

Remarks As Prepared

**John W. Rowe, Chairman and CEO Exelon Corporation
Forum Club of Southwest Florida
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25 Minutes of remarks, 15 minutes of Q&A**

Introduction

Thank you Bob for your kind introduction. It is a pleasure to be with you all today.

Description of Exelon

As Bob mentioned in his introduction, I am the Chairman and CEO of Exelon Corporation. Let me tell you a little bit about Exelon and the communities we serve.

We are one of the largest electric and gas utility companies in the United States – currently second largest in market cap. Number one by a large margin when natural gas prices were higher.

We own two delivery companies, ComEd in Chicago and PECO in Philadelphia, and keep the lights on for about 13 million people in Illinois and Pennsylvania.

We are one of the largest generators of electricity in the country, the largest nuclear power plant operator, with 17 plants, and the largest generator of clean, low-carbon electricity through our nuclear power plants, hydro, and some wind and solar.

Our core cities are among the most diverse in the country – Chicago is 40% African-American and 30% Latino; Philadelphia is 45% African American and 10% Latino.

We were formed in a two-headed merger of equals ten years ago. The merger worked; the two heads didn't.

Federal Energy Policy

Exelon was one of the nation's leading advocates of a cap and trade legislation to regulate greenhouse gases.

- 1) Because we believe that the climate challenge is real – and we are not outliers in this belief.

The evidence that the Earth's temperature is rising is unambiguous, and human activity almost certainly contributes to the increase.

That is the conclusion of some of the most respected scientific bodies around, including the National Academy of Sciences.

According to the International Polar Year research effort, summer Arctic sea ice was smallest in size in the past 30 years and has lost half of its thickness.

2) Because it would cost our customers less than ad hoc solutions; and

3) Because we would have made money rather than lost money.

But, as you know, Congress has failed to enact comprehensive energy and environmental policy. Given this month's election and overall gridlock in Washington, the chances of the next Congress doing much on energy are extremely slim.

Without a comprehensive energy policy, state and federal governments will continue their hodgepodge, chaotic approach to energy. Democrats and Republicans will continue promoting their favorite technologies regardless of the costs to consumers in increased rates or to taxpayers in increased debt and deficits.

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

Democrats want wind and solar and other uneconomic, costly renewables.

Republicans want 50-100 new nuclear plants and unproven coal with carbon capture and sequestration.

50 new nuclear plants would require the government to provide at least \$150 billion in subsidies to make them affordable, at today's gas prices.

And they talk about earmarks – this would be a whole body tattoo.

Even though Congress has failed to act, Clean Air Act implementation and low natural gas prices are forcing a shift in how we generate electricity.

EPA regulations on both traditional pollutants – smog and acid rain – and greenhouse gases are imminent and far more certain than Congressional action.

These are not new, unexpected rules. EPA is implementing and enforcing existing law, the Clean Air Act of 1990. These rules were either initially promulgated during the last administration or respond to mandates by the courts.

These regulations, when combined, will reshape our industry, but will not doom coal as some have claimed.

Coal ash (waste product from burning coal) proposed in May, final in 2015.

Clean Air Transport Rule, which covers pollutants that cause acid rain and smog, proposed in June – reductions required as soon as 2012 and full compliance in 2014.

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

New Source Performance Standards for carbon expected in 2011.
Standards for new generation on how much carbon can be emitted.

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

But many of these units are uneconomic today, even before EPA regulations are implemented.

In PJM, the market where Exelon operates, 12 companies have already announced the retirement of 78 plants, or nearly 12 GW.

And most of the affected coal plants are over 50 years old, very small and very inefficient, and have refused to clean up.

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 Congress and have these regulations delayed or stopped altogether. And without a doubt, this new majority in the House will make things difficult for EPA – having EPA up on the Hill testifying everyday and barraging them with letters.

But, the only thing harder for Congress to do than passing a bill is to repeal one.

And it is hard for any Congressman to go home to his district and say “I voted to put more mercury, more arsenic, and more acid gases in the air, water and land.”

Even tea party people don't want mercury in the leaves.

Exelon 2020

At Exelon we are not waiting for the government to act.

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

We are now halfway to the goal.

Exelon 2020 serves as our resource plan, as a guide to our investment decisions and a framework for our public policy advocacy.

It tells us which actions provide our customers with reliable, clean energy at the lowest cost while also delivering the highest returns for our shareholders.

It tells us which investments are cheap and which investments are most costly.

Exelon 2020 serves as the business strategy that cements Exelon's value as the premier low-carbon company in the U.S. utility industry.

Each year we create a supply curve that helps us evaluate low-carbon supply options by showing us the carbon price needed to make an investment breakeven.

Retiring inefficient coal plants has become the cheapest option – and we have announced plans to do so.

Most energy efficiency and nuclear uprates, increasing the generation at an existing plant, are attractive.

Other options begin to get very pricey

Wind – carbon price between \$80-\$120/tonne

New nuclear – \$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 our Exelon 2020 analysis?

First, no one else has a plan like this and no one else can easily create one. That is due to our existing nuclear fleet.

There is financial value in 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.

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 or coal with carbon capture and sequestration.

New shale gas finds have made the U.S. the third-largest producer of natural gas behind the Middle East and Russia. This abundance will fuel our competition with China and Russia and clean up our electricity fleet.

It is the most economic way to fuel the future, and it emits 50% less carbon than coal, nearly no SO₂, zero mercury and less NO_x.

Third, we must reflect the external costs of pollution and allow markets to work.

The market will pick the least expensive technologies to clean up the stack.

No subsidies or mandates are needed to prop up uneconomic generation.

And a market-based solution gives us feedback as costs change.

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

Everyone in both parties wants to throw money at technologies.

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

Some propose to throw money at these technologies through mandates to buy uneconomic power – a hidden tax.

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 shareholders and customers.

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

Conclusion

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

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.

The '59 Cadillac couldn't compete with Japan, and these coal plants won't compete with China.

Saving these clunkers is a short-term view. If we chose to ignore the need for a clean energy future, we put ourselves behind the 8-ball in the near future. While we protect these plants from the last century, China is investing in technologies for this century.