Remarks As Prepared

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Introduction

Thank you Mark for your kind introduction, and for inviting me here to speak today.

Mark and I serve on together Secretary Chu's Blue Ribbon Commission on Nuclear Waste. We share a discouraging feeling about the current state of national energy policy.

Nuclear Industry's Relationship with the Building and Construction Trades

I am proud that Exelon, and the nuclear industry in general, has a great working relationship with the Building Trades.

Each year, our industry uses 20 million man hours of union labor during the refueling outages, including outages at our plants.

At Exelon we are using union labor for our uprate program. By 2017, we will have expanded our generating capacity at our existing plants by 1300 to 1500 megawatts – the equivalent of a new advanced reactor at half the cost.

The Building Trades and the nuclear industry have successfully partnered on our shared federal priorities in Washington, including the passage and implementation of the Energy Policy Act of 2005.

Thank you for continuing the training of next generation of craftsman and improving productivity through agreements that fit the needs of each project. This is vital and essential to the success of our industry – both in our current fleet and future fleets.

Industry Needs to Certainty to Invest

The electric power industry needs to invest over a trillion dollars by 2030 just to keep the lights on.

This figure does not include investments needed to meet the requirements of carbon legislation or forthcoming environmental regulations.

Most of this money remains on the sidelines because the rules of the road going forward are not clear.

More than 120 proposals for new coal-fired power plants have been cancelled over the last ten years.

And no new nuclear plants will be built without a price on carbon or a guaranteed rate of return.

Without certainty on both carbon, through legislation or regulation, and the other traditional pollutants, my industry will not be building much new generation, and what is built will likely be gas and mandated renewables and not coal or nuclear.

Renewable technologies employ the fewest number of employees per 1,000 megawatts of generating capacity - 90 for wind, compared to 220 for coal and 500 for nuclear.

Lack of Congressional Action

It is becoming clear that the Senate is unlikely to pass a bill that puts a price on carbon this year and the politics for doing so next year are even more abysmal.

Without a carbon bill, states and the federal government will continue their chaotic approaches to climate change and energy security.

Nearly 30 states have adopted Renewable Electricity Standards and the Congress continues to consider a federal standard

Congress has provided tax credits and grants for wind solar and other renewables since 1992

New nuclear plants currently have access to loan guarantees and there are proposals for tax credits, additional loan guarantees as well as proposals to federally fund 100 new nuclear plants

And there are similar proposals to fund clean coal projects through these types of mechanisms and others.

When I testified before the Senate Environment and Public Works Committee, every member had their own proposal to build a low carbon economy that relied on their favorite technology.

All these policies put a de facto price on carbon, but in the least efficient and least transparent fashion.

Only a true carbon price through cap and trade, cap and dividend or a carbon tax, will provide the certainty needed to make the investments needed in our industry.

Even without Congressional Action – There's EPA

SLIDE 1 – EPA REGULATION

As you know, EPA regulations on both traditional pollutants and carbon are imminent and far more certain than Congressional Action.

These regulations, when combined, will reshape our industry

Coal Ash proposed in May, final in 2015

Clean Air Transport Rule (SO2 and NOx) proposed in June, reductions required as soon as 2012 and full compliance in 2014

Under court order, Hazardous Air Pollutant (HAP) rules, including mercury and acid gases will be proposed by March 2011 with mandated compliance by late 2014

New Source Performance Standards for carbon expected in 2011

The cost of compliance with these regulations will be prohibitive for many smaller, less efficient coal units.

Bernstein Research believes that these just two of these regulations (Transport and HAPs) would likely result in the retirement of fifteen percent of U.S. coal-fired generation.

Those that don't retire will require pollution control scrubbers to clean their stacks. According to Bernstein, that could affect an additional twenty-seven percent or 509 million megawatt hours of the existing coal fleet.

These requirements will result in a massive new construction program for compliance.

Jobs will be created in constructing new gas plants to replace retiring coal plants.

And, through installing scrubbers at existing coal plants. According to Industrial Economics, installing scrubbers at power plants will create between 800 and 1,000 jobs per project.

Utilities that have already made it a priority to have a clean fleet will be at an advantage when these regulations are implemented.

There are some in our industry that believe that they can go to the next Congress and have these regulations delayed or stopped altogether. But, the only thing harder for Congress to do than pass a bill is to repeal one.

And, even if Congress was successful in passing legislation repealing the provisions of the Clean Air Act, we expect that the Obama Administration would likely veto such an effort.

And, delay of these regulations will simply add to the investment uncertainty, continue to keep capital on the sidelines and won't create a single job – except maybe for lawyers.

Exelon 2020

At Exelon we are not waiting for Congress or EPA to act.

In 2008, we announced our plan, Exelon 2020, to eliminate our carbon footprint by 2020.

We are now halfway to the goal.

SLIDE 2 - 2010 SUPPLY CURVE

This is our 2010 supply curve.

We use this curve to evaluate low carbon supply options by showing us the carbon price (the height of the bars) needed to make an investment break-even.

The change in our 2010 curve from our original curve is dramatic.

Retiring inefficient coal plants (light purple) has become the cheapest option

Most energy efficiency (yellow) and nuclear uprates (light blue) remain attractive

Other options begin to get very pricey

Wind (dark green) – carbon price between $80-$120/tonne

New nuclear (dark blue) -- $100/tonne to break-even

Solar cost is two-thirds of that from a year ago but is still $450/tonne and off the chart

An existing proposed clean coal project requires $500/tonne to be economic.

What can we take from these charts?

First, no one else has a plan like this and no one else can easily create one.

There is financial value on being the premier, clean utility company.

Clean companies can avoid capital costs because they do not need to make investments to be in compliance with legislation or regulations.

Energy and capacity prices will rise due to higher operating costs for coal generators.

For instance, allowance prices from the new transport rule could increase energy prices by $2 to $3 per megawatt hour.

Second, cheap natural gas and lower power demand dramatically increase the cost difference between the options.

These two factors increase the uncertainty and risk of building high capital cost, labor intensive new generation, like new nuclear and coal with carbon capture and sequestration.

Adding to the uncertainty is whether or not there will really be cheap natural gas in the long run because of all the water quality concerns surrounding shale gas development.

Third, we must have a market-based solution to the problem.

Picking our favorite technologies in 2008 would have led to some good decisions, like energy efficiency and uprates and some very large expensive ones, like new nuclear plants and clean coal.

If we had chosen to solve our carbon problem with wind that we expected to cost $45 per tonne, we would find ourselves in a position where it costs $80 per tonne today.

Fourth, we need a price on carbon to focus on the cheapest options first.

The shape of this curve has changed dramatically in just two years.

None of us are smart enough to predict how it will morph.

We need a system that rewards companies for reducing their carbon emissions in the cheapest way possible.

And we need a market-based solution to give us feedback as costs change.

What does Exelon 2020 and these curves have to do with our fledgling economic recovery?

Everyone in both parties wants to throw money at their favorite bars on the chart.

Some propose to do through subsidies, but there is not money to do so.

Some propose to throw money at these technologies through mandates to buy uneconomic power – but there is no free lunch.

We need to invest in each of these options in modest amounts to ensure diversity in our energy supply, keep our options open and to frame a market.

But we also need to protect our shareholders and customers.

Pricing carbon is the only long-term, economically rational solution.

The price would provide certainty for my industry to

1) make the necessary large capital investments to meet keep the lights on;

2) make the transition to a low-carbon generating fleet; and,

3) put people to work on the essential improvements to the nation's infrastructure.

Conclusion

With all the regulatory uncertainty, our industry is in a time of great confusion. There is no easy path without regulatory certainty.

Carbon legislation or regulation and/or EPA's regulation of traditional pollutants will change the way our industry looks in the not too distant future.

But the future prospects for jobs are not dim.

Don't be seduced by the Sirens' song from those who tell you that we must protect the 40 and 50 year-old coal plants.

Yes, some jobs will likely be lost as these plants retire.

But these Sirens are not singing the whole song. They have left out an important verse. The verse about the new, good-paying jobs that will be created through the construction of new plants and the building of scrubbers on existing coal plants.