preferred stock dividends for the quarter ended June 30, 2002 were consistent as compared to the same 2001 period.

LIQUIDITY AND CAPITAL RESOURCES

Our business is capital intensive and requires considerable capital resources. Our 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. Our access to external financing at reasonable terms is dependent on our credit ratings and general business condition and the utility industry. Capital resources are used primarily to fund construction, repayments of maturing debt and preferred securities and payment of common stock dividends to Exelon.

Cash Flows from Operating Activities

Cash flows provided by operations for the six months ended June 30, 2002 were \$468 million compared to \$427 million for the six months ended June 30, 2001. The increase in cash flows was primarily attributable to lower payments related to accounts payable of \$46 million, higher collection of deferred energy costs as a result of a change in gas rates of \$42 million and lower prepaid taxes of \$29 million. These increases were partially offset by changes in intercompany receivables and payables of \$41 million and deferred income taxes of \$32 million. Our 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. Our future cash flows will depend upon the ability to achieve cost savings in operations, 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 our business, we expect that we will continue to provide a reliable and steady source of internal cash flow from operations for the foreseeable future.

Cash Flows from Investing Activities

Cash flows used in investing activities for the six months ended June 30, 2002 were \$122 million compared to \$87 million for the six months ended June

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30, 2001. The increase in cash flows used in investing activities was primarily attributable to an increase in other investing activities. Our investing activities during the six months ended June 30, 2002 were funded primarily by operating activities.

Our projected capital expenditures for 2002 are \$284 million. Approximately one half of the budgeted 2002 expenditures are for capital additions to support customer and load growth and the remainder for additions and upgrades to existing facilities. We anticipate that we will obtain financing, when necessary, through borrowings, the issuance of preferred securities, or capital contributions from Exelon. Our proposed capital expenditures and

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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 for the six months ended June 30, 2002 were \$306 million compared to \$332 million for the six months ended June 30, 2001. Cash flows used in financing activities are primarily attributable to debt service and payment of dividends to Exelon. The change in cash flows used in financing activities is primarily attributable to an increase in commercial paper borrowings of \$196 million partially offset by additional dividends paid to Exelon of \$69 million, the contribution from Exelon in 2001 of \$53 million, additional debt service of \$34 million, and proceeds from the settlement of interest rate swap agreements in 2001 of \$31 million.

Credit Issues

At June 30, 2002, we had outstanding \$175 million of notes payable consisting principally of commercial paper. Certain of the credit agreements to which we are a party require us to maintain a debt to total capitalization ratio of 65% or less, excluding securitization debt and excluding the receivable from parent recorded in our shareholders' equity. At June 30, 2002, our debt to total capitalization ratio on that basis was 38%.

Our access to the capital markets, including the commercial paper market, and our financing costs in those markets are dependent on our securities ratings. None of our 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 our bank credit facility. From time to time, we enter into interest rate swaps 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.

At June 30, 2002, our capital structure, excluding the deduction from shareholders' equity of the \$1.8 billion receivable from Exelon, consisted of 26% common equity, 2% notes payable, 3% preferred stock and COMRPS (which comprised 2% of our total capitalization structure), and 69% long-term debt including transition bonds issued by PECO Energy Transition Trust. Long-term debt included \$4.4 billion of transition bonds representing 52% of capitalization.

Under PUHCA and the Federal Power Act, we can pay dividends only from retained or current earnings. At June 30, 2002, we had retained earnings of \$277 million.

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Contractual Obligations and Commercial Commitments

Contractual obligations represent cash obligations that are considered to be firm commitments and commercial commitments represent commitments triggered by future events. Our contractual obligations and commercial commitments as of June 30, 2002 were materially unchanged, other than in the normal course of business, from the amounts as set forth in the December 31, 2001 Form 10-K, except for an \$85 million increase in the amount of surety bonds required by our insurance policies. Approximately one-fourth of the surety bonds expire in the remainder of 2002 and the other three-fourths expire in the two-year period ending December 2004.

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RESULTS OF OPERATIONS

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

Summary Financial Information

	2001	2000	Components of Variance	
			Restructuring Impact	Normal Operations
	(in millions)			
OPERATING REVENUES.....	\$3,965	\$5,950	\$ (2,577)	\$ 592
OPERATING EXPENSES				
Fuel and Purchased Power.....	1,802	2,127	(793)	468
Operating and Maintenance.....	587	1,791	(1,299)	95
Merger-Related Costs.....	--	248	(181)	(67)
Depreciation and Amortization.....	416	325	(142)	233
Taxes Other Than Income.....	161	237	(71)	(5)
Total Operating Expenses.....	2,966	4,728	(2,486)	724
OPERATING INCOME.....	999	1,222	(91)	(132)
OTHER INCOME AND DEDUCTIONS				
Interest Expense.....	(413)	(457)	48	(4)
Distributions on Company-Obligated Mandatorily Redeemable Preferred Securities of a Partnership which holds Solely Subordinated, Debentures of the Company.....	(10)	(8)	--	(2)
Equity in Earnings (Losses) of Unconsolidated Affiliates, Net.....	--	(41)	41	--
Other, Net.....	46	41	(19)	24
INCOME BEFORE INCOME TAXES, EXTRAORDINARY ITEM AND CUMULATIVE EFFECT OF A CHANGE OF ACCOUNTING PRINCIPLE.....	622	757	(21)	(114)
INCOME TAXES.....	197	270	26	(99)
NET INCOME BEFORE EXTRAORDINARY ITEM AND CUMULATIVE EFFECT OF A CHANGE OF ACCOUNTING PRINCIPLE.....	425	487	(47)	(15)

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Extraordinary Item (net of income taxes).....	--	(4)	--	4
Cumulative Effect of a Change of Accounting				
Principle.....	--	24	(24)	--
	-----	-----	-----	-----
NET INCOME.....	425	507	(71)	(11)
Preferred Stock Dividends.....	(10)	(10)	--	--
	-----	-----	-----	-----
NET INCOME ON COMMON STOCK.....	\$ 415	\$ 497	\$ (71)	\$ (11)
	=====	=====	=====	=====

Net Income

Net income from normal operations decreased \$11 million, or 3% in 2001 as compared to 2000. Our 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.

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Operating Revenues

Bundled service reflects deliveries to 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 transition charge (including CTC and intangible transition charge ("ITC")). Unbundled service reflects customers electing to receive electric generation service from an alternative energy supplier. Revenue from customers receiving generation from an alternate supplier includes a transmission and distribution charge and a CTC/ITC charge. Our electric sales statistics are as follows:

Deliveries--(in MWh)	2001	2000	Variance
-----	-----	-----	-----
Bundled Deliveries			
Residential.....	8,072,915	9,324,800	(1,251,885)
Small Commercial & Industrial.....	5,997,571	3,918,529	2,079,042
Large Commercial & Industrial.....	12,960,295	8,291,607	4,668,688
Public Authorities & Electric Railroads	765,554	478,809	286,745
	-----	-----	-----
	27,796,335	22,013,745	5,782,590
	-----	-----	-----
Unbundled Deliveries			
Residential.....	3,104,811	1,985,614	1,119,197
Small Commercial & Industrial.....	1,606,067	3,549,667	(1,943,600)
Large Commercial & Industrial.....	2,351,520	7,404,363	(5,052,843)
Public Authorities & Electric Railroads	7,285	300,978	(293,693)
	-----	-----	-----
	7,069,683	13,240,622	(6,170,939)
	-----	-----	-----
Total Retail Deliveries.....	34,866,018	35,254,367	(388,349)
	=====	=====	=====
Electric Revenue (in millions)	2001	2000	Variance
-----	-----	-----	-----
Bundled Revenue			
Residential.....	\$ 1,028	\$ 1,113	\$ (85)
Small Commercial & Industrial.....	682	422	260

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Large Commercial & Industrial.....	929	532	397
Public Authorities & Electric Railroads	72	47	25
	-----	-----	-----
	2,711	2,114	597
	-----	-----	-----
Unbundled Revenue			
Residential.....	235	135	100
Small Commercial & Industrial.....	81	154	(73)
Large Commercial & Industrial.....	64	180	(116)
Public Authorities & Electric Railroads	1	11	(10)
	-----	-----	-----
	381	480	(99)
	-----	-----	-----
Total Electric Retail Revenues.....	3,092	2,594	498
Wholesale and Miscellaneous Revenue....	219	247	(28)
	-----	-----	-----
Total Electric Revenue.....	\$ 3,311	\$ 2,841	\$ 470
	=====	=====	=====

The changes in electric retail revenues for 2001, as compared to 2000, are as follows:

	Variance

	(in millions)
Customer Choice	\$276
Rate Changes...	241
Weather.....	(5)
Other Effects..	(14)

Retail Revenue.	\$498
	=====

Customer Choice. All our customers have 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 us. Customers who are served by an alternate supplier continue to pay competitive transition charges.

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

As of December 31, 2001, the number of customers served by alternate 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 Competitive Default Service ("CDS") agreements for residential customers with

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the New Power Company and Green Mountain Energy Company. 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 our electric rates in effect for 2000, partially offset by a \$60 million rate reduction in effect for 2001.

Weather. The demand for electricity and gas services 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 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 our revenue by \$21 million compared to the same 2000 period. Total kWh sales to retail customers decreased 1% compared to 2000, primarily as a result of less favorable economic conditions in 2001 offset by customer growth. Large commercial and industrial sales decreased 2% and residential sales decreased 1%. These were partially offset by an increase in small commercial and industrial sales of 2%.
- . **Other.** The payment of \$29 million to Exelon Generation related to nuclear decommissioning cost recovery under an agreement effective September 2001 partially offset by an \$11 million settlement of competitive transition charges by a large customer.

Our gas sales statistics are as follows:

	2001	2000	Variance
	-----	-----	-----
Deliveries in million cubic feet (mmcf)	81,528	91,686	(10,158)
Revenue (in millions).....	\$ 654	\$ 532	\$ 122

The changes in gas revenue for 2001, as compared to 2000, are as follows:

	Variance

	(in millions)
Price.....	\$174
Weather....	(38)
Volume.....	(14)

Gas Revenue	\$122
	====

Price. 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

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than in 2000. Our gas rates are subject to periodic adjustments by the PUC designed to recover or refund 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.

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Weather. The unfavorable weather impact is attributable to warmer temperatures in our service territory during the non-summer months of 2001 than in 2000. 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 mcf sales to retail customers decreased 11% compared to 2000, primarily as a result of slower economic conditions in 2001 offset by increased customer growth.

Fuel and Purchased Power Expense

Fuel and purchased power expense for 2001 increased \$468 million, or 35%, as compared to the same period in 2000, excluding the effects of the restructuring. The increase in fuel and purchased power expense was primarily attributable to \$293 million from customers in Pennsylvania selecting us or returning to us 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 Expense

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, \$17 million as a result of higher administrative and general costs for functions previously performed at our corporate division, \$14 million related to the deployment of the automated meters 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 ("MSP") for 642 of our eligible employees who are 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 affiliates in the corporate restructuring were \$181 million. The remaining \$67 million is attributable to our energy delivery segment. See Note 2--Corporate Restructuring to Consolidated Financial Statements.

Depreciation and Amortization Expense

Depreciation and amortization expense for 2001 increased \$233 million, or

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127%, compared to the same period in 2000, excluding the effects of the restructuring. The increase was primarily attributable to \$214 million of additional amortization of our 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 our 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.

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Interest Charges

Interest charges consist of interest expense and distributions on Company-Obligated Mandatorily Redeemable Preferred Securities of a Partnership ("COMRPS"). Interest charges increased \$6 million, or 1% in 2001. The increase was primarily attributable to additional interest on the transition bonds issued to securitize our stranded cost recovery of \$16 million and interest expense related to a loan from an affiliate in 2001 of \$8 million, partially offset by the reduction of our long-term debt with the proceeds from transition bonds, which reduced interest charges by \$18 million.

Equity In Earnings (Losses) Of Unconsolidated Affiliates

As part of the corporate restructuring, our unconsolidated affiliates were transferred to Exelon Generation and Exelon 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

Our effective tax rate was 31.7% in 2001 as compared to 35.7% in 2000. The decrease in our effective tax rate was primarily attributable to tax benefits associated with the implementation of state tax planning strategies, a favorable adjustment to prior period income taxes in connection with the completion of the 2000 tax return and the reduced impact of investment tax credit amortization.

Extraordinary Items

In 2000, we incurred extraordinary charges aggregating \$6 million (\$4 million, net of tax) related to prepayment premiums and the write-off of unamortized deferred financing costs associated with the early retirement of debt with a portion of the proceeds from the securitization of our stranded cost recovery in May 2000.

Cumulative Effect of a Change in Accounting Principle

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In 2000, we 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.

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Year Ended December 31, 2000 Compared To Year Ended December 31, 1999

Summary Financial Information

	2000	1999
	(in million)	
OPERATING REVENUES.....	\$5,950	\$5,478
OPERATING EXPENSES		
Fuel and Purchased Power.....	2,127	2,152
Operating and Maintenance.....	1,791	1,454
Merger-Related Costs.....	248	--
Depreciation and Amortization.....	325	237
Taxes Other Than Income.....	237	262
Total Operating Expenses.....	4,728	4,105
OPERATING INCOME.....	1,222	1,373
OTHER INCOME AND DEDUCTIONS		
Interest Expense.....	(457)	(396)
Distributions on Company-Obligated Mandatorily Redeemable Preferred Securities of a Partnership, which holds Solely Subordinated Debentures of the Company.....	(8)	(21)
Equity in Earnings (Losses) of Unconsolidated Affiliates, Net.....	(41)	(38)
Other, Net.....	41	59
INCOME BEFORE INCOME TAXES, EXTRAORDINARY ITEM AND CUMULATIVE EFFECT OF A CHANGE OF ACCOUNTING PRINCIPLE.....	757	977
INCOME TAXES.....	270	358
NET INCOME BEFORE EXTRAORDINARY ITEM AND CUMULATIVE EFFECT OF CHANGES OF ACCOUNTING PRINCIPLES.....	487	619
Extraordinary Item (net of income taxes).....	(4)	(37)
Cumulative Effect of Changes of Accounting Principles.....	24	--
NET INCOME.....	507	582
Preferred Stock Dividends.....	(10)	(12)
NET INCOME ON COMMON STOCK.....	\$ 497	\$ 570

Net Income

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Net income decreased \$75 million, or 13% in 2000, as compared to 1999 reflecting merger-related expenses and amortization of CTCs in 2000.

Operating Revenues

	2000	1999	\$ Variance	% Variance
	-----	-----	-----	-----
	(in millions, except percentage data)			
Energy Delivery	\$3,373	\$3,265	\$ 108	3.3%
Generation.....	1,931	2,097	(166)	(7.9)%
Enterprises....	646	116	530	456.9%
	-----	-----	-----	-----
	\$5,950	\$5,478	\$ 472	8.6%
	=====	=====	=====	=====

Energy Delivery. The increase in operating revenue from energy delivery was attributable to higher electric revenue of \$32 million and additional gas revenue of \$76 million. The increase in electric revenue reflects \$102 million from customers in Pennsylvania selecting us as their electric generation supplier and rate

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adjustments in Pennsylvania, partially offset by a decrease of \$69 million as a result of lower summer volume. Regulated gas revenue reflected increases of \$44 million related to higher prices, \$29 million attributable to increased volume from new and existing customers and \$24 million from increased winter volume. These increases were partially offset by \$21 million of lower gross receipts tax collections as a result of the repeal of the gross receipts tax on gas sales in connection with gas restructuring in Pennsylvania.

Generation. The decrease in operating revenue from generation was a result of lower electric revenue of \$180 million partially offset by higher gas revenue of \$14 million. The decrease in electric revenue was principally attributable to lower sales of competitive retail electric generation services of \$132 million, of which \$196 million represented decreased volume that was partially offset by \$64 million from higher prices. In addition, the termination of the management agreement for Clinton Power Station ("Clinton") resulted in lower revenues of \$99 million. As a result of the acquisition by AmerGen Energy Company, LLC ("AmerGen") of Clinton in December 1999, the management agreement was terminated and, accordingly, the operations have been included in Equity in Earnings (Losses) of Unconsolidated Affiliates on our Consolidated Statements of Income in 2000. These decreases were partially offset by an increase of \$50 million from higher wholesale revenue attributable to \$199 million associated with higher prices partially offset by \$149 million related to lower volume. Unregulated gas revenue increased primarily as a result of \$11 million from wholesale sales of excess natural gas.

Enterprises. The increase in operating revenue from enterprises was attributable to \$530 million from the acquisition of thirteen infrastructure services companies during 2000 and 1999.

Fuel and Purchased Power Expense

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	2000	1999	\$ Variance	Variance
	-----	-----	-----	-----
	(in millions, except percentage data)			
Energy Delivery	\$ 462	\$ 370	\$ 92	24.9%
Generation.....	1,665	1,782	(117)	(6.6)%
	-----	-----	-----	-----
	\$2,127	\$2,152	\$ (25)	(1.2)%
	=====	=====	=====	=====

Energy Delivery. The increase in fuel and purchased power expense from energy delivery was primarily attributable to \$73 million from additional volume and increased prices related to gas, \$13 million as a result of favorable weather conditions and \$4 million in additional PUM ancillary charges.

Generation. The decrease in fuel and purchased power expense from generation was primarily attributable to \$262 million principally related to reduced sales of competitive retail electric generation services partially offset by an increase of \$120 million in the cost to supply energy delivery customers and an increase of \$5 million from wholesale operations principally related to \$97 million as a result of increased prices partially offset by \$92 million as a result of decreased volume.

Operating and Maintenance Expense

	2000	1999	\$ Variance	% Variance
	-----	-----	-----	-----
	(in millions, except percentage data)			
Energy Delivery	\$ 491	\$ 434	\$ 57	13.1%
Generation.....	616	721	(105)	(14.6)%
Enterprises....	650	136	514	377.9%
Corporate.....	34	163	(129)	(79.1)%
	-----	-----	-----	-----
	\$1,791	\$1,454	\$ 337	23.2%
	=====	=====	=====	=====

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Energy Delivery. The increase in O&M expense from energy delivery was primarily attributable to the direct charging to the business segments of O&M expenses that were previously reported to our corporate division.

Generation. The decrease in O&M expense from generation was primarily attributable to O&M expenses related to the management agreement for Clinton of \$70 million in 1999 which has since been terminated, \$15 million related to the abandonment of two information system implementations in 1999, \$17 million related to lower administrative and general expenses related to the unregulated retail sales of electricity and \$15 million related to lower joint-owner expenses.

Enterprises. The O&M expense from enterprises increased \$505 million from the infrastructure services business as a result of acquisitions.

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Corporate. Our corporate decrease in O&M expense was primarily attributable to expenses of \$56 million related to lower Year 2000 remediation expenditures, lower pension and postretirement benefits expense of \$31 million and the direct charging to business segments of O&M expenses that were previously recorded at corporate.

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 MSP for our 642 eligible employees who are expected to be involuntarily terminated before December 2002 upon completion of integration activities for the merged companies.

Depreciation and Amortization Expense

Depreciation and amortization expense increased \$88 million, or 37%, to \$325 million in 2000. The increase was primarily attributable to \$57 million of amortization of our CTC which commenced in 2000 and \$29 million related to depreciation and amortization expense associated with the infrastructure services business acquisitions.

Taxes Other Than Income

Taxes other than income decreased \$25 million, or 10%, to \$237 million in 2000. The decrease was primarily attributable to lower real estate taxes of \$18 million relating to a change in tax laws for utility property in Pennsylvania and \$11 million as a result of the elimination of the gross receipts tax on natural gas sales net of an increase in gross receipts tax on electric sales. This decrease was partially offset by a nonrecurring \$22 million capital stock tax credit related to a 1999 adjustment associated with the impact of our 1997 restructuring charge.

Interest Charges

Interest charges consist of interest expense and distributions on COMRPS. Interest charges increased \$48 million, or 12%, to \$465 million in 2000. The increase was primarily attributable to interest on the transition bonds issued to securitize our stranded cost recovery of \$104 million, partially offset by the reduction of our long-term debt with the proceeds from transition bonds, which reduced interest charges by \$77 million.

Equity in Earnings (Losses) of Unconsolidated Affiliates

Equity in earnings (losses) of unconsolidated affiliates decreased \$3 million, or 8%, to losses of \$41 million in 2000 as compared to losses of \$38 million in 1999. The decrease was primarily attributable to \$8 million of

additional losses from communications joint ventures, partially offset by \$4 million of earnings from AmerGen as a result of the acquisitions of Clinton and Unit No. 1 at Three Mile Island Nuclear Station ("TMI") in December 1999 and Oyster Creek Nuclear Generation Facility ("Oyster Creek") in September 2000.

Other Income and Deductions

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Other income and deductions excluding interest charges and equity in earnings (losses) of unconsolidated affiliates decreased \$18 million, or 31%, to \$41 million in 2000 as compared to \$59 million in 1999. The decrease in other income and deductions was primarily attributable to the writedown of a communications investment of \$33 million, a \$10 million gain on the disposal of assets in 1999 and a decrease in interest income of \$2 million. These decreases were partially offset by a \$15 million write-off in 1999 of the investment in a cogeneration facility in connection with the settlement of litigation and gains on sales of investments of \$13 million.

Income Taxes

The effective tax rate was 35.7% in 2000 as compared to 36.6% in 1999.

Extraordinary Items

In 2000, we incurred extraordinary charges aggregating \$6 million (\$4 million, net of tax) related to prepayment premiums and the write-off of unamortized deferred financing costs associated with the early retirement of debt with a portion of the proceeds from the securitization of our stranded cost recovery in May 2000.

In 1999, we incurred extraordinary charges aggregating \$62 million (\$37 million, net of tax) related to prepayment premiums and the write-off of unamortized debt costs associated with the repayment and refinancing of debt.

Cumulative Effect of a Change in Accounting Principle

In 2000, we 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 decreased \$2 million, or 17%, to \$10 million as compared to 1999. The decrease was attributable to the redemption of \$37 million of Mandatorily Redeemable Preferred Stock in August 1999 with a portion of the proceeds from the issuance of transition bonds. In addition, we redeemed \$19 million of Mandatorily Redeemable Preferred Stock in August 2000.

Liquidity and Capital Resources

Our 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. Our access to external financing at reasonable terms is dependent on our credit ratings and our general business condition and the utility industry. Our business is capital