

National Press Club Newsmakers Series Luncheon

12:30 PM, Friday, May 15, 2009

Washington, DC

25 minutes of remarks, up to 30 minutes of Q&A submitted via written cards

Thank you Donna [Leinwand, President of the NPC] for that introduction, and thank you to the members of the Press Club for inviting me.

Here I am yet again, coming to Washington to talk about climate and energy policy

I've been doing that for most of three decades, usually on my company's behalf, sometimes as the industry front for Ralph Cavanagh of NRDC and most recently as a web pop up for Fred Krupp of Environmental Defense.

But today's visit might actually be useful

Chairmen Waxman and Markey are on the verge of passing comprehensive climate change legislation out of the House Energy and Commerce Committee

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

Most Americans accept the scientific consensus that build-ups of carbon dioxide and other greenhouse gases threaten severe changes in our climate and that human activity is a major contributor to this threat

What we didn't know was that the world itself would change so dramatically in the intervening nine months

Yet prospects for passage of comprehensive climate change legislation are better than ever.

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

Climate change legislation has long been a priority – both for me and my companies

In 2004, I began serving as co-chair of the National Commission on Energy Policy, which developed bipartisan recommendations on climate change – including a cap-and-trade system, new energy efficiency standards, support for new nuclear plants and support for clean coal technology

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More recently, Betsy Moler and I have been active participants in the United States Climate Action Partnership, a bipartisan coalition of power companies like Exelon, energy and oil companies, manufacturers, and five major environmental non-profits.

Both USCAP and NCEP have done much to set the stage and forge consensus on the most difficult aspects of climate legislation.

Exelon, of course, is uniquely situated with respect to the issue – partly due to planning and partly to heredity. Utilities too evolve into ecological niches

Exelon Generation is the largest low-carbon generator in the country, with 17 nuclear units located throughout the Midwest and Mid-Atlantic States

We operate those units at world-class levels of efficiency – our fleet wide capacity factor has exceeded 93% the last six years in a row

We sold a large part of our coal fleet back in 2000 partly because we were concerned about climate change

Exelon is also the parent of Commonwealth Edison and PECO.

We serve almost 12 million people in and around Chicago and Philadelphia – including President Obama and his family.

If climate legislation causes their monthly bills to rise sharply, we will face intense political and business pressure.

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 entire 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.

We recently announced a major step toward our Exelon 2020 goal by exceeding our GHG reduction commitment under the US EPA Climate Leaders Program

As of the end of 2008, we have reduced our overall emissions by 6 million metric tons a year, or 35% from 2001 levels, which is the

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equivalent of taking more than 1 million passenger vehicles off the road.

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

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

The climate problem took us a century to create and it will probably take us at least a century to fix

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 will drive low-carbon investments and discourage high-carbon investments.

A market-based cap-and-trade system will help ensure that we make low-carbon investments in the most efficient way we know – at each future point in time

The Waxman-Markey compromise proposal clearly meets this first standard.

Some on the left will argue that the passage of a renewable portfolio standard obviates the need to do more

But an RPS is little more than a down payment toward a sound climate policy

If our response to climate change is only a renewable mandate, we won't make the most efficient investments in our supply curve first

I commend Congressmen Waxman, Markey, and Boucher for putting a carbon cap-and-trade mechanism and a reasonable renewable portfolio standard together in a comprehensive bill

Let me be very clear: Exelon has supported – and will continue to support – a renewable portfolio standard

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Wind and solar will clearly play an increasing role in meeting our energy needs

Last month, Exelon announced its intention to develop the nation's largest urban solar installation – 10 MW of capacity – on a brownfield site on the South Side of Chicago

We are examining which further investments in wind and solar power make sense today and in the next ten years

Combinations of wind and a gas generation back up are more economical today than they have ever been

But as with all things, there must be limits

The original Waxman-Markey proposal of 25% renewables by 2025 was in our view too expensive

The compromise proposal – a goal of 15% renewables by 2020 – should be achievable without undue stress on either the economy or the reliability of our power supplies.

I am hopeful that Chairman Jeff Bingaman's effort to pass a similar proposal in the Senate will also succeed

We would like to see all non-emitting resources qualify under the RPS – including new hydropower and uprates at existing nuclear sites.

Others on the right have argued that cap-and-trade should be dismissed as a hidden tax

But any response we take to climate change will impose costs. The carbon-based free lunch is over.

A carbon tax does so directly

A cap-and-trade system does so through the market

And a renewable portfolio standard does so through regulation

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

SECOND, THE LEGISLATION MUST INCLUDE A ROBUST COST CONTAINMENT MECHANISM

We are trying to fix a fragile economy, but that is no reason to defeat a cap-and-trade system

That does make it all the more important to prevent price volatility and extreme increases

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

USCAP recommends that this be done through a fixed cap and floor on the price of carbon with a pool of offsets and allowances to maintain a targeted price.

The Waxman-Markey compromise proposal adopts a similar mechanism, but may fall short by adopting an inadequate reserve

A well-designed cost containment mechanism is essential lest the legislation so painstakingly crafted crumble under consumer outcry at the first serious strains in energy markets

THIRD, THE LEGISLATION MUST INCLUDE A SENSIBLE METHOD FOR ALLOCATING ALLOWANCES.

USCAP has proposed that a large part of the allowances should initially be given to the electricity sector

That would mean that roughly 40% of allowances would be distributed at no cost to local delivery companies

LDCs could then sell these allowances and would be required to use the proceeds for rebates, low-income assistance, energy efficiency, and other measures to help their customers

Some in this debate have objected to this allocation system as a windfall for “polluters”

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Yet utilities will not profit from the allowances. We will be required to use them to help our customers deal with the transition to higher prices.

I take pride in knowing that Exelon was the first company to pioneer and testify in support of giving allocations to LDCs rather than to companies like our own generating affiliate.

This is a position that is backed by the Edison Electric Institute, USCAP, the National Association of Regulatory Utility Commissioners, and two labor unions.

The Waxman-Markey bill was initially silent on the question of allocation.

The Chairmen knew that their success depended upon successfully negotiating an acceptable allowance allocation proposal

But we now understand, the Waxman-Markey-Boucher compromise proposal will initially grant 35% of allowances to LDCs

I applaud Chairmen Waxman and Markey for their willingness to negotiate on this critical issue

And I particularly want to acknowledge Congressman Boucher, who deserves enormous credit for helping to reach this compromise

FOURTH, WE NEED TO BE HONEST ABOUT THE ESSENTIAL ROLE THAT COMPETITION PLAYS IN MEETING THE ENERGY AND CLIMATE CHALLENGE

This is true for oil and true for natural gas; it is equally true for electricity, energy conservation; for carbon dioxide allocations; and for new technologies

In the electricity industry, the introduction of wholesale competition has dramatically improved the performance of the existing generation fleet.

According to a recent study by Navigant Consulting, the efficiency of baseload coal plants in competitive markets has improved by more than 9%.

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Nuclear capacity factors over that same time in those same markets have increased by 12%, now annually above 90%.

Moreover, improved operations have resulted in real cost savings for customers

In Illinois, ten years ago customers on average paid 12% above the national average – today they pay 6% below.

In Pennsylvania, a recent Public Utility Commission study found that residential customers in the Philadelphia area would pay 7% less if they were paying market rates.

Wholesale competition has likewise proven to be an effective way to promote renewable power and energy efficiency.

According to the DOE, as of 2006, roughly 74% of wind resources are located in organized markets even though only 44% of wind potential is found in those markets.

Of the 130 wind farms installed last year, 75% were in organized markets by competitive suppliers.

This is not an accident – wind developers benefit not only from access to the transmission grid but also from the market mechanisms afforded by RTOs, including back-up power and re-dispatch.

And finally, competition is the best way to foster the technological innovation we so desperately need to address global climate change.

No one really knows what the final technological solutions to climate change will look like

Since we prepared the initial Exelon 2020 analysis, economic growth has slowed substantially and natural gas prices have plummeted

Technologies that once looked attractive are less so

Technologies that once looked prohibitively expensive look more reasonable

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And therein lies the danger of choosing technology based upon a snapshot in time – whether it be nuclear, coal, wind or solar.

Be very wary of anyone who says “I have seen the future and it works”

But competition will ensure that we ultimately adapt to these changes in the most efficient way possible.

Competition will bring the discipline of the markets to our investment plans

It will help promote the innovation and creativity we will need to change behaviors and develop newer, more efficient technologies

And, as the Environmental Defense Fund recently acknowledged, competition is an effective enabler of a cap-and-trade system.

In my industry, you can waste billions very quickly; that is the last thing we can afford.

[PAUSE FOR CONCLUSION]

Now we may be on the brink of something astounding in Washington.

This is due to the hard work and political courage of President Obama; Chairmen Waxman and Markey; Congressman Boucher; Senator Bingaman; and many others.

So I conclude these remarks with three ironic notes.

First, someone has come to Washington to praise Congress

That is a rare event, though not as rare as someone praising a utility executive

Second, it appears that this bill will pass the House Energy and Commerce Committee without Republican votes.

Third, while I am a dyed-in-the-wool Mayor Daley supporter in Chicago, my basic sympathies on issues of economics, regulation, and markets are with the GOP

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I am deeply and endlessly grateful to former Chairman Barton for his work on competition and his support for nuclear – the largest low-carbon energy source we have.

And yet on this critical issue, Henry Waxman, Ed Markey, Rick Boucher and the Democrats have crafted the market-based solution.

They are the one who have asked my colleagues and me how to make this bill work

The political die has been cast in the Energy and Commerce Committee, but I would sincerely hope for a more bipartisan result on the House floor and in the Senate

I hope that my Republican friends in the Senate will follow the lead of their candidate in the last presidential election.

We should all work very hard to make this opportunity a reality

If we delay, the costs will only be greater and environmental impacts more severe

The road to a low carbon future is a long one

We must begin to march it now.