



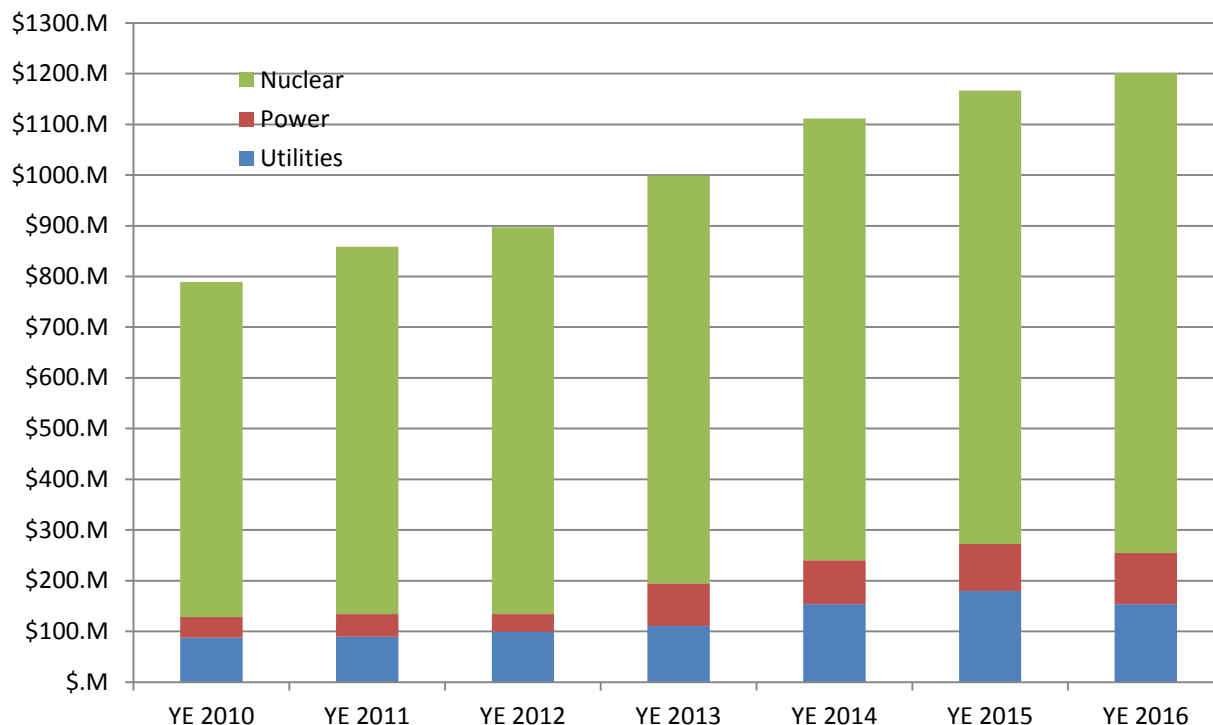
# Exelon Inventory Core Principles & Strategy



# 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.



Note: Does not include capital material.

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

## Supply Business Plan – Inventory Management Model Service Level

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

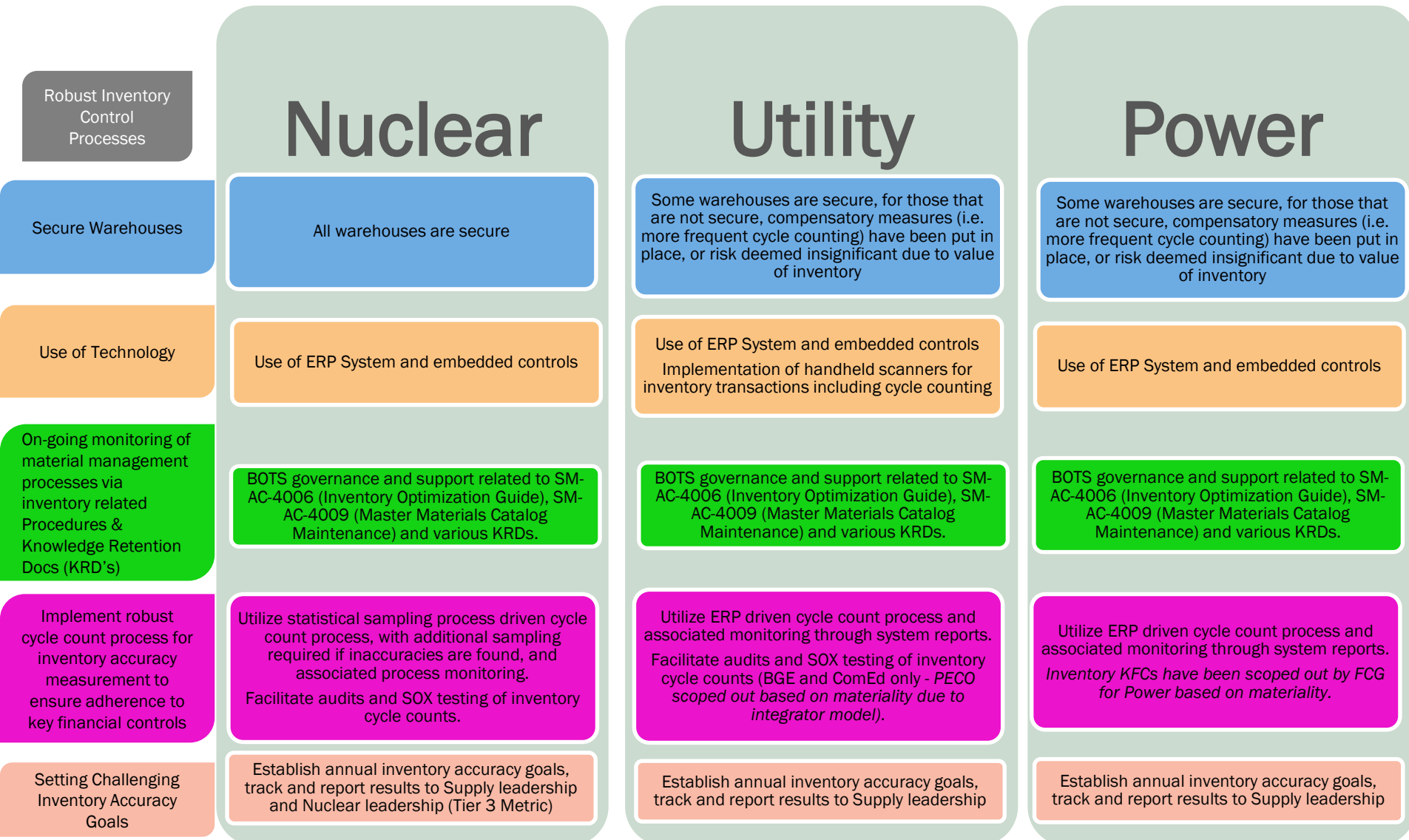
- Maintaining optimal inventory levels which provide the right parts at the right time to meet the business requirements and goals for each Exelon Business Unit

#### 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:*



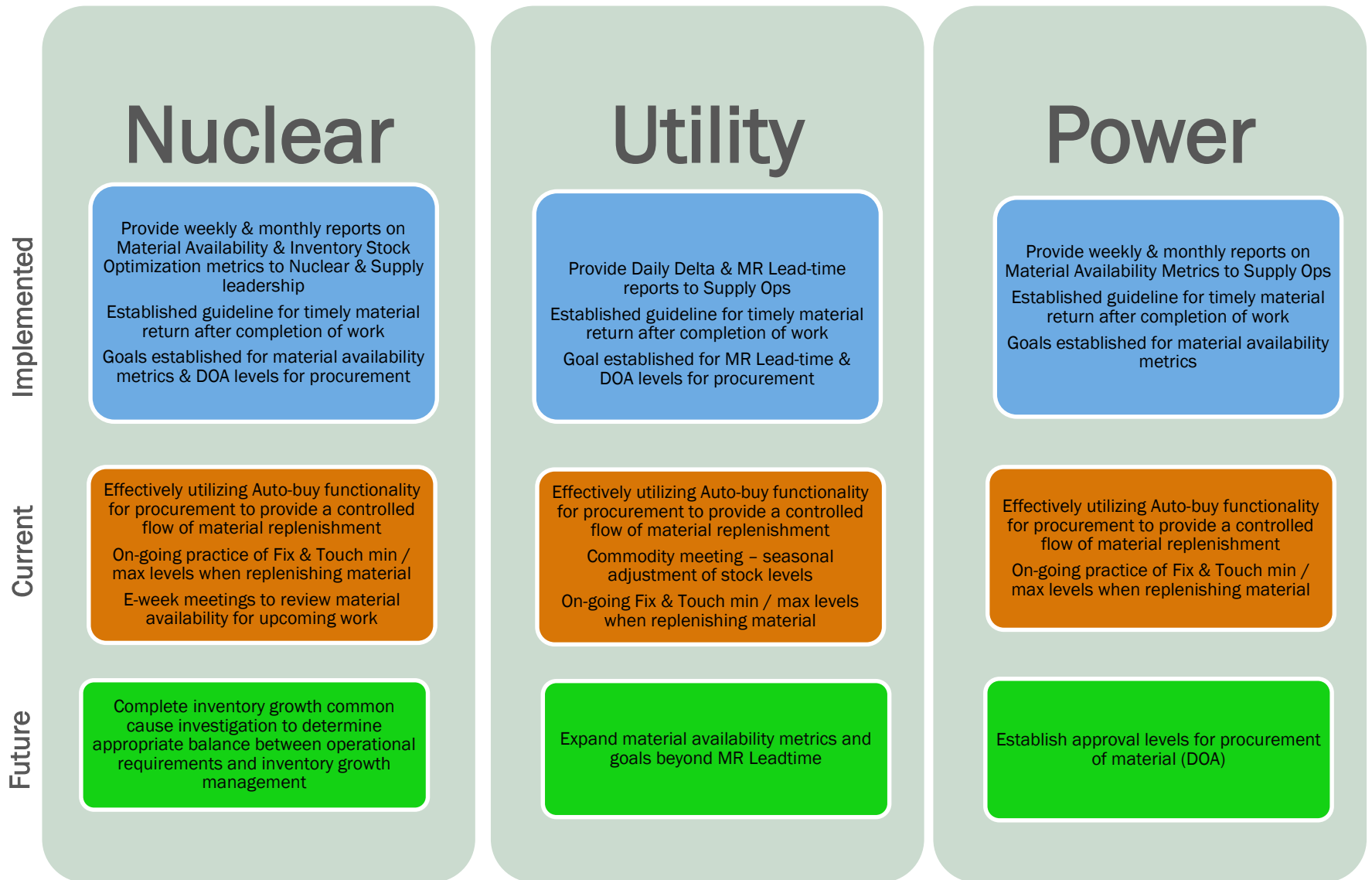
# Principles for Meeting Business Unit Operational Requirements

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*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)
  - 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
  - Returns prior to MR closure for maintaining usage history
  - 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



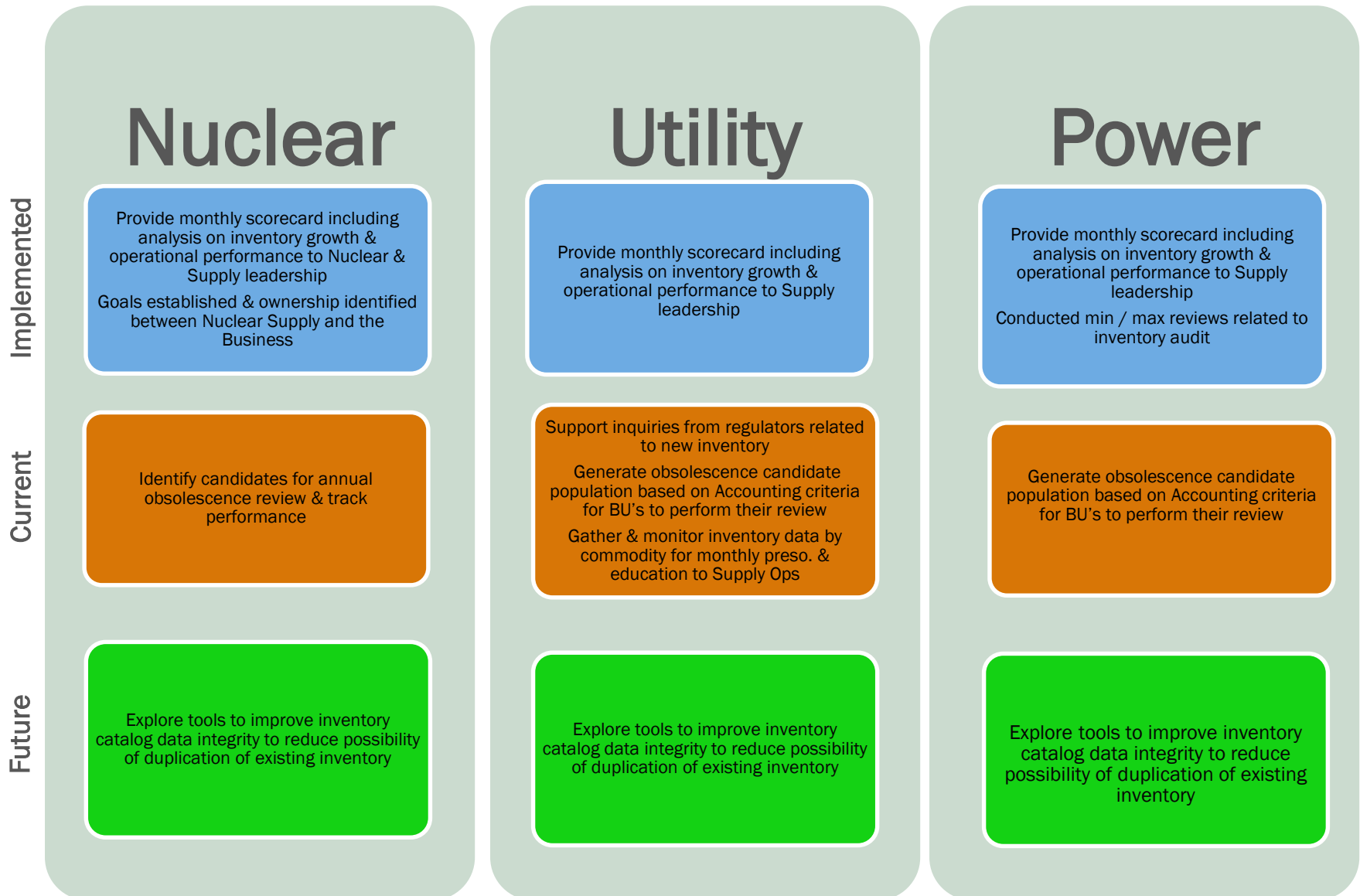
# Principles for Managing Long Term Inventory Growth

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*The overarching Core Principles of Managing Long Term Inventory Growth are:*

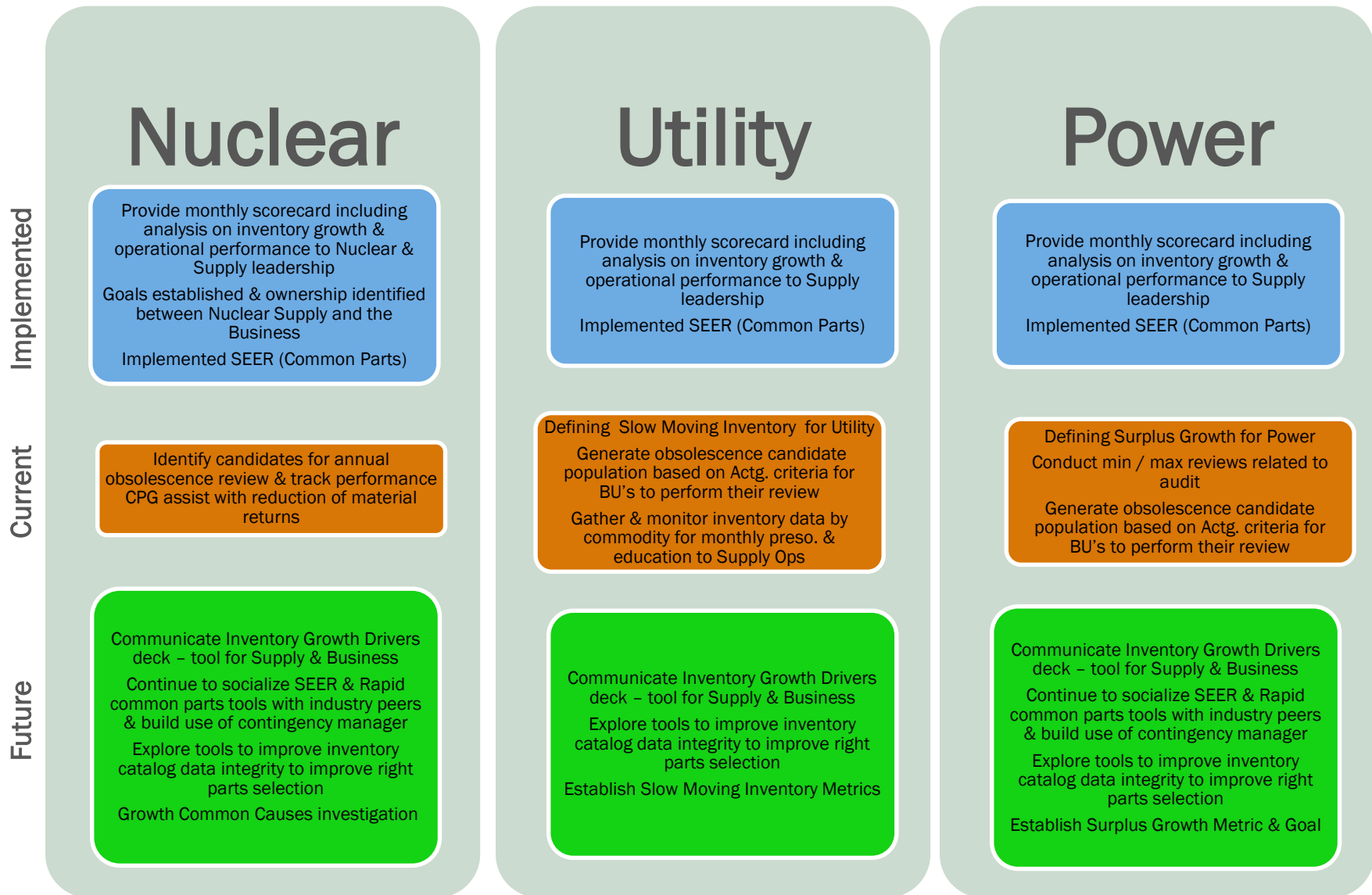
- Monitoring new inventory adds, surplus inventory growth, AUP, and stock optimization impacts
- Creating clear lines of accountability for inventory growth
- Educating the business in inventory management principles
- Robust obsolescence management process
- Ongoing stocking strategy management utilizing 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

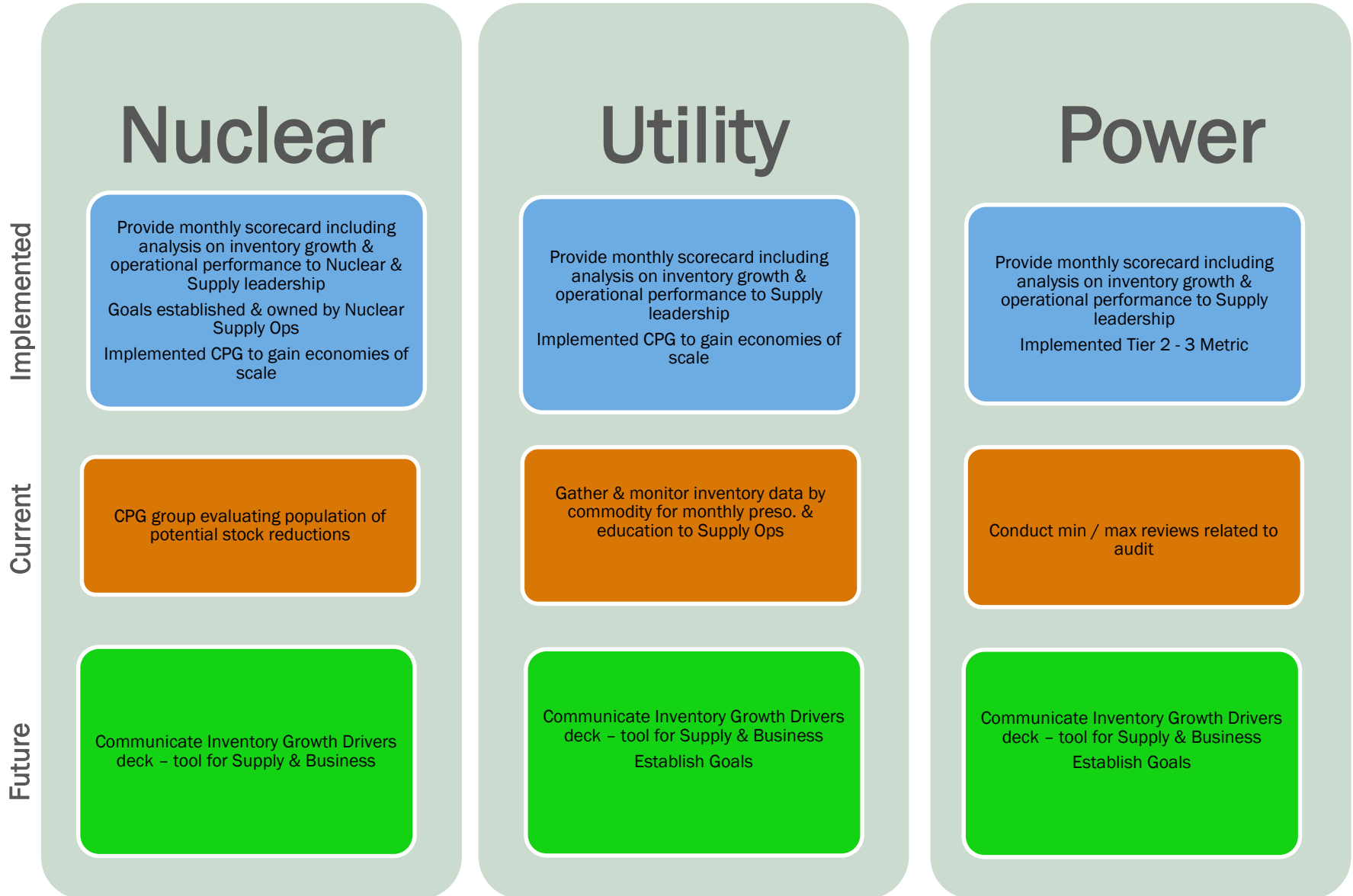




# Causal Factors in Inventory Growth – Surplus Growth



# Causal Factors in Inventory Growth – Inventory Stock Optimization Reductions



# Keys To Success – Partnership

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- 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