

## Exelon CEO John Rowe on Climate Change and Competitive Markets

*Excerpt from Exelon's Quarterly Earnings Conference Call  
April 25, 2007*

The scientific evidence that human activity is ruining the planet has gone from convincing to compelling. The most recent scientific report issued by the United Nations Foundation has dispelled any lingering doubt. Climate change is real. It is pervasive, and the time to begin acting is now.

Both public opinion and the body politic are responding with increasing urgency. The Supreme Court's recent decision affirming EPA's authority to regulate carbon as a pollutant within the meaning of the Clean Air Act may accelerate Congressional action. There has been a flurry of activity in both Houses, and while we are still some distance from actual consensus, the question of climate legislation has shifted from "if" to "when."

Congressional action is likely sometime in the next two or three years. It may even come as early as 2008. In this regard, I commend to you the recently updated recommendations of the self entitled National Commission on Energy Policy which I co-chair. Over the past five years, this bipartisan, environmental academic and business group has been trying to provide a voice both for action and moderation in this debate.

I see increased investor interest reflected not only in the value of our nuclear fleet, but in investment opportunities more generally. Addressing climate change will be one of the next great global industries both in challenge and in opportunity. It will have profound consequences not just for environment and economic sustainability but also for national security.

Many of you on this call have begun to call attention to both this challenge and its opportunity. Frankly there is more that you can do in your own interest and in the nation's. In my mind, there is an obvious link between our ability to successfully address climate change and the use of competitive forces in the electricity market.

Tom Friedman made this point beautifully in the recent article in the *New York Times Magazine*. The only way we're going to get immediate innovations in energy-saving appliances, lights, and building materials as well as non-carbon emitting power plants and fuels -- and still hold energy costs to an acceptable level -- is through the working of free markets. That is true in all sectors of the economy including the utility sector.

As you know, there is now an increasingly strident debate in Washington and across the country about the benefits of wholesale competition in the electric utility industry. We see it most immediately in Illinois, but the issue has profound implications across the country and not just for Exelon's market value. The Energy Information Administration estimates that the utility industry is the source of almost one-third of the current carbon emissions in this country. If we are to successfully address this issue, the utility industry will need to invest many billions of dollars in the years to come in new sources of low carbon generation. That cannot occur if states regulate with a "heads we win, tails you lose" mentality. We cannot invest, you will not invest, if the industry is continually subject to the lower of cost or market.

Personally I believe and Exelon is totally committed to the proposition that organized wholesale markets are the best way to bring about the benefits of competition. Wholesale competition in PJM and other markets has delivered dramatic operating and performance improvements and dramatic customer savings.

The outstanding performance of our nuclear fleet is one compelling example. In the past ten years, we have effectively doubled the low carbon generating output of our Illinois plants without building a single plant. Furthermore, large customers are shopping and residential customers are experiencing the benefits of wholesale competition, which is being passed along to them through the FERC- and ICC-approved auction process. Even in those regions that resist the development of organized markets, utilities need assurance that they will recover their investment.

I have equally grave concern that any current regulatory model, whether it be rate based, integrated resource management or in a competitive model, can be totally relied on in periods of rising costs. As

a nation we have become addicted to cheap fossil fuels in our homes, our businesses and our highways. If that is to change, we need to spur needed innovation and investment, and we will have to be prepared to pay for it. The truth is we will pay more for it if we do it through disorder than if we do it in an orderly application.

So I urge those of you who are and who represent investors to get involved in these competitive debates. Exelon has initiated a new national effort to support wholesale competition. Betsy Moler is heading that effort for us. I urge you to talk to her about how you can work on this. It's important not only for your investment in us; it's important to see that the nation deals with these challenges.