

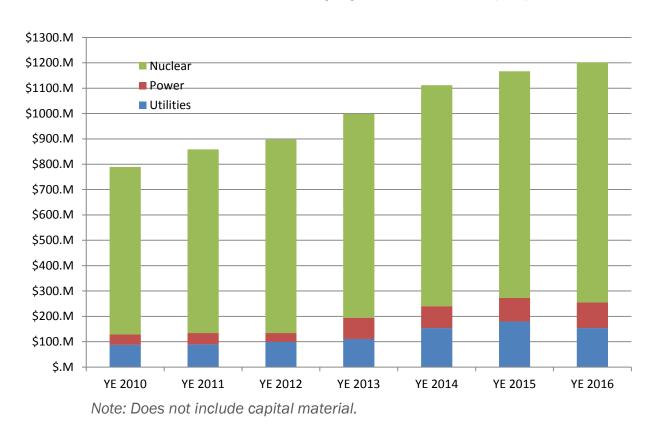
Exelon Inventory Core Principles & Strategy



Inventory Overview

Utility/Power Generation business is asset driven. Inventory, in the form of spare parts and components, is retained as an "insurance" policy against the loss or degradation of company assets. Thus, the nature and growth of inventory is driven by the real or perceived operating risks and is owned by the business. However, Supply is the steward of inventory and therefore, is an active partner with the business in defining and managing inventory.

Below is the breakout of inventory by Business Unit (BU) over the last seven years.



Overall BU Percentages

	Utilities	Power	Nuclear
YE 2010	11%	5%	84%
YE 2011	10%	5%	84%
YE 2012	11%	4%	85%
YE 2013	11%	8%	80%
YE 2014	14%	8%	78%
YE 2015	15%	8%	77%
YE 2016	13%	8%	79%

Acquisition Impacts

BU	Year	Value
BGE	2012	\$34M
CEPG	2012	\$40M
CENG	2014	\$200M
PHI	2016	\$110M
JAF	2017	\$43M

 The increase in Utilities inventory between 2013 and 2015 was primarily driven by EIMA projects in Comed



Inventory Management Model Core Principles

<u>Supply Business Plan – Inventory Management Model Service Level</u>

Management of site and enterprise-wide inventory in a consistent, standardized manner that fully complies with all applicable *regulatory requirements* and aligns with Business Unit needs. Working with the Business Unit to ensure *support of operations and maintenance* while keeping inventory to a minimum by implementing strategies for virtual inventory, *surplus inventory*, *and optimum stocking practices*. Goals will be established and measured to monitor progress and maintain alignment with business and financial needs.

3 Core Principles

Business Objectives

Maintaining Financial Inventory Accuracy

 Meeting internal and external financial control requirements for maintaining the integrity and accuracy of the Inventory Asset Accounts for all Exelon Business Units

Meeting Business Unit Operational Requirements

Maintaining optimal inventory levels which provide the right parts at the right time to meet the business requirements and goals for each Exelon Business Unit

Managing Long Term Inventory Growth

 Ensuring investment in Inventory meets the financial objectives while maintaining the operational requirements of the Exelon Business Unit and minimizing the impact on cash flow and net income



Principles for Maintaining Financial Inventory Accuracy

The overarching Core Principles for Maintaining Financial Inventory Accuracy are:

Robust Inventory
Control
Processes

Secure Warehouses

Nuclear

All warehouses are secure

Use of Technology

On-going monitoring of material management processes via inventory related Procedures & Knowledge Retention Docs (KRD's)

Implement robust cycle count process for inventory accuracy measurement to ensure adherence to key financial controls

Setting Challenging Inventory Accuracy Goals Use of ERP System and embedded controls

BOTS governance and support related to SM-AC-4006 (Inventory Optimization Guide), SM-AC-4009 (Master Materials Catalog Maintenance) and various KRDs.

Utilize statistical sampling process driven cycle count process, with additional sampling required if inaccuracies are found, and associated process monitoring.

Facilitate audits and SOX testing of inventory cycle counts.

Establish annual inventory accuracy goals, track and report results to Supply leadership and Nuclear leadership (Tier 3 Metric)

Utility

Some warehouses are secure, for those that are not secure, compensatory measures (i.e. more frequent cycle counting) have been put in place, or risk deemed insignificant due to value of inventory

Use of ERP System and embedded controls Implementation of handheld scanners for inventory transactions including cycle counting

BOTS governance and support related to SM-AC-4006 (Inventory Optimization Guide), SM-AC-4009 (Master Materials Catalog Maintenance) and various KRDs.

Utilize ERP driven cycle count process and associated monitoring through system reports.

Facilitate audits and SOX testing of inventory cycle counts (BGE and ComEd only - PECO scoped out based on materiality due to integrator model).

Establish annual inventory accuracy goals, track and report results to Supply leadership

Power

Some warehouses are secure, for those that are not secure, compensatory measures (i.e. more frequent cycle counting) have been put in place, or risk deemed insignificant due to value of inventory

Use of ERP System and embedded controls

BOTS governance and support related to SM-AC-4006 (Inventory Optimization Guide), SM-AC-4009 (Master Materials Catalog Maintenance) and various KRDs.

Utilize ERP driven cycle count process and associated monitoring through system reports.

Inventory KFCs have been scoped out by FCG for Power based on materiality.

Establish annual inventory accuracy goals, track and report results to Supply leadership



Principles for Meeting Business Unit Operational Requirements

The overarching Core Principles for Meeting Business Unit Operational Requirements are:

- Robust Demand management process
 - Planning accuracy improvements
 - Look ahead planning (E-Week Process adherence)
 - o Technology improvement
- Clearly defined stocking strategy process
 - Identify business requirements for min and max stocking levels and why they are different
 - Educating business on stocking strategy
 - Leveraging technology
- Robust consumption monitoring process
- Maintaining accurate leadtime information.
- Managing past due material reservations
- Managing material need dates
- Timely material returns
 - o Returns prior to MR closure for maintaining usage history
 - o Returns prior to replenishment.
- Tight controls on staging process
- Reservation approval process (DOA level enforcement)
- Reservation challenge process (material value vs. budget)



Principles for Meeting Business Unit Operational Requirements

Nuclear

Provide weekly & monthly reports on Material Availability & Inventory Stock Optimization metrics to Nuclear & Supply leadership

Established guideline for timely material return after completion of work

Goals established for material availability metrics & DOA levels for procurement

Effectively utilizing Auto-buy functionality for procurement to provide a controlled flow of material replenishment

On-going practice of Fix & Touch min / max levels when replenishing material

E-week meetings to review material availability for upcoming work

Complete inventory growth common cause investigation to determine appropriate balance between operational requirements and inventory growth management

Utility

Provide Daily Delta & MR Lead-time reports to Supply Ops

Established guideline for timely material return after completion of work

Goal established for MR Lead-time & DOA levels for procurement

Effectively utilizing Auto-buy functionality for procurement to provide a controlled flow of material replenishment

Commodity meeting – seasonal adjustment of stock levels

On-going Fix & Touch min / max levels when replenishing material

Expand material availability metrics and goals beyond MR Leadtime

Power

Provide weekly & monthly reports on Material Availability Metrics to Supply Ops

Established guideline for timely material return after completion of work

Goals established for material availability metrics

Effectively utilizing Auto-buy functionality for procurement to provide a controlled flow of material replenishment

On-going practice of Fix & Touch min / max levels when replenishing material

Establish approval levels for procurement of material (DOA)



Principles for Managing Long Term Inventory Growth

The overarching Core Principles of Managing Long Term Inventory Growth are.

- Monitoring new inventory adds, surplus inventory growth, AUP, and stock optimization impacts
- Creating clear lines of accountability for inventory growth
- Educating the business in inventory management principles
- Robust obsolescence management process
- Ongoing stocking strategy management utilizing the following methodologies:
 - Seasonal reviews
 - Special projects
 - Historical usage trends
 - Technology changes MDM
 - Emergency reserve/critical spares management process
- Use of system demand driven procurement process (i.e. no manual recs)
- Utilization of existing inventory SEER / Rapid, MDM
 - Robust inventory transfer processes and policies
 - Inter-Utility Contingencies



Causal Factors in Inventory Growth - New Inventory Added

Nuclear

Provide monthly scorecard including analysis on inventory growth & operational performance to Nuclear & Supply leadership

Goals established & ownership identified between Nuclear Supply and the Business

Identify candidates for annual obsolescence review & track performance

Explore tools to improve inventory catalog data integrity to reduce possibility of duplication of existing inventory

Utility

Provide monthly scorecard including analysis on inventory growth & operational performance to Supply leadership

Support inquiries from regulators related to new inventory

Generate obsolescence candidate population based on Accounting criteria for BU's to perform their review

Gather & monitor inventory data by commodity for monthly preso. & education to Supply Ops

Explore tools to improve inventory catalog data integrity to reduce possibility of duplication of existing inventory

Power

Provide monthly scorecard including analysis on inventory growth & operational performance to Supply leadership

Conducted min / max reviews related to inventory audit

Generate obsolescence candidate population based on Accounting criteria for BU's to perform their review

Explore tools to improve inventory catalog data integrity to reduce possibility of duplication of existing inventory



Implemented

Nuclear

Provide monthly scorecard including analysis on inventory growth & operational performance to Nuclear & Supply leadership

Goals established & ownership identified between Nuclear Supply and the Business

Implemented SEER (Common Parts)

Identify candidates for annual obsolescence review & track performance CPG assist with reduction of material returns

Communicate Inventory Growth Drivers deck – tool for Supply & Business

Continue to socialize SEER & Rapid common parts tools with industry peers & build use of contingency manager

Explore tools to improve inventory catalog data integrity to improve right parts selection

Growth Common Causes investigation

Utility

Provide monthly scorecard including analysis on inventory growth & operational performance to Supply leadership

Implemented SEER (Common Parts)

Defining Slow Moving Inventory for Utility

Generate obsolescence candidate population based on Actg. criteria for BU's to perform their review

Gather & monitor inventory data by commodity for monthly preso. & education to Supply Ops

Communicate Inventory Growth Drivers deck – tool for Supply & Business

Explore tools to improve inventory catalog data integrity to improve right parts selection

Establish Slow Moving Inventory Metrics

Power

Provide monthly scorecard including analysis on inventory growth & operational performance to Supply leadership

Implemented SEER (Common Parts)

Defining Surplus Growth for Power Conduct min / max reviews related to audit

Generate obsolescence candidate population based on Actg. criteria for BU's to perform their review

Communicate Inventory Growth Drivers deck – tool for Supply & Business

Continue to socialize SEER & Rapid common parts tools with industry peers & build use of contingency manager

Explore tools to improve inventory catalog data integrity to improve right parts selection

Establish Surplus Growth Metric & Goal



Causal Factors in Inventory Growth – Inventory Stock Optimization Reductions

Nuclear

Provide monthly scorecard including analysis on inventory growth & operational performance to Nuclear & Supply leadership

Goals established & owned by Nuclear Supply Ops

Implemented CPG to gain economies of scale

CPG group evaluating population of potential stock reductions

Communicate Inventory Growth Drivers deck – tool for Supply & Business

Utility

Provide monthly scorecard including analysis on inventory growth & operational performance to Supply leadership

Implemented CPG to gain economies of scale

Gather & monitor inventory data by commodity for monthly preso. & education to Supply Ops

Communicate Inventory Growth Drivers deck – tool for Supply & Business Establish Goals

Power

Provide monthly scorecard including analysis on inventory growth & operational performance to Supply leadership

Implemented Tier 2 - 3 Metric

Conduct min / max reviews related to audit

Communicate Inventory Growth Drivers deck – tool for Supply & Business Establish Goals



Implemented

Current

Keys To Success - Partnership

- ➤ Partner with the business in managing long term inventory growth Inventory growth management must be a partnership between Supply and our business Partners
 - Establish Multi discipline team (Supply, IT and Bus Reps) to build Business Case(s) for Change
 - Identify and document Gaps, Work-arounds and potential Operational efficiency gains, and identify total costs and potential savings
 - Conduct Innovation Technology exploration (See Appendix)
 - Standardize wherever possible, document where not
 - Implement Technology that enables/enhances desired business process
 - Leverage industry peers and resources
- > Supply alone cannot manage inventory growth. Supply must educate the business on their roles and accountabilities associated with managing inventory growth and understand the financial impacts associated with inventory

