

*Remarks as prepared*

**Prepared Remarks for John Rowe  
National Association of Regulatory Utility Commissioners  
Annual Conference  
Marriott Chicago Downtown  
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Thank you, President Butler [Fred Butler, Commissioner of the New Jersey Board of Public Utilities].

As you know, Fred is concluding his term as NARUC President.

Think I speak for the industry in saying thank you for your service and partnership leading NARUC and working with our industry through challenging economic times.

Would also be remiss not to mention Chuck Gray, who is celebrating his thirtieth year as NARUC Executive Director.

Having been a CEO in the industry almost 26 years, it is hard to find people who pre-date me.

Among other things, I appreciate the fact that Chuck helps me feel young.

Want to officially welcome you all to Chicago.

Exelon is the parent of Commonwealth Edison, the hometown utility.

We are proud to light this great city and skyline.

And we seem to do it earlier and earlier each day at this time of year.

We are very pleased to have you here for the annual conference.

Climate change is the largest challenge facing our industry today.

Congressman Welch discussed the federal perspective and Senator Pugh discussed the issue from the state level.

Let me offer my perspective as CEO of the largest company in a sector responsible for roughly 40% of greenhouse gas emissions.

An issue that is very important to Exelon and to me personally.

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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, I 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 billions 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, and have a plan to accomplish the rest.

Today, we find ourselves closer than ever to passage of climate legislation.

The House has passed comprehensive, economy-wide legislation.

The Senate Environment and Public Works Committee has reported out similar legislation.

Political rhetoric is escalating, and it is sure to get louder.

But it's important to recall the most critical part of the debate.

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.

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Public debate and cable news talks about the issue in terms of politics, elections, and money.

But, this debate has very real consequences for our planet.

We must begin to address it now.

I do believe that governments are committed to act.

I testified before Senator Boxer's committee several weeks ago about cap-and-trade legislation.

All the senators advocated for one kind of action or another.

Some backed cap-and-trade legislation.

Others backed increased subsidies for renewable power.

Still others wanted to build 100 new nuclear plants and new coal plants with carbon sequestration.

Beyond Congress, some argue that more limited solutions like the Regional Greenhouse Gas Initiative could work.

And still others think that the EPA could effectively address the matter through its regulatory actions.

Make no mistake: we are acting in one way or another to address climate change.

Cap-and-trade legislation may fail to pass Congress this year.

But Congress will still spend money on tax credits for wind and renewables.

States will still implement renewable portfolio standards.

The government will still support new nuclear plants through the loan guarantee program and state and local incentives.

The key consideration needs to be whether as we act we are doing the cheapest things first.

We owe it to our customers and ratepayers to find the options that effectively address the problem and entail the least cost.

Legislation that puts a price on carbon emissions is the critical first step to doing this.

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

And that 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.

### ***SLIDE 1 – EXELON 2020 COST CURVE***

As part of Exelon 2020, we analyzed all the options for reducing our GHG emissions.

Determined the price per metric ton of CO<sub>2</sub> (on the y-axis) needed to make each option economic and rank ordered them (along the x-axis) to form a supply curve based on their economic merit.

Size of each block is the amount of CO<sub>2</sub> emissions avoided by the method.

Our analysis shows the most economic items are generally improvements in energy efficiency, some of which are economic even without a price on carbon.

Nuclear uprates – capacity expansions at our existing plants – are economic at carbon prices of less than \$10 per metric ton.

New natural gas plants become economic at carbon prices of \$20 to \$45 per metric ton.

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Wind generation costs between \$45 and \$80 per metric ton.

New nuclear plants are economic at prices of \$75 per metric ton of carbon.

Coal with carbon sequestration costs over \$150 per metric ton.

And solar remains very expensive – at nearly \$700 per metric ton – though we see those costs decreasing rapidly.

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

This analysis starkly illustrates the potential impact on consumers.

Some options add a penny per kWh to rates, while other add a dime or more.

It should be no surprise which ratepayers prefer.

We use the Exelon 2020 supply curve to rationalize and order our choices about how to reduce our carbon emissions based on what is cheapest.

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

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

We must have a system that uses the discipline of the market to control costs.

Prices may rise, but they will rise less than they will with cruder tools.

Unfortunately, ad hoc responses to the climate issue tend to subsidize the expensive solutions.

There are many objections to cap-and-trade legislation – all of which are answerable.

Some say such a system will cost too much.

Though Exelon 2020 indicates that cap-and-trade is less costly than the array of alternatives we are already implementing.

Free allocation of emissions allowances to local delivery companies is a key consumer protection.

Both Waxman-Markey and Kerry-Boxer allocate 30% of emissions allowances to local delivery companies for free.

Utilities like ComEd will sell the free allowances and use the proceeds to mitigate rate increases.

Your watchful eyes will ensure that the funds will be used properly for rate relief.

Exelon has done pioneering work on this allowance system.

It has wide ranging support.

From the disparate companies in my industry that comprise the Edison Electric Institute.

To the business and non-profit coalition that forms the US Climate Action Partnership.

NARUC has also been an early proponent of free allocations.

I am grateful to Commissioner Rick Morgan, who leads NARUC's Task Force on Climate Policy, for his support of the concept.

Exelon also supports the development of a price collar on emission allowances.

A collar can put a ceiling and floor on the price of emissions.

It will ensure that the price increases in the early years are modest.

It will also limit the opportunity for market manipulation.

Some say that cap-and-trade constitutes a regional wealth transfer from the Midwest to the coasts.

But according to our modeling, electricity rates will not go up dramatically as a result of a climate bill.

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Rates here in Illinois will go up a penny to roughly 9.5 cents per kWh.

Rates in Minnesota will go up 0.66 cents to 8 cents per kWh.

Rates in Ohio will go up 0.8 cents to 89.71 cents per kWh.

And these rates are still lower than the rates in California and Massachusetts, which are roughly 13 to 15 cents per kWh.

Carbon-intensive regions of the country will still be able to compete under a cap-and-trade system.

On this issue, doing nothing is simply not an acceptable option.

I believe that if Congress doesn't act, the EPA will.

The Supreme Court has given it the authority to regulate CO<sub>2</sub> as a pollutant.

The result will be more arbitrary, more expensive, and more uncertain for investors and the industry than a reasonable legislative solution.

The danger in the EPA's command and control response is that no one knows what the final technological solutions will look like.

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

Technologies that once looked attractive now look less so, while others have improved.

And therein lies the danger of choosing an option based upon a snapshot in time.

Be very wary of anyone who says "I have seen the future and it works."

We need markets to give us feedback.

NARUC has been an early and consistent supporter of cap-and-trade legislation.

As another early and consistent supporter, I offer my thanks.

I believe the Senate can pass bipartisan legislation this Congress.

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The Kerry-Graham op-ed in the New York Times last month was a very positive sign.

Their continuing discussions with Senator Lieberman are a strong indicator of progress.

The support of wavering senators will turn on whether they are reassured on the issue of costs.

The utility industry will play an essential role in demonstrating that we will minimize the costs to consumers.

And regulators will play an essential role in ensuring that utilities use allowance proceeds to minimize rate increases.

Together, NARUC and my industry can be powerful advocates for a cost-effective solution to the climate problem.

We must do everything we can to reassure the Senate that comprehensive cap-and-trade legislation is the most cost-effective solution.