Remarks as prepared

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Address to the Opening Plenary Session
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Approximately 25 minutes of remarks;
Joint Q&A follows with Professor William Nordhaus of Yale

I want to thank my friend Howard [Gruenspecht, Acting Administrator of the Energy Information Administration] for that introduction.

It is an auspicious time for EIA to host this conference.

The release of the draft Waxman-Markey bill last week signals the beginning of the most serious debate we as a nation have ever had about climate change policy.

We have known since the presidential nominees were chosen last summer that the time had finally come for a serious debate on climate legislation.

What we didn't know was that the world itself would change so dramatically in the interim.

Perhaps most notably, our economy has become markedly weaker.

The financial and domestic automobile sectors are teetering.

We have new and renewed worries internationally, including Afghanistan and Mexico.

Yet despite all these excuses to send the climate debate to the backburner, prospects for passage of comprehensive legislation are now better than ever.

That is a testament to leadership in Congress and to President Obama.

In the absence of a federal policy, Exelon has been doing what it can to contribute to a solution to our climate problems.

This has long been a personal cause of mine.

Seventeen years ago, in 1992, I testified for the first time before Congress about CO2 emissions and their potentially harmful effects on our environment.

Many of you are familiar with Washington and know that seventeen years is an eternity in this town – it is also a big part of my career.

In 2004, I served as co-chair of the National Commission on Energy Policy, which developed bipartisan recommendations on climate change – including the adoption of a cap-and-trade system.

Last July, we announced Exelon 2020: A Low Carbon Roadmap.

Exelon 2020 is our plan to reduce, offset, or displace more than 15 million metric tons of GHG emissions per year by 2020.

This amount is larger than our carbon footprint.

Our plan has three components – green our own operations, help our customers and communities reduce their GHG emissions, and provide more low-carbon electricity in the marketplace.

Today, I am very pleased to announce that we have completed a major step toward meeting our Exelon 2020 goal.

As of the end of 2008, we met and exceeded the GHG reduction commitment we made as part of the U.S. EPA Climate Leaders Program.

The goal we set in 2005 was to reduce our emissions by 8% from 2001 levels by December 31, 2008.

In actuality, we achieved a reduction of more than 35% of the 2001 level.

We reduced our annual GHG emissions by almost 6 million metric tons.

SLIDE 1 – EXELON 2020 LICENSE PLATE AD

This is the equivalent of taking more than 1 million passenger vehicles off the road every year.

We did this through:

Retiring our least-efficient and carbon-intensive fossil plants.[1]

Reducing the leakage of highly potent GHGs like sulfur hexafluoride – an insulating gas used in circuit breakers that has a global warming impact of close to 24,000 times greater than that of CO2

[1] The plants are: Mystic 4, 5, & 6 in 2003, New Boston 2 in 2003, Delaware 7 & 8 in 2004, Handley 1 & 2 in 2005, Mountain Creek 2 & 3 in 2005, and New Boston 1 in 2006

And increasing energy efficiency in our buildings – including our Chicago headquarters, the largest office space renovation in the world to be certified as LEED-Platinum.

This is a signal accomplishment for a utility company.

Exelon was one of a handful of utilities that set a voluntary greenhouse gas emissions goal.[2]

This, despite the fact that 40% of emissions come from the electric power industry.

Our progress surpassed the best expectations we harbored in 2005, and I am proud we are able to set an example for our industry with our announcement today.

But we still have work to do to meet our 2020 goal, and we have picked most of the low-hanging fruit.

To fully realize our goal – and for other companies and our society to realize their GHG reduction goals – we need Federal action.

I want to spend a bit of time talking about what the key components of that action need to be.

First, I think it is worth coming back to the first principle of the debate.

Everyone in this debate has different motives for supporting enactment of climate change legislation.

Some are motivated by the science and the potentially devastating impacts of a warming planet.

For some, it is a vehicle for job promotion and economic stimulus.

For others, it is about energy security and ending reliance on foreign oil and gas.

For still others, it is about promotion of new technologies.

[2] Seven other utilities are part of the EPA Climate Leaders Program: AEP, Bluebonnet Electric Cooperative, Calpine, Duke, Entergy, FPL, and PSEG. AEP and FPL have achieved their goals in past years; Calpine and PSEG have goals that ended in 2008; Bluebonnet, Duke, and Entergy have goals ending in future years or have not set their goals.

I would note that the summary of the Waxman-Markey bill list the benefits in this order: jobs, reduced energy costs, energy security, and finally climate.

My view is that this debate has to be about climate change in both name and substance.

This problem took us a century to create and it will probably take us at least a century to fix.

We make a grave mistake if we allow the issue most immediate in our mind at a given point in time to dictate our solution.

Let me give you an example of how doing this can lead us to take our eye off the ball.

As part of Exelon 2020, we examined all of the methods available to us to reduce our GHG emissions.

We calculated the amount of carbon emissions avoided by implementing a particular method.

We calculated the cost per metric ton of carbon at which the particular method becomes economic.

And we ordered those options by their cost to form a price curve, which looked like this.

SLIDE 2 – JULY 08 SUPPLY CURVE

The precise details may be hard for some of you to see.

You can examine the curve in detail on the Exelon website if you would like.

But the important thing to see is the general shape.

To the left, the yellow bars represent energy efficiency measures with fast paybacks.

Many of these measures are economic even without a price on carbon.

Other items, such as the light blue uprates at our nuclear plants, are economic at even a low carbon price.

Some items, like dark blue bar representing building a new nuclear plant, give you significant carbon mitigation but at a price.

And some items, like the dark green wind bars, come at an even higher price -- $50 or more per ton of carbon avoided.

We are now in the process of updating our cost curve to reflect the changing economic and policy realities.

We have looked at a number of scenarios, and I must tell you that the shape is similar by the costs are more dramatic.

SLIDE 3 – FOUR SQUARE CHART WITH ILLUSTRATIVE SCENARIOS

This chart shows how the economics change given your assumptions.

The first chart of each series is the original Exelon 2020 chart.

The second is an update with a lower gas price.

The third is a low gas price, a renewable portfolio standard, and low load growth due to a poor macroeconomy.

In each of these scenarios, the economics of a given method will change.

Generally speaking, as gas prices fall and growth slows, these options become significantly more expensive.

New nuclear plants become extremely costly.

Uprates at existing plants become less attractive.

And even energy efficiency becomes expensive.

And therein lies the danger of looking through 1 year lenses to solve a 100 year problem.

Neither we nor anyone else can predict which state of the world will come to pass.

We will make the best decision with the information we have and take our chances.

But with all the other uncertainty we need certainty on policy.

My industry is one with long-lived assets.

We will live for 40 years with the results of the policy decisions we make now.

So it is critically important that the decisions are made for the right reasons.

We will set ourselves up for difficult times if our goal is anything other than getting the most reduction in carbon at the lowest cost.

I see four critical components to reaching this goal.

First, we must place a price on carbon emissions.

The price signal sent through a cap-and-trade system is essential to encouraging low-carbon investments and discouraging high-carbon investments.

A cap-and-trade system will help ensure that we make low-carbon investments in the cheapest and most efficient way possible.

The Waxman-Markey bill meets this first standard.

Perhaps I am paranoid, but I'm not sure that the need for a price on carbon is a settled matter for some in this debate.

In the last four months, our government has made major investments in energy efficiency and renewables through the economic stimulus legislation.

Congress will likely pass a renewable portfolio standard for our industry that will encourage further investments in wind and solar.

Some will use the passage of an RPS law as an excuse for not doing more to address climate change.

I believe RPS is little more than a down payment toward a sound climate policy – it addresses part of the problem, but is not enough.

We must resist the temptation to think that those steps are sufficient.

If our response to climate change is only heavily-subsidized governmental incentives for renewables, we won't make the most efficient investments in our supply curve first.

Some in recent weeks have scored points describing a cap-and-trade system as a hidden tax.

My response to that is: they're right, but <u>any</u> response we take to climate change will be an implicit tax.

A carbon tax is a tax in practice and in name.

A cap-and-trade system is a tax by another name.

And a renewable portfolio standard that requires customers in the Southeast to buy power from the Great Plains is a totally hidden tax.

The key consideration in this debate is the same as it is in every debate concerning taxes: how to make it as low as possible and still get the job done.

But we do ourselves no favors by taking actions that are relatively expensive and letting customers and voters think they come for free.

Exelon has supported – and will continue to support – a renewable portfolio standard.

The Waxman-Markey RPS level of 25% by 2025 is too high, in our opinion.

Though a Democratic congressman described it as "an opening bid."

We believe that last year's Bingaman-Specter level of 15% by 2021 is more realistic.

And an RPS <u>must</u> be considered in a comprehensive bill with a price on carbon.

The second key principle is that it must have a robust cost containment mechanism in order to be effective and economically responsible.

It is no secret that we have a fragile economy.

That in itself is not a reason to defeat a cap-and-trade system.

Indeed, there may be advantages to instituting such a system when energy prices are low rather than at the levels of last summer.

But the delicate state of the economy makes it all the more important that the legislation prevent extreme price increases.

The initial carbon price should be modest and should increase over time as our economy adapts and new technology becomes available.

This can be done through a fixed cap and floor on the price of carbon and a pool of offsets and allowances released to maintain a targeted price.

And the cost containment system must have integrity – since consumers must eventually see the higher price of high-carbon energy.

A well-designed cost containment mechanism is a critical component of an effective cap-and-trade law.

Without some flexibility, we will find that our climate regime crumbles under consumer outcry at the first serious strains in energy markets.

The third tenet is that legislation must include a sensible method for allocating allowances.

President Obama has proposed that all allowances must be auctioned.

The Waxman-Markey bill is silent on the matter, however, and we are told it is something to be addressed in the legislative “sausage-making.”

That they are silent on this critical detail is a major hole in their bill.

The US Climate Action Partnership – which Exelon is a part of – has proposed that a large part of the allowances should initially be allocated to capped entities for free.

That would mean roughly 40% of allowances would be given to the utility sector and distributed at no cost to local delivery companies.

LDCs could then sell these allowances and use the proceeds for rebates, low-income assistance, energy efficiency, and other

measures to help their customers who are most affected by higher energy prices.

I want to emphasize that utilities would not profit from the allowances, but would use them to help our customers deal with the transition to higher prices.

This is a position that is backed by the Edison Electric Institute, the US Climate Action Partnership (including three major environmental groups), the National Association of Regulatory Utility Commissioners, and two labor unions.

Stranger bedfellows one will not find in Washington, which may mean that the proposal has an unusual amount of common sense.

Ultimately, allocation of allowances may seem like it is an issue deep in-the-weeds of this debate.

But if the allocation is structured right and relief gets most directly to those most directly affected, it will help immeasurably to build legitimacy for the legislation.

Finally, we should remain committed to competitive markets, particularly in electricity.

Of course, market forces, properly regulated and monitored, are at the heart of a cap-and-trade system.

Competition in the electricity sector has delivered an impressive record of new, environmentally preferred investment and has dramatically improved the operating performance of existing generation

As we prepare for a world with a cap-and-trade regime for carbon, competition will be more important, not less.

Competition combined with a price on carbon will generate environmentally preferred solutions at the lowest possible cost.

Nationwide competition will be important to ensure consumers get the price signals needed to change behavior.

Markets can also provide the discipline needed to prevent cost overruns in the construction of new generation.

In my industry, you can waste billions very quickly.

In this economy, that is the last thing we can afford.

Competitive markets are the best mechanism we have to make sure we act efficiently.

Henry Ford once said “You can’t build a reputation on what you are going to do.”

Those are words to live by today.

Exelon has worked to turn its words into actions, and Exelon 2020 and our Climate Leaders achievement demonstrate our commitment.

But for Exelon to ultimately be successful in reaching our goal, and for the U.S. to successfully reduce our GHG emissions, we need the Administration and Congress to turn their good intentions into actions.

We must maintain our focus on getting the most carbon reductions at the lowest price.

We must ensure that we build a system that creates the right incentives.

And we must create a regime that has the flexibility to ensure that consumers are not unduly strained.

If we can be successful on all those counts, we will have taken an enormous first step towards implementing our century-long solution.