

**Prepared Remarks for John Rowe
Curbing Climate Change
Economic Club of Chicago
Red Lacquer Room, Palmer House Hilton
Thursday, November 5, 2009**

Thank you, Kelly [Welsh, Executive Vice President and General Counsel, Northern Trust].

It is a pleasure to be on this panel with Frances Beinecke.

This is an issue that is personally very important to me and to Exelon.

Have been working on it since 1992, when I testified before Congress about a carbon tax.

When there was no immediate economic benefit to my company, which was largely coal-based.

Since 2002, have co-chaired the National Commission on Energy Policy.

In 2004, NCEP released a bipartisan report calling for comprehensive, economy-wide cap-and-trade legislation.

Exelon has been preparing for a low-carbon future for the last decade.

Sold or closed most of our inefficient fossil fuel plants.

Invested \$5 billion in our fleet of 17 zero-emission nuclear reactors.

In summer 2008, released Exelon 2020

Our plan to reduce, offset, or displace 15 million metric tons of greenhouse gas emissions per year, equal to our 2001 carbon footprint, by 2020.

We are one-third of the way to our goal.

The critical step in dealing with greenhouse gas emissions is to place a price on carbon.

Nothing else will efficiently encourage low-carbon investments and discourage high-carbon investments.

And it is essential to ensuring that we do the cheapest things first.

Perfectly illustrated by a poll by Resources for the Future.

Most Americans agree that global warming is real.

They oppose a carbon tax because they know it will cost them money.

They oppose cap-and-trade because they rightly suspect it will cost them money.

But they support mandates to buy renewable energy because they think it is free.

Exelon's analysis indicates the exact opposite.

Exelon 2020 analyzed all the options for reducing our GHG emissions.

Determined the price per metric ton of CO₂ needed to make each option economic and rank ordered them based on their economic merit.

The most economic items are improvements in energy efficiency and nuclear uprates – capacity expansions at our existing plants.

As you move up the cost curve, the options become more expensive.

A new gas plant is economic at carbon prices of \$25-\$45 dollars per metric ton, depending on its location.

A new nuclear plant would be economic only at \$75-\$80 dollars per ton.

The rule of thumb is that a \$10 per ton increase in the carbon price translates into a \$0.01 per kWh increase in the price of electricity.

We use the Exelon 2020 supply curve to prioritize our choices based on what is cheapest.

Passage of a federal cap-and-trade system will compel every company to do a similar analysis.

In contrast, our current energy policy with no price on carbon too often chooses the most expensive things first.

Renewable portfolio standards have been en vogue at the state level for years, and a federal standard is coming.

Renewables will be part of our energy mix.

Waxman-Markey will encourage an even greater amount of wind generation.

But according to Exelon 2020, wind costs about \$50 per metric ton of carbon and goes as high as \$90 per ton.

Federal and state policy continually flirts with coal with carbon sequestration.

Exelon 2020 tells us you need carbon prices of over \$150 per metric ton – if the technology even works.

Using our rule of thumb, you are talking about electricity that costs an incremental \$0.05 to \$0.15 per kWh.

We must have a system that forces us to do the cheapest things first, like energy efficiency and uprates of existing nuclear plants, and the other items in merit order.

Doing otherwise will impose great and unnecessary costs on American energy consumers.

There are two other key components that must be in federal legislation.

The first is consumer protection for electricity consumers.

Emissions allowances should be allocated, rather than auctioned, to the power sector to benefit our customers.

Under the Waxman-Markey bill, 35% would be allocated to free to local distribution companies – known as LDCs – in the early years.

LDCs, like ComEd, would sell the allowances and use the proceeds to mitigate price increases.

State utility regulators will ensure that benefits of those allowances will properly go to customers.

Remarks as prepared

Second, the legislation must include cost containment measures.

Critical to put a price on carbon, but also critical to limit the increases to consumers in the early years.

A price collar will put a ceiling and floor on emissions prices.

It will also limit volatility and the opportunity for market manipulation.

We believe that these changes could make either Waxman-Markey or Kerry-Boxer a practical approach to dealing with climate change.

It is essential that we act now and pass legislation.

Failure to do so will only require more drastic and expensive action later.