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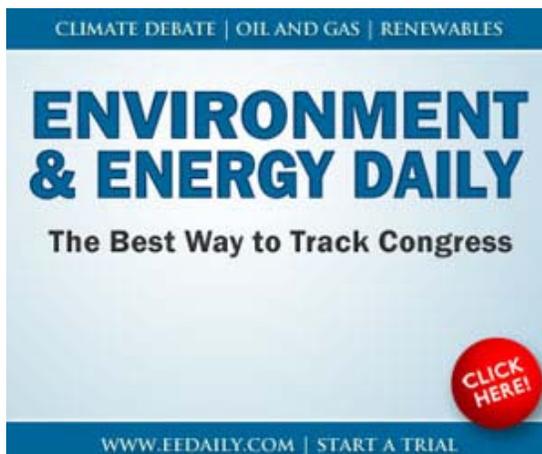
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Energy Policy: Exelon's Rowe calls on Congress to allow EPA to move forward on emissions regulation (Event Coverage, 03/09/2011)

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About this video



Can the United States stay globally competitive and modernize the nation's electric generation fleet through U.S. EPA's air pollution regulations? During today's E&ETV Event Coverage of an American Enterprise Institute event, Exelon Corp. Chairman and CEO John Rowe calls on Congress to allow EPA to move forward with its air pollution regulations, saying the rules will help maintain the United States' competitiveness and help the country transition to a clean energy future. He also says Congress should steer clear of any new laws or subsidies on energy this year.

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Transcript

John Rowe: I'm here today to talk about electricity, natural gas and this never ending model of mandates, subsidies and regulations that we purport to call energy policy.

Anyone who volunteers to speak at AEI is someone who has a deep belief in both the moral importance and the practical efficiency of markets and property rights.

Most of us here prefer that government mandates broadly and predictably, the latter being as important as the first, frame markets, establish property rights, price externalities and then leave the actual outcomes to the hidden hand.

Those are surely my preferences, but my 27 years leading electric utilities constitutes a base of experience far more reminiscent of the court of the stewards than of laissez faire economics. It is far more akin to what you read in Pepys' diaries than what you find in the Wealth of Nations.

Electricity, like horse racing, gambling and prostitution in Nevada is simply too much fun to leave to the marketplace. It's really fascinating to stand back and think why we really choose some subjects for constant meddling and leave others alone, but so it is.

Just as background, because any observer of markets at work likes not only to know what principles are being expressed, but where the villains come from. Exelon is one of the nation's largest electricity and gas utilities.

We own two delivery companies, ComEd in Chicago, PECO in Philadelphia, which 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 in the country with 17 reactors, and the nation's largest generator of low carbon electricity through our nuclear plants, our hydro, wind, and some small solar facilities.

We are also the nation's largest company that is totally committed to competitive markets in electricity and, therefore, totally dependent on the prices we can obtain it at.

So, if you wish to know clearly where the self-interest lies in this lecture, that makes Exelon almost as dependent on natural gas prices as we would be if we were a gas exploration and production company.

Just in simple terms, a nuclear power plant in a competitive market is a very big, very complicated gas well. Don't try to run it that way though.

Now, as most of you know and I think an article in the American Spectator, if I remember right, Press Aged, I am one of those carbon bandits.

This bubblehead is a cherished memento from someone who may even be here, we'll set that aside. I spent almost a decade working on the cap and trade legislation, which is now dead, for four reasons.

First, the science of climate change seems to me to be real as spelled out in many National Academy of Sciences reports. Some scientists disagree, but most would endorse what is on that slide.

And to the extent that there is real dissent from the importance of carbon and climate change as a policy issue, it must, I think, be based on the proposition that the scientific community is corrupted by its own political leanings on other matters.

That may or may not be so. It's a dangerous basis for politics. Secondly, we supported a cap and trade because a carbon tax, which is probably a better solution, seemed unlikely and still does. Thirdly, and this is very important, all the other proposed solutions were more expensive to the economy than cap and trade.

It is a source of endless fascination to me and most of the topic of these remarks that people who profess to abhor cap and trade as a market intrusion think nothing of supporting things that cost five or 10 times as much if they're the pet technologies of whatever advocate of the left or right is there.

And, finally, we supported cap and trade because it gave us a chance to improve our earnings. Neither here at AEI nor anywhere else, do I apologize for the fourth. It seems to me that part of the American way is you should make a bit more to do something better and cleaner and better for society.

But I would note, and not by way of apology, that we also supported a \$15 a ton cap on CO2 prices when many of the alternatives we are forced to inflict upon our customers every day costs \$50 to 100 a ton of avoided carbon.

Now, we all know that the carbon legislation is dead, so I'll put this little fellow away. I'm no longer the carbon bandit, but the climate issue isn't put away and Exelon remains committed to its goal of neutralizing its carbon footprint. We have come about halfway.

Now, as this next chart illustrates, Congress and the states have innumerable ways to require utilities to do things, usually through renewable resource standards or clean energy standards, that actually cost far more in terms of carbon than the cap and trade system would have cost.

And I'll be happy in the Q&A session to explain some of the lines on the chart, many of you, hopefully all of you also have it in your handout.

But the net purpose of this is to show you that at today's prices, today's costs for technology and today's flat demand for electricity, we do not expect to see 2007 levels demand of again until '13 or '14.

The cost of buying more wind power, more solar power, and more nuclear power or coal with carbon sequestration tends to range from 80 to several hundred dollars a ton of avoided carbon.

So, unlike most people who come to Washington and bare of my carbon bandit outfit, I am not here to ask Congress to do something about energy. I'm actually here to ask that it do nothing.

And, fortunately, doing nothing just might be an area where a divided Congress can excel. Now, it's not that I say do nothing because it's always the right answer, there are a great many places where we need Congress to do its work.

But electricity and energy, nature and technology have fortuitously, not necessarily due to our deserts, but fortuitously combined to provide this nation with a great blessing, a clean, competitive, and relatively inexpensive windfall.

That windfall is abundant natural gas, which appears to be a genuine elixir with us for at least a decade, probably two, conceivably even three. New natural gas finds, both conventional and shale gas, have dramatically increased the long-term supplies of natural gas.

We are now the world's third-largest producer. Colorado School of Mines has estimated that the available reserves have increased by 60 percent between 2000 and 2008. And every consultant I can hire predicts real-flat, real prices for natural gas for at least this decade and maybe two.

Now, natural gas is sort of an elixir, because, first, it is produced here. And it not only helps with a lot of other problems, it could be used in transportation to reduce our oil dependence. Natural gas is the cleanest fossil fuel.

It is about 80 percent less or 20 percent of the sulfur dioxide and nitrogen oxides of conventional coal. It has no mercury and almost no particulates and it's about 55 percent less carbon dioxide than coal. The natural gas industry creates new jobs. It creates clean jobs.

A study by IHS Global Insight said 100,000 jobs between '06 and '08. Natural gas is already jumpstarting the transition to cleaner energy in electricity.

Because forward natural gas prices are lower than the prices of building new capacity with coal, 18 companies have announced plans to retire or mothball nearly 12,000 megawatts, 12 gigawatts, of coal-fired generation nationwide. Gas usage in the utility industry was up 6 percent last year.

So the simple thesis I'm making is, if we don't do something else, natural gas is going to green our electricity supply very substantially over the next decade and it's also going to make us relatively more competitive.

Just to take an example near and dear to my heart, I'm a nuclear executive. I met a lot of people I don't like. I've never met a nuclear plant I didn't like. But we would have to spend about twice what China spends to build a new nuclear plant here.

But we can have electricity at prices competitive to what they will get in China by putting new natural gas plants into place. Now, U.S. energy policy has been and will probably remain a mix of mandates and subsidies.

And some of those may be necessary to create the kind of broad technology framework that even folks at AEI can support. But this is a good time to slow down. As Oliver twist did not say, no more please, no more mandates, we need no more subsidies.

Cheap natural gas allows the market to work relatively free of other distortions. Now, the charts I'm giving you that have content comes from our resource guide, Exelon 2020, that you can find on our website.

In Exelon 2020, we tried to examine the cost of alternative energy supplies and we focused on the northeastern part of the country, which is a power pool called PJM. This is home to something like 163,000 megawatts of electricity and it runs from the Atlantic to the Mississippi.

And the first chart I showed you priced these options in terms of dollars per avoided ton of carbon dioxide. In some sense, that was last year's chart because it was designed to show how big a difference your choices make in terms of the cost of dealing with climate change.

This chart has the same underlying facts, but this one is expressed in terms of dollars per megawatt hour, which you can quickly convert to cents per kilowatt hour.

When you look at the all-in costs, including backing plants up when they don't run, new natural gas or coal-to-gas are the cheapest at around \$70 to \$80 per megawatt hour or \$0.07 to \$0.08 a kilowatt hour, all in, backed up.

New nuclear, wind, are over \$100 per megawatt hour or \$0.10 a kilowatt hour. And solar and clean coal much more expensive. Now, it's very important to know why is the slope of this chart different than the earlier chart?

The real answer is this chart doesn't reflect whether you need the power in the first place or not. Whereas, the dollars per ton of CO2 reflected the fact that you don't need most of the new power right now and that increases the price of avoiding CO2.

This is just the cost of the machines and their backup power. But the rank ordering is about the same. What you see is that increasing the capacity of our existing nuclear plants is economic. Energy efficiency, best conducted by customers, but sometimes subsidized utilities, is economic.

But you don't need much until either some of the existing capacity disappears and then the answer is gas, gas, gas. The economics are driving you in one direction. Now, for 27 years I've been doing utility business and I have never seen a time, not once where one fuel source seems so dominant for so long.

And I have all the skepticism that many of you do of forecasts. I've seen an awful lot of wrong forecasts in 27 years. But the supply/demand equations on gas are very powerful and I believe they're real for a long time.

And, what's more, I know better than to bet against it, because if you bet on a different fuel source and gas stays cheap, you get literally murdered.

So, what I am trying to say, the heart of all of this, is that some people on the left love wind and solar, some people on the right love new nuclear and clean coal and they're all too expensive for society to make major investments in right now.

At different times, different technologies will become more economic. I have opinions on which they will be, but those opinions aren't fact. But let me give you an example.

Senator Kirk from Illinois called me to say that he knew I didn't like that he'd become anti-cap and trade, but he was for 50 new nuclear plants. I said, "But, Senator, that would take 150 to \$200 billion in subsidies. You don't have the money right now."

Chairman Upton of the House Energy Committee has estimated that renewable energy subsidies have cost taxpayers more than 100 billion over the past 10 years and they're still not cost competitive today. I hope I'm being relatively evenhanded.

I'm trying, because I like some of these technologies a lot. We not only own the nation's largest nuclear fleet, we just bought a wind power company. We have a shiny new solar facility in South Chicago. We have real experience in what these things cost.

But, as I look, I think wind and solar do become more economic, wind much the first. Nuclear plants may become economic again, but not in the next decade.

And, unlike solving really hard social problems like Social Security, Medicare, urban education, we can solve a lot of energy problems by just leaving things alone. I wish to give you two examples of why this concerns me especially. One from blue Illinois; one from now red New Jersey.

In Illinois there's great need for more jobs in the southern part of the state. A company came in with a proposal to build a 600 megawatt, integrated gas combined cycle plant, that's a coal to gas conversion, that would sequester some, not very clearly identified, amount of its carbon dioxide.

I have these costs in terms of capacity charge and energy charge, but Chris told me it was the most obscure part of the speech. So I'll just use cents per kilowatt hour. Rough costs to consumers was going to be \$0.20 a kilowatt hour. Wholesale market price in Illinois is about 3 1/2 cents a kilowatt hour today.

So we're talking six times the current market rate for this power. It was supported on a bipartisan basis. Fortunately, it failed of enactment by a hair's breadth. Now, let me give you New Jersey. They were more practical, but, in some ways, more insidious.

An arrangement was cut between the Democratic Senate leader and the new Republic governor to build some gas-fired capacity, the closest thing they could build to what is economic. But they want a plant.

They know the market is still clearing below long-run marginal costs, so no one is in a big hurry to build one. So, for job reasons, they decided to give the builder a contract to build these plants and then, even though New Jersey is a market state for electricity, to have the utility customers pay for the cost of the new power plants.

In other words, we're sneaking back into rate base. But they also knew that would cost the customers a lot of money. So they required that the new plant bid into the market at zero so that it would suppress the market price by enough to offset the cost of the new plant.

It may not shock you that my partisanship is, therefore, obscure. The point is, is that this is done on both sides of the political aisle, it is done with different kinds of power plants and there are all sorts of ways to erode a market.

AEI and other conservative pro-market think tanks have been skeptical about carbon legislation. I simply urge that organizations like this pay attention to bigger intrusions into markets that happen every day in the steward world in which I live.

Now, one of the things I do want to see happen is EPA to be allowed to enforce the regulations it's evolving under the Clean Air Act. The Clean Air Act has been around for 40 years.

The current version has been around for 20 and the courts have required EPA to promulgate new rules on hazardous air pollutants and the transfer of SOX and NOX. These rules are, of course, a market intrusion.

They are equally an effort to internalize an externality. People here might legitimately argue about whether CO2 and climate change are real pollution problems, but I think few people here would argue that sulfur dioxide, acid rain, nitrogen oxides, let alone mercury and arsenic are not pollutants.

EPA's wealth of evidence on sulfur dioxide as an acid rain problem, particulates is a source of respiratory problems, mercury is a neurotoxin, arsenic is a poison, and acid gases is kind of overwhelming. The question is only how much.

EPA has been ordered by the courts to enforce the Clean Air Act. We at Exelon support their doing so. Like any other member of EEI, we might argue about any particular rule. We've never been in love with everything any government agency did yet and we'll doubtless find some fault in some of these.

But the thrust is that it's time to clean up the nation's energy fleet and it's time to enforce the existing law. My friends from EEI are back there wondering how far is the old man going to go this time? But they only send to these things people who like me, so they'll go back and say, "Yeah, he did it again." Now, let's start.

These regulations are not going to kill coal in this country. About two thirds of the nation's coal fleet either has or is already in the process of making the kinds of cleanup that are required. But these regulations are going to be very hard on a small group of plants that generally are over 50 years old, 40 to 60 usually.

I have some particular favorites in mind that were built in 1948. They tend to be relatively small and they've had very few pollution controls point put on them. Now, people will scream that this is an unfair competitive burden on the United States. So I brought more toys. This is a '59 Cadillac.

There are a great many of you who might like one in your garage for your amusement. Most of you remember that this is symbolic of the failures of Detroit that led to the Japanese dominance of the auto industry. Simply put, you would not bet on this to compete in the world economy. This one over here is a Chevy Volt.

It just might get there. It's not there yet actually, but it might get there. The point I'm making is, betting on the coal plants that were built in the late 40s, 50s, and early 60s without requiring them to clean up is like betting on the '59 Cadillac for your competitive position in electricity. It simply won't work.

And, Quinn, if you want to take the '59 Cadillac and give it to some of my friends, I'll be happy to share with you. Now, what's really going to happen here as EPA enforces its rules are that a lot of these small and generally unscrubbed plants are going to be shut down and they're going to be replaced by natural gas.

Much of the capacity in energy will be replaced by running existing natural gas-fired plants more, because it's so free pollution wise to run a lot of these existing plants. We have a great many natural gas plants that are in existence that are hardly running and they're going to sop up a lot of this demand.

And, in other cases, some new gas-fired plants will need to be built. But a new natural gas combined cycle plant costs less than half of a new coal plant, even without carbon sequestration, and something like a sixth of the cost of a new nuclear plant. So gas is queen, whether we like queens are not.

Now, the rules will destroy some jobs and my colleagues will have estimates. We, of course, have estimates on how many jobs will be created.

A University of Massachusetts study suggested that something like 300,000 new jobs would be created between the building of new gas-fired plants and the building of the new controls on existing coal. One thing I'm sure of is that all job estimates are flaky.

I won't go quite so far as to say lies, because they're usually not ill intentioned. But whether it's my colleagues saying this is a job disaster or me saying this is going to create jobs, the simple fact is we don't know what the trade-off is going to be.

But we will create new jobs with this industry and jobs making Chevy Volts are better jobs than making '59 Cadillacs, at least if you care about our competitive position for real.

And in the EPA regulations and in the Clean Air Act both the president and the EPA have the power to grant variances where the facts really support them. Let's just wait to have the trial until we have the facts. So, my message today is simple, no more please.

We are in a unique time in energy policy. Existing laws in existing markets can make us cleaner and more competitive. Natural gas is queen, whether we love her or not.

As a domestically abundant, relatively clean fuel source, it's a wonderful blessing in terms of our competitive capability. EPA must enforce the 40-year-old Clean Air Act. The '59 Cadillac can't compete in today's economy and market gas plants will. So these are my thoughts.

As you can tell, they are not those of a diehard laissez faire fanatic. They are those of somebody who has spent a long career trying to deal with the importance of environmental issues in the energy issue.

But they are also the views of the most consistently pro-market chief executive officer in the electric utility industry and, on that basis, I thought AEI an appropriate place to state them. Thank you very much.

Unidentified Speaker: Would you like for me to call on people (inaudible)?

John Rowe: I can do it or you can. You may know more of them.

Unidentified Speaker: OK, I will.

John Rowe: I'll take questions for as long as Chris says we can.

Unidentified Speaker: I'll call on people. If you could please identify yourself and wait for the roving microphone. Well, people build up their -

John Rowe: Over on the left side Chris, there's a fellow with a blue shirt on.

Ben Salsworth: Thank you, I'm Ben Salsworth, FBR. Could you talk a little bit about how much capacity you expect to come offline within your market area and how much you expect our prices to increase specifically focused on criteria of pollutants and HAPs and maybe what that means for your bottom line?

John Rowe: Well, I wish I could. Obviously, it's important to our bottom line. Our potential profits have been smashed by the low gas prices. We look for anything we can that might help restore them.

And in our business, where we deal with about \$18 billion of revenue, every effect has a way of being hundreds of millions or even a billion. And this might restore something of the several billion dollars of growth we expected to get when gas prices were higher.

I think the effect on prices is very hard to estimate because it varies greatly across different jurisdictions. In Illinois it's likely to be small, because Illinois is so heavily nuclear. Pennsylvania, a little higher in western Pennsylvania, not so much in the east, which is heavily nuclear.

Ohio is where the issue is most interesting because the bet on coal is the biggest there and, you know, if you want to talk to Emily Duncan who's up here in the front, who's my assistant, she can find you the best information we have on state-by-state cost increases.

But simply put, in states like Florida, Illinois, Virginia, where most of the investments to clean fuel supply have already been made, the impact is very small and in other states it's significantly larger.

We think across the PJM power pool, which, again as I said, runs from the Mississippi to the Atlantic across the Northeast, you know, we think we're looking at something like 10 to 15 percent of the coal fleet being replaced.

We don't think it's 20 to 25, let alone 30 to 40. But these numbers that you're asking for are very vexed. We have our own set, our colleagues who own more coal plants have their set and in order to get a reasonable estimate you have to know what the actual regulations are.

Buddy Kilpatrick: Buddy Kilpatrick of Econ Policy. Could you speak a little bit about the smart grid and maybe explain why utilities are so reluctant to embrace it without subsidy?

John Rowe: Smart grid we are reluctant to embrace because it costs too much and we're not sure what good it will do. We have looked at most of the elements of smart grid for 20 years and we have never been able to come up with estimates that make it pay.

Now, in Pennsylvania we will have full smart grid, first because it's because it's required by Pennsylvania statute and, second, because as you suggest, we got one of the subsidies under the bill a year and a half ago.

So in Pennsylvania our PECO subsidiary will have full smart grid. We know some of the things that will do that are good. It will help in storm recovery. It will help telling customers how long they will be out of service.

It will allow us to have even less meter readers than we do now and PECO has a primitive smart grid now. We don't know how much effect it will have on demand and energy use, which is the prime driver behind it. In Illinois we're doing pilot projects on smart grid, which I think is a better way to do it.

The real issue is are we doing the customers more good by putting money into more advanced electronics or would we do them more good by putting the same money into replacing more old cable? To me that's an unknown answer. If I had to choose, I'd bet on the cable.

Rich Innes: Rich Innes with the Meridian Institute. I spent a couple of days last week with an interesting group, the Garden Club of America, and this very savvy group of women, very politically sophisticated, their number one concern for many of these groups was fracking.

And I tried to educate them the best I could on what the facts were around that. And what it came down to was the lack, in their view, of transparency. So, my question is what, if any, do you think is the appropriate role of both the federal and state government in trying to address that?

John Rowe: Well, I think we need to have some credibility that either federal or state environmental groups, you know, have some regulatory structure for fracking.

But I have seen nothing which suggests to me that it is either a massive environmental problem or that addressing it in a reasonable way would affect the fundamental economic benefits of producing shale gas.

Personally, I think shale gas is here, that it's going to be a very valuable energy resource and if some regulation is needed, it can bear it without a substantial effect on its cost. But should we at least-I mean transparency is one of those evanescent public policy goals.

No one is against transparency, unless it's in pajamas, but it seems to me that we need some confidence in a public health-based regulatory structure on fracking, like other things.

We shouldn't have big moratoriums on a good energy source just because we have some work to do around it. There is no free lunch in energy and we ought to stop thinking there will be one. Unidentified Speaker: John, I'd like to jump in with the question of my own. You asked no more please. I have an alternative which is less please.

Some of the new arrivals in the House of Representatives, faced with budgetary problems that they're trying to cope with, have proposed that all energy subsidies be eliminated, alternative energy subsidies, traditional energy subsidies.

There are some controversial issues there. Some of the traditional energy subsidies are just conventional tax provisions. But assuming that some agreement could be reached on this, what would you think of such an act of legislation?

John Rowe: Well, as a conservative who's as much Berkian as Smithian, I fear the sweep of big swords across my landscape, not knowing where it will cut me. I mean I, of course, would adamantly contend that the Price Anderson Nuclear Act is not a subsidy.

Some other fellow in the audience might think it to be one and, at least for the existing plants, I would certainly fight to keep that structure in place. But generally, I've a very simple attitude toward these things.

Whether it's nuclear, wind, gas, solar or energy efficiency, let's do a broad, loose frame. Let's have enough so the technology has its chance and then let's see what happens. We are not an applicant for one of the \$18 billion in federal subsidies for new nuclear plants.

But I would rather see that program executed simply because the construction of three or four so that we know what they cost for the future is, I think, a good thing, just like having some wind and some solar is a good thing.

But you're not going to see me running around advocating it to add a zero to that \$18 billion number. It's just not economic at the present time. But is it a good thing for America that Southern is building a couple of nuclear plants so we'll at least know how to do it again in this country? I think it's a good thing for America. Unidentified Speaker: Thank you very much.

John Rowe: So Quinn, go back and tell them I said something nice about Southern.

Paul Billings: Hi, Paul Billings, American Lung Association. One of the things we hear when we're talking about cleaning up toxics from power plants or that a transport rule is the threat that the lights are going to go out. Can you speak a little bit about reliability if EPA were to promulgate health protective rules in both cases?

John Rowe: Well, EPA is going to promulgate health protective rules, you know it and I know it. The issue is whether Congress will permit them to be enforced and I think it will.

Can I guarantee there will be no reliability issues anywhere? No, but I think they will be relatively few and I would like to think the existing variance procedures would be adequate to cover them.

If people are concerned about larger problems, and the numbers I see do not support concerns about larger problems, then they ought to be advocating a better variance procedure and not deferring to health-based regulations. That's pretty close to the answer you wanted. Unidentified Speaker: This gentleman and then we're going to move to this gentleman in front and then we can go around the corner there.

Myron Ebell: Myron Ebell of the Competitive Enterprise Institute. Mr. Rowe, I'm glad you brought your carbon bandit bobble head. I have one as well and, on that issue, I'm glad we beat you and you lost. But you're now proposing do no harm and I think that's a good start.

But talking to people in not the utility sector, but those who produce the energy that we use, I hear one thing over and over. We're under a regulatory assault that is not going to expand production of things like natural gas. It is going to reduce it.

We have new rules coming down in multiple areas of environmental legislation that are going to not expand our natural gas supplies, but constrict them. So, I'm wondering if you have thoughts on the supply side?

John Rowe: Sure. This problem is so massive that natural gas is something like \$4.20 today, down from 12.
Unidentified Speaker: Right, they are.

John Rowe: This problem is so massive that I can't find a forecast that says that it will go back to six bucks anytime soon. So, somebody is not seeing how this is having this dreadfully damaging effect on the market, but I am not happy you beat me on carbon, but I will live to fight another day.

You know, one thing about utility executives, we're very stubborn and we change slowly. But more to the point, you and I probably agree on 9 out of 10 intrusive regulations.

No one would be more committed than I to cap and trade and other kinds of systems that allow environmental goals to be achieved with minimum impact on the market.

But if we think the answer to energy supplies is just to wave environmental or health issues away, that is not the lesson of my three decades running utilities and I think that the lesson of many people who function in the energy industry for real.

The issue is how to deal with these genuine effects in a way that's prudent, measured, and allows the market to respond in the most efficient way possible.

You and I probably would agree on better as opposed to worse forms of intervention, whether we would agree on the magnitude of any particular environmental issue I can't say.

But I would also probably say that to Lisa Jackson at EPA, who probably thinks some threats are bigger than I do. The issue is to try to do what we need to do in a way that mucks up the economy least.

But neither the current clients, nor the existing forwards, nor the consultant's estimates of natural gas support the view that it's impossible to produce the stuff. Sure is a lot of it around.

Joel Kirkland: Joel Kirkland with ClimateWire, E&E Publishing. I just wanted to ask you about natural gas prices again. Lawmakers, public utility commissions, and utility executives seem to have a long memory when it comes to natural gas prices. And you don't have to go back that far, 2005, when they shot up to 15 per MMBTU, \$15 per MMBTU.

You know, I guess, how do you convince them at this point beyond the supply picture or at least how do you allay their concerns about that that appears to be sort of stopping them from, you know, approving long-term contracts, stopping Congress from doing anything to help out natural gas, etc.?

John Rowe: Well, I think natural gas is queen. I don't think the lady needs a lot of help, but watch how people are really investing. Look at how very few coal plants have been invested in, in the last few years.

There's talk about building three or four nuclear plants only with the federal loan guarantee, maybe five or six. Very few utilities buy wind, except as they're made to.

The actual decisions that are being made are being made every day to bet on gas and not just by funny, quirky John, but by my more conservative and generally thought to be more responsible utility colleagues. The investment patterns are the same.

You know, I've gone from being a mugwump in my industry to being an old coot without ever passing through sober and responsible and that's just my personality problem. But watch how people are investing.

Most of the optional new choices in the last decade have been gas and, yes, I saw the '08 spike. Yeah, my stock was at 90 compared to today's 41. I like the '08 spike real fine. Actually, it gave me a lot of problems, it was too good, but that was none there.

I saw the '05 spike. I saw the one around 2000, 2001, I can't remember just which year it was. But I've also seen the prevailing pattern. I can't guarantee we'll never see another spike.

But neither can I find a forecast from any reputable follower of the business that projects that we're going to have high prices on a consistent basis anytime in the next several decades.

And, you know, I work on the best facts I can find and I invest on the best facts I can find them those facts say gas is queen, whether I love her or not.

Mary Beth Ginder: Hello, my name is Mary Beth Ginder and I'm with AREVA and perhaps I'm a bit biased coming from the nuclear and renewable side of things, but I'm just wondering what your personal definition of clean is.

Because I'm looking at these charts and while no one can argue with the price of natural gas right now or it's very, very hard to, it seems to me that clean, in this situation, is maybe perhaps another word for cheap or inexpensive, as opposed to perhaps, you know, carbon neutral or those sorts of things.

John Rowe: I would instantly stipulate that an AREVA nuclear plant is clean and it's as clean as my 17. It's also probably between 10 and \$0.12 a kilowatt hour when the market is four. So, it is certainly clean and it's not cheap and we like AREVA by the way.

Unidentified Speaker: We are over our time and I have to keep Mr. Rowe on schedule. I told this gentleman I'd call on him now. With apologies to everyone else, this will be our last question.

John Rowe: The imminent FERC Commissioner, Mr. Massey.

Bill Massey:

John, Bill Massey, Covington and Burling. I want to ask you a question about innovation in this -

John Rowe: I'm against it.

Bill Massey:

In this electric power industry. I mean despite the movement to competitive markets at the federal level and in some states, it remains perhaps the most heavily regulated industry in the country. A lot of regulations still and some of the regulation is quite Byzantine, very, very difficult -

John Rowe: That's not an insult for a Byzant that's spent -

Bill Massey: Right, very difficult for the new entrants to understand and figure out and I'm wondering, do you see a role for the new entrants, the innovators, those who have ideas that we haven't even thought of yet incoming into the marketplace, in the electric marketplace, and helping our nation solve some of these very, very challenging problems?

John Rowe: Well, I'd be a halfwit to say no. I mean of course there's a role and some of these innovations will be transforming. I mean the level of innovation that's taking place on the gas turbine technology and on the fracking technology that we discussed are massive contributions to the gas business we've been describing.

Innovation in solar has succeeded in having the cost of solar power at still 2 to 3 times what it needs to be, but it's no longer eight or 10 times what it needs to be. That's innovation. I'm sure we'll see others. I was asked about smart grid.

There will be lots of innovation and smart grid and probably the second and third generations will have much more customer power than the first generation, which is another reason I'd rather go slow. So, by definition, I cannot list all the areas where innovation will occur.

But I will distinguish between two types of entrepreneurs. The first type is the innovator who has a better idea on how to make a product. The second is the innovator who has a better idea on how to get a subsidy from the government or the local utility.

The second is at least as common as the former. And so not everything that appears on our horizon as innovation will, in fact, be a friend to the consumer. But nonetheless, let us hope there are a lot of good innovations.

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