

PECO ENERGY CO
Form 424B2
September 10, 2012
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The information in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these securities and we are not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion

Preliminary Prospectus Supplement dated September 10, 2012

PROSPECTUS SUPPLEMENT

(To Prospectus dated May 29, 2012)

\$

PECO Energy Company

First and Refunding Mortgage Bonds, % Series due 2022

The bonds will bear interest at the rate of % per year. We will pay interest on the bonds on March 15 and September 15 of each year, beginning on March 15, 2013. The bonds will mature on September 15, 2022. We may redeem some or all of the bonds at any time at the redemption price described in this prospectus supplement.

The bonds will be secured equally with all other bonds outstanding or hereafter issued under our First and Refunding Mortgage. There is no sinking fund for the bonds.

Please see Risk Factors on page S-4 of this prospectus supplement for a discussion of factors you should consider in connection with a purchase of the bonds.

	Per Bond	Total
Public Offering Price (1)	%	\$
Underwriting Discount	%	\$

Proceeds, before expenses, to PECO Energy Company	%	\$
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(1) Plus accrued interest from September , 2012, if settlement occurs after that date.

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

The bonds are expected to be delivered in book-entry only form through the facilities of The Depository Trust Company, including Clearstream Banking, société anonyme and/or Eurostream Bank S.A./N.V., against payment in New York, New York on or about September , 2012.

Joint Book-Running Managers

BNP PARIBAS

J.P. Morgan

US Bancorp

The date of this prospectus supplement is September , 2012.

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We urge you to carefully read this prospectus supplement and the accompanying prospectus, which describe the terms of the offering of the bonds, before you make your investment decision. You should rely only on the information contained in or incorporated by reference in this prospectus supplement, the accompanying prospectus and any related free writing prospectus required to be filed with the Securities and Exchange Commission (SEC). We have not, and the underwriters have not, authorized anyone else to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these bonds in any jurisdiction where the offer or sale is not permitted. You should not assume that the information appearing in this prospectus supplement and the accompanying prospectus is accurate as of any date other than the date on the front of those documents or that the information incorporated by reference is accurate as of any date other than the date that the document incorporated by reference was filed with the SEC.

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ABOUT THIS PROSPECTUS SUPPLEMENT

This prospectus supplement and the accompanying prospectus contain information about PECO Energy Company and about the bonds. This prospectus supplement and the accompanying prospectus also refer to information contained in other documents that we file with the SEC. To the extent the information in this prospectus supplement is inconsistent with information in the prospectus, you should rely on this prospectus supplement.

The accompanying prospectus also includes information about Exelon Corporation (Exelon) and our affiliates Exelon Generation Company, LLC (Generation), Commonwealth Edison Company (ComEd) and Baltimore Gas and Electric Company (BGE) and their securities, which does not apply to us or the bonds. PECO Energy Company is a subsidiary of Exelon. The bonds are solely our obligations and not obligations of Exelon or of any of our affiliates.

Unless the context otherwise indicates, when we refer to PECO, the Company, we, our or us in this prospectus supplement, we mean PECO Energy Company and, unless the context otherwise indicates, not any of our subsidiaries or affiliates.

FORWARD-LOOKING STATEMENTS

Certain of the matters discussed in this prospectus supplement, the accompanying prospectus and the documents incorporated or deemed incorporated by reference as described under the heading *Where You Can Find More Information* are forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, that are subject to risks and uncertainties. The factors that could cause actual results to differ materially from the forward-looking statements include: (a) any risk factors discussed in this prospectus supplement and the accompanying prospectus; (b) those factors discussed in the following sections of PECO's 2011 Annual Report on Form 10-K: ITEM 1A. Risk Factors, ITEM 7 Management's Discussion and Analysis of Financial Condition and Results of Operations and ITEM 8. Financial Statements and Supplementary Data: Note 18; (c) those factors discussed in the following sections of PECO's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2012 and June 30, 2012: Part II, Other Information, ITEM 1A. Risk Factors and Part I, Financial Information, ITEM 1. Financial Statements: Note 15 and Note 16, respectively, and (d) other factors discussed herein and in other filings with the SEC by PECO, as applicable. Readers are cautioned not to place undue reliance on these forward-looking statements, which apply only as of the date on the front of this prospectus supplement or, as the case may be, as of the date on which we make any subsequent forward-looking statement that is deemed incorporated by reference. PECO does not undertake any obligation to publicly release any revision to its forward-looking statements to reflect events or circumstances after the date as of which any such forward-looking statement is made.

PECO ENERGY COMPANY

PECO is a subsidiary of Exelon, and is engaged principally in the purchase and regulated retail sale of electricity and the provision of transmission and distribution services to retail customers in southeastern Pennsylvania, including the City of Philadelphia, as well as the purchase and regulated retail sale of natural gas and the provision of distribution services to retail customers in the Pennsylvania counties surrounding the City of Philadelphia. PECO is a public utility under the Pennsylvania Public Utility Code subject to regulation by the Pennsylvania Public Utility Commission with respect to electric and gas distribution rates and service, the issuances of certain securities and certain other aspects of PECO's operations. PECO is a public utility under the Federal Power Act subject to regulation by Federal Energy Regulatory Commission with respect to transmission rates and certain other aspects of PECO's business and by the U.S. Department of Transportation as to pipeline safety and other areas of gas operations. Specific operations of PECO are subject to the jurisdiction of various

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other Federal, state, regional and local agencies. Additionally, PECO is also subject to North American Electric Reliability Corporation mandatory reliability standards.

PECO's combined electric and natural gas retail service territory has an area of approximately 2,100 square miles and an estimated population of 4.0 million. PECO provides electric distribution service in an area of approximately 1,900 square miles, with a population of approximately 3.9 million, including approximately 1.5 million in the City of Philadelphia. PECO provides natural gas distribution service in an area of approximately 1,900 square miles in southeastern Pennsylvania adjacent to the City of Philadelphia, with a population of approximately 2.4 million. PECO delivers electricity to approximately 1.6 million customers and natural gas to approximately 495,000 customers.

PECO was incorporated in the Commonwealth of Pennsylvania in 1929. PECO's principal executive offices are located at 2301 Market Street, Philadelphia, PA 19101-8699, and its telephone number is 215-841-4000.

Table of Contents**SUMMARY FINANCIAL INFORMATION**

We have provided the following summary financial information for your reference. We have derived the summary information presented here from the financial statements we have incorporated by reference into this prospectus supplement and the accompanying prospectus. You should read the summary information together with our historical consolidated financial statements and the related notes incorporated by reference in this prospectus supplement and the accompanying prospectus. See [Where You Can Find More Information](#) in this prospectus supplement.

	Year Ended December 31,			Six Months Ended June 30,	
	2011	2010	2009	2012	2011
	(\$ in millions)			(\$ in millions)	
				(unaudited)	
Income Statement Data					
Operating revenues	\$ 3,720	\$ 5,519	\$ 5,311	\$ 1,590	\$ 1,996
Operating income	655	661	697	327	372
Net income on common stock	385	320	349	175	208
Cash Flow Data					
Cash interest paid, net of amount capitalized (a)	\$ 128	\$ 168	\$ 179	\$ 59	\$ 64
Capital expenditures (b)	(481)	(545)	(388)	(179)	(209)
Net cash flows provided by operating activities	818	1,150	1,166	409	359
Net cash flows used in investing activities	(557)	(120)	(377)	(157)	(371)
Net cash flows used in financing activities	(589)	(811)	(525)	(174)	(191)
	As of December 31,			As of June 30,	
	2011	2010	2009	2012	2011
	(\$ in millions)			(\$ in millions)	
				(unaudited)	
Balance Sheet Data					
Property, plant and equipment, net	\$ 5,874	\$ 5,620	\$ 5,297	\$ 5,960	
Regulatory assets, including current portion	1,255	977	1,834	1,270	
Total assets	9,156	8,985	9,019	9,204	
Long-term debt, including due within one year (a)	1,972	2,222	2,636	1,973	
Long-term debt to financing trusts (a)	184	184	184	184	
Total liabilities	6,131	6,015	6,367	6,175	
Preferred securities	87	87	87	87	
Total shareholder's equity	2,938	2,883	2,565	2,942	

(a) Amounts owed to PECO Energy Capital Trust IV, PECO Energy Capital Trust III for the years ended December 31, 2011, 2010 and 2009 and to PECO Energy Transition Trust (PETT) for the years ended December 31, 2010 and 2009 are recorded as debt to financing trusts within PECO's consolidated balance sheet.

(b) These amounts include investment in plant and plant removals, net.

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The following table provides our consolidated ratio of earnings to fixed charges:

	Years Ended December 31,					Six Months Ended
	2007	2008	2009	2010	2011	June 30, 2012
Ratio of earnings to fixed charges	3.9	3.1	3.7	3.3	4.7	5.0

The ratio of earnings to fixed charges represents, on a pre-tax basis, the number of times earnings cover fixed charges. Earnings consist of pre-tax net income from continuing operations after adjustment for income from equity investees and capitalized interest or allowance for funds used during construction, to which has been added fixed charges. Fixed charges consist of interest costs and amortization of debt discount and premium on all indebtedness and the estimated interest portion of all rental expense.

RISK FACTORS

Your investment in the bonds will involve certain risks. You should carefully consider the following discussion and the risks described under Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2011 and our Quarterly Reports on Form 10-Q for the periods ended March 31, 2012 and June 30, 2012 incorporated by reference in this prospectus supplement and the accompanying prospectus, the factors listed under Forward Looking Statements in this prospectus supplement and the other information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus before making a decision to invest in the bonds. See Where You Can Find More Information.

There is no public market for the bonds.

We can give no assurances concerning the liquidity of any market that may develop for the bonds offered hereby, the ability of any investor to sell any of the bonds, or the price at which investors would be able to sell them. If a market for the bonds does not develop, investors may be unable to resell the bonds for an extended period of time, if at all. If a market for the bonds does develop, it may not continue or it may not be sufficiently liquid to allow holders to resell any of their bonds. Consequently, investors may not be able to liquidate their investments readily, and lenders may not readily accept the bonds as collateral for loans.

USE OF PROCEEDS

We expect to receive the net proceeds from the sale of the bonds of approximately \$, after deducting underwriters discounts and other estimated fees and expenses. We intend to use the net proceeds to pay at maturity \$225,000,000 aggregate principal amount of our 4.75% first mortgage bonds due October 1, 2012 and for other general corporate purposes.

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The following table sets forth our consolidated capitalization as of June 30, 2012, and as adjusted to give effect to the issuance and sale of the bonds and the use of the net proceeds from this offering as set forth under "Use of Proceeds" above. This table is qualified in its entirety by, and should be considered in conjunction with, the more detailed information incorporated by reference or provided in this prospectus supplement or in the accompanying prospectus.

	As of June 30, 2012	
	Actual	As Adjusted
	(\$ in millions)	
Long-term debt: (a)		
First mortgage bonds, including current maturities	\$ 1,975	\$
Long-term debt to financing trusts	184	184
Total shareholders' equity	2,942	2,942
Total capitalization, including current maturities	\$ 5,101	\$

(a) Includes \$2 million of unamortized debt discounts.

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DESCRIPTION OF THE BONDS AND FIRST AND REFUNDING MORTGAGE

The following description of the particular terms of the offered bonds is qualified in its entirety by the more detailed information appearing elsewhere in this prospectus supplement and the accompanying prospectus. References in this description of the bonds and our First and Refunding Mortgage (Mortgage) to we, our, us or the Company are to PECO Energy Company only and not its subsidiaries and references to mortgage bonds means first and refunding mortgage bonds issued under the Mortgage, including the offered bonds.

Securities Offered

The bonds will be issued under our Mortgage as proposed to be further supplemented by a supplemental mortgage indenture relating to the bonds. The bonds will initially be limited in aggregate principal amount to \$. We may issue additional mortgage bonds under our Mortgage with the same priority as the bonds offered by this prospectus supplement, including mortgage bonds having the same series designation and terms (except for the public offering price, the issue date and, in some cases, the first interest payment date) as the bonds offered by this prospectus supplement, without the approval of the holders of the outstanding mortgage bonds issued under our Mortgage, including the bonds offered by this prospectus supplement. The bonds will be secured equally with all other mortgage bonds outstanding or hereafter issued under our Mortgage. The bonds will be issued in book-entry form only in minimum denominations of \$2,000 and integral multiples of \$1,000 in excess thereof.

Principal, Maturity and Interest

Interest on the bonds will be payable on March 15 and September 15 of each year, beginning on March 15, 2013, until the principal is paid or made available for payment. Interest on the bonds will accrue from the most recent date to which interest has been paid. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months. The bonds will mature on September 15, 2022.

The Company may fix a date, not more than fourteen calendar days prior to any interest payment date for the bonds, as a record date for determining the registered holders of the bonds entitled to interest payments. Only the registered holder on such record date will be entitled to receive a payment, notwithstanding any transfer of the bonds subsequent to such record date.

Redemption at our Option

At any time prior to June 15, 2022 (three months prior to the maturity date of the bonds), we may, at our option, redeem the bonds in whole or in part at any time at a redemption price equal to the greater of:

100% of the principal amount of the bonds to be 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 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 basis points, plus accrued interest to the redemption date.

At any time on or after June 15, 2022 (three months prior to the maturity date of the bonds), we may, at our option, redeem the bonds in whole or in part at any time at a redemption price equal to 100% of the principal amount of the bonds to be redeemed, plus accrued interest to the redemption date.

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 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 bonds or portions of the bonds called for redemption.

Adjusted Treasury Rate means, with respect to any redemption date, the rate per year equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for the redemption date.

Business Day means any day that is not a day on which banking institutions in New York City are authorized or required by law or regulation to close.

Comparable Treasury Issue means the United States Treasury security selected by the Quotation Agent as having a maturity comparable to the remaining term of the bonds that would be used, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the bonds.

Comparable Treasury Price means, with respect to any redemption date:

the average of the Reference Treasury Dealer Quotations for that redemption date, after excluding the highest and lowest of the Reference Treasury Dealer Quotations; or

if the trustee obtains fewer than three Reference Treasury Dealer Quotations, the average of all Reference Treasury Dealer Quotations so received.

Quotation Agent means the Reference Treasury Dealer appointed by us.

Reference Treasury Dealer means (1) each of BNP Paribas Securities Corp., J.P. Morgan Securities LLC and U.S. Bancorp Investments, Inc. and their respective successors, unless such entity ceases to be a primary U.S. Government securities dealer in New York City (a **Primary Treasury Dealer**), in which case we shall substitute another Primary Treasury Dealer, and (2) any other Primary Treasury Dealer selected by us.

Reference Treasury Dealer Quotations means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the trustee by that Reference Treasury Dealer at 5:00 p.m., New York City time, on the third Business Day preceding that redemption date.

Form

We will issue the bonds in the form of one or more global bonds in fully registered form initially in the name of Cede & Co., as nominee of DTC, or such other name as may be requested by an authorized representative of DTC. The global bonds will be deposited with DTC and may not be transferred except as a whole by DTC to a nominee of DTC or by a nominee of DTC to DTC or another nominee of DTC or by DTC or any nominee to a successor of DTC or a nominee of such successor.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a banking organization within the meaning of the New York Banking Law, a member of the Federal Reserve System, a clearing corporation within the meaning of the New York Uniform Commercial Code, and a clearing agency registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds and provides asset servicing for (over 3.5 million issues of) U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants (direct participants) deposit with DTC. DTC also facilitates the post-trade settlement among direct participants of sales

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and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between direct participants' accounts. This eliminates the need for physical movement of securities certificates. Direct participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (DTCC). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a direct participant, either directly or indirectly (indirect participants). The rules applicable to DTC and its direct and indirect participants are on file with the SEC. More information about DTC can be found at www.dtcc.com. We do not intend this internet address to be an active link or to otherwise incorporate the content of the website into this prospectus supplement.

Clearstream advises that it is incorporated under the laws of Luxembourg as a bank. Clearstream holds securities for its customers and facilitates the clearance and settlement of securities transactions between its customers through electronic book-entry transfers between their accounts. Clearstream provides to its customers among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream interfaces with domestic securities markets in over 30 countries through established depository and custodial relationships. As a bank, Clearstream is subject to regulation by the Luxembourg Commission for the Supervision of the Financial Sector, also known as the *Commission de Surveillance du Secteur Financier*. Its customers are recognized financial institutions around the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Its customers in the United States are limited to securities brokers and dealers and banks. Indirect access to Clearstream is also available to other institutions such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with the customer.

Euroclear advises that it was created in 1968 to hold securities for its participants and to clear and settle transactions between Euroclear participants through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of certificates and any risk from lack of simultaneous transfers of securities and cash. Euroclear provides various other services, including securities lending and borrowing and interfaces with domestic markets in several countries. Euroclear is operated by Euroclear Bank S.A./N.V. Euroclear Clearance establishes policy for Euroclear on behalf of Euroclear participants. Euroclear participants include banks, including central banks, securities brokers and dealers and other professional financial intermediaries and may include the Initial purchasers. Indirect access to Euroclear is also available to other firms that clear through or maintain a custodial relationship with a Euroclear participant, either directly or indirectly. Securities clearance accounts and cash accounts with the Euroclear operator are governed by the terms and conditions governing use of Euroclear and the related operating procedures of Euroclear. These terms and conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear, and receipts of payments with respect to securities in Euroclear. All securities in Euroclear are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear operator acts under the terms and conditions only on behalf of Euroclear participants and has no record of or relationship with persons holding through Euroclear participants.

Euroclear further advises that investors that acquire, hold and transfer interests in the bonds by book-entry through accounts with the Euroclear operator or any other securities intermediary are subject to the laws and contractual provisions governing their relationship with their intermediary, as well as the laws and contractual provisions governing the relationship between such an intermediary and each other intermediary, if any, standing between themselves and the global securities.

Purchases of bonds under the DTC system must be made by or through direct participants, which will receive a credit for the bonds in DTC's records. The ownership interest of each actual purchaser of bonds is in turn to be recorded on the direct and indirect participants' records. Beneficial owners of the bonds will not

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receive written confirmation from DTC of their purchase, but beneficial owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the direct or indirect participant through which the beneficial owner entered into the transaction. Transfers of ownership interests in the bonds are to be accomplished by entries made on the books of direct and indirect participants acting on behalf of beneficial owners. Beneficial owners will not receive certificates representing their ownership interests in the bonds, except in the event that use of the book-entry system for the bonds is discontinued.

To facilitate subsequent transfers, all bonds deposited by direct participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual beneficial owners of the bonds; DTC's records reflect only the identity of the direct participants to whose accounts such bonds are credited, which may or may not be the beneficial owners. The direct and indirect participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to direct participants, by direct participants to indirect participants, and by direct participants and indirect participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities which they own. Consequently, those persons may be prohibited from purchasing beneficial interests in the global bonds from any beneficial owner or otherwise.

Redemption notices shall be sent to DTC. If less than all of the bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each direct participant in such issue to be redeemed.

So long as DTC's nominee is the registered owner of the global bonds, such nominee for all purposes will be considered the sole owner or holder of the bonds for all purposes under the Indenture. Except as provided below, beneficial owners will not be entitled to have any of the bonds registered in their names, will not receive or be entitled to receive physical delivery of the bonds in definitive form and will not be considered the owners or holders thereof under the Indenture.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the bonds. Under its usual procedures, DTC mails an omnibus proxy to the issuer as soon as possible after the record date. The omnibus proxy assigns Cede & Co.'s consenting or voting rights to those direct participants to whose accounts the bonds are credited on the record date (identified in a listing attached to the omnibus proxy).

All payments on the global bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit direct participants' accounts upon DTC's receipt of funds and corresponding detail information from trustees or issuers on payment dates in accordance with their respective holdings shown on DTC's records. Payments by participants to beneficial owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in street name, and will be the responsibility of such participant and not of DTC, the trustee or us, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) shall be the responsibility of the Trustee or us, disbursement of such payments to direct participants shall be the responsibility of DTC, and disbursement of such payments to the beneficial owners shall be the responsibility of direct and indirect participants.

DTC may discontinue providing its service as securities depository with respect to the bonds at any time by giving reasonable notice to us or the Trustee. In addition, we may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In the event that a successor securities

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depository is not obtained under the above circumstances, or, alternatively, if an event of default with respect to the bonds has occurred and is continuing, bonds certificates in fully registered form are required to be printed and delivered to beneficial owners of the global bonds representing such bonds.

Secondary market trading between DTC participants will occur in the ordinary way in accordance with DTC's rules and will be settled in immediately available funds using DTC's same-day funds settlement system. Secondary market trading between Clearstream customers and/or Euroclear participants will occur in the ordinary way in accordance with the applicable rules and operating procedures of Clearstream and Euroclear and will be settled using the procedures applicable to conventional Eurobonds in immediately available funds.

Cross market transfers between persons holding directly or indirectly through DTC on the one hand, and directly or indirectly through Clearstream customers or Euroclear participants, on the other, will be effected in DTC in accordance with DTC's rules on behalf of the relevant European international clearing system by its U.S. depository; however, such cross market transactions will require delivery of instructions to the relevant European international clearing system by the counterparty in such system in accordance with its rules and procedures and within its established deadlines, in European time. The relevant European international clearing system will, if the transaction meets its settlement requirements, deliver instructions to its U.S. depository to take action to effect final settlement on its behalf by delivering interests in the bonds to or receiving interests in the bonds from DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Clearstream customers and Euroclear participants may not deliver instructions directly to their respective U.S. depositories.

Because of time-zone differences, credits of interests in the bonds received by Clearstream or Euroclear as a result of a transaction with a DTC participant will be made during subsequent securities settlement processing and dated the business day following the DTC settlement date. Such credits or any transactions involving interests in such bonds settled during such processing will be reported to the relevant Clearstream customers or Euroclear participants on such business day. Cash received by Clearstream or Euroclear as a result of sales of interests in the bonds by or through a Clearstream customer or a Euroclear participant to a DTC participant will be received with value on the DTC settlement date but will be available in the relevant Clearstream or Euroclear cash account only as of the business day following settlement in DTC.

The information in this section has been obtained from sources that we believe to be reliable, but we take no responsibility for its accuracy.

Neither we, the trustee nor the underwriters will have any responsibility or obligation to direct participants, or the persons for whom they act as nominees, with respect to the accuracy of the records of DTC, its nominee or any direct participant with respect to any ownership interest in the bonds, or payments to, or the providing of notice to direct participants or beneficial owners.

Security

The bonds will be secured equally with all other mortgage bonds outstanding or hereafter issued under our Mortgage by the lien of our Mortgage, subject to (1) minor exceptions and certain excepted encumbrances that are defined in the Mortgage and (2) the Mortgage trustee's prior lien for compensation and expenses, constitutes a first lien on substantially all of our properties. Our Mortgage does not constitute a lien on any property owned by our subsidiaries or affiliates. 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 mortgage bonds after we acquire it, all additional mortgage bonds issued under the prior lien must be pledged with the Mortgage trustee as additional security under our Mortgage.

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Authentication and Delivery of Additional Bonds

Our Mortgage permits the issuance from time to time of additional mortgage bonds, without limit as to aggregate amount. Additional mortgage bonds of any series may be issued, subject to the provisions of the Mortgage, in principal amount equal to:

- (1) the principal amount of underlying mortgage bonds secured by a prior lien upon property acquired by us after March 1, 1937 and deposited with the Mortgage trustee under the Mortgage;