

NATIONAL PRESS CLUB LUNCHEON WITH JOHN W. ROWE

SUBJECT: NATIONAL ENERGY POLICY IN A TIME OF ECONOMIC UNCERTAINTY

MODERATOR: DONNA LEINWAND, PRESIDENT, NATIONAL PRESS CLUB

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DONNA LEINWAND: (Sounds gavel.) Good afternoon. Welcome to the National Press Club. My name is Donna Leinwand. I'm a *USA Today* reporter and president of the National Press Club.

We're the world's leading professional organization for journalists and are committed to the future of journalism by providing informative programming and journalism education, and fostering a free press worldwide. For more information about the National Press Club, please visit us on our website at www.press.org.

On behalf of our 3,500 members worldwide, I'd like to welcome our speaker and our guests in the audience today. I'd also like to welcome those of you who are watching us on C-Span.

We're looking forward to today's speech, and afterwards, I will ask as many questions from the audience as time permits. Please hold your applause during the speech so we have time for as many questions as possible.

And for our broadcast audience, I'd like to explain that if you hear applause, it may be from the guests and members of the general public who attend our luncheon, and not necessarily from the working press. (Laughter)

I'd now like to introduce our head table guests and ask them to stand briefly when their names are called. From your right, Jim Owen, communications director for the Edison Electric Institute, Paul Merrion, Senior Reporter/Washington, Crain's Chicago Business, Lynn Garner, staff writer for the *Bureau of National Affairs*, Jason Grumet, Bipartisan Policy Center and a guest of our speaker, Margaret Ryan, Executive Editor, *Clean Skies TV News*, Phil Sharp, Resources for the Future and a guest of our speaker.

Skipping over the podium for just a second, Melissa Charbonneau, NewsHook Media and Vice chair of the Speakers Committee. Speaking over our guest, Dipka Bhambhani, energy reporter for Platts-McGraw-Hill, a member of National Press Club Board of Governors and the member who organized today's event. Thank you very much, Di. Sue Tierney, National Commission on Energy Policy and a guest of the speaker, Patrice Hill, chief economic correspondent from *The Washington Times*, Jennifer Dlouhy, who covers energy issues for the *Houston Chronicle* and Hearst Newspapers, and finally John Jenrich, energy industry analyst with the Federal Energy Regulatory Commission's Division of Energy Market Oversight. (Applause)

Nuclear energy has been a flashpoint for controversy from doomsday, after the Three Mile Island meltdown, to nervous humor, a la Homer Simpson dreaming of donuts as he falls asleep at the switch of the fictional Springfield Nuclear Power Plant.

Our guest today wants to change the image of nuclear energy. In the United States right now, much of our power comes from coal. Renewable energy, including wind and solar, accounts for less than three percent. Nuclear generates about 20%. Here at the National Press Club, by the way, we are 100% wind powered. And we have reduced our energy consumption, our electric use, by 20%.

When President Obama took office on January 20th, the issue of climate change surged the forefront of the National Energy date. The President talks often about clean energy. And nuclear power, now, has a seat at that table.

One of the voices the President is very likely to hear from is our guest today, Exelon CEO John Rowe. A lawyer by training, his first exposure to the energy business was punishment for clashing with his boss, who dispatched Rowe to a division representing nuclear plant owners. I guess he liked it. (Laughter)

At 38, Rowe became CEO of Central Maine Power. Next, it was the New England Electric Company in Massachusetts. And in 1998, he became Chief of what is, today, the Exelon Corporation. At the time, Exelon's nuclear plants ran at half their capacity.

A decade later, those same plants run at 93% of their capacity. They now provide energy to customers in Pennsylvania and Illinois, as well as the wholesale power market. Mr. Rowe so adamantly believes in a bright future for nuclear energy, that he recently offered \$6.1 billion dollars to purchase NRG Energy, a smaller rival. That company rejected the offer.

But Mr. Rowe isn't all energy all the time. He studies Byzantine history, which perhaps gives him a leg up when dealing with the Federal Regulatory schemes. (Laughter) And he chairs the Chicago History Museum.

He and his wife Jean are also passionate about education. They fund a charter high school for math and science in Chicago's West Humboldt Park neighborhood. He is also chairman of the Illinois Institute of Technology. Today, however, he will speak to us about energy policy and the environment. Please join me in welcoming Exelon CEO John Rowe.

(Applause)

MR. JOHN W. ROWE: Thank you Donna. But I'm sure one thing the entire audience will agree on is to wish you happy birthday. But they can't sing to you, because that would come out of my time. (Laughter) I'm told by the reverend ladies that I was sitting next to, that to the best of their knowledge, no one has ever begun remarks at the Press Club by saying "Here we are, high atop the liquor store." (Laughter) So I thought I shouldn't miss that opportunity.

But in another sense, I'm coming to Washington, which I have been doing, now, for something like three decades, to talk about energy policy and the environment. Usually I come on behalf of my companies. And, as the eldest in the industry, I have been doing that, now, for 25 years.

Sometimes I come as an industry front for Ralph Cavanaugh of the Natural Resources Defense Council. (Laughter) Ralph could charm a snake into giving up venom. (Laughter) So it's no wonder he can manipulate someone like me. And today, I come as a pop-up on the Internet for Fred Krupp of the Environmental Defense Funds. Strange things happen to a farm boy on his way to a more prosperous tomorrow.

But I think today's visit might actually be useful. Chairmen Waxman and Markey are on the verge of passing the most workable climate change legislation that we have seen out of the House Energy and Commerce Committee. We have known climate change legislation was on the agenda since the presidential campaign, when both candidates advocated cap and trade systems.

Most Americans, according to Resources for the Future, accept the scientific consensus that build-ups in carbon dioxide and other greenhouse gases threaten our climate. And most Americans agree that human activity is a major contributor to this threat.

What we didn't know, when the presidential campaign was underway, was how drastically our economic conditions would change in the meanwhile. The fact that dealing with climate is still on our agenda is a testament to Congress and to President Obama.

Now climate change legislation has long been a priority for me and my companies. In 2004, I began serving as co-chair of Jason Grumet's National Commission on Energy Policy, which developed a set of bipartisan recommendations, including a cap and trade system, a cost control mechanism, new energy efficiency standards, support for clean coal technology-- and, oh yes, because I was co-chair, support for new nuclear plants. I think Brother Cavanaugh agreed to swallow that one as long as I did what else he told me. (Laughter)

More recently, Betsy Moler(?) of our shop, former chair of FERC(?) and Deputy Secretary of Energy, have been active in the U.S. Climate Action Partnership, which is a bipartisan coalition of power companies, energy and oil companies, manufacturers, and five of the largest and most significant environmental groups.

U.S. Cap and the National Commission have done much to set the stage for dealing with climate. Now I should say early in these remarks that Exelon is uniquely situated on the climate issue. That is partly due to wise planning and partly due to heredity.

It seems that utilities evolve into ecological niches as well as other organisms. But Exelon Generation is the largest low-carbon generator in the nation, with 17 nuclear units located throughout the Midwest and the mid-Atlantic.

As Donna was kind enough to observe in the introduction, we operate them at world class levels of efficiency and safety. But that wasn't always so. In preparing for climate change, and achieving some other objectives, we sold a large portion of our coal fleet as long ago as 2000.

But Exelon is not only the parent of Exelon Generation, it is the parent of Commonwealth Edison and PECO, which serve almost 12 million people in Northern Illinois, around Chicago, and in Eastern Pennsylvania. These 12 million people have real faces, including one that is sort of eminent in the White House as we speak.

Now the reason our customer base is so important is that if climate legislation is mishandled, and prices change wildly, our whole structure will be torn apart by political and business pressure. So getting it right is a big deal to us.

Last July, in an effort to show what we could do for ourselves, we announced Exelon 2020, a low-carbon roadmap. It's author, Shelly Keller, is in the audience. Exelon 2020 is our plan to reduce, offset or displace more than 15 million tons of greenhouse gas emissions by the year 2020. That is an amount larger than Exelon's entire carbon footprint.

Our plan has three components, all of which are relevant to the pending legislation: To green our own operations, to help our customers and communities reduce their greenhouse gas emissions to energy efficiency programs, and to provide more low-carbon electricity in the marketplace.

We have recently announced a major step toward our goal by exceeding our commitments under the EPA's Climate Leaders Program. As of the end of 2008, compared to a 2001 baseline, we have reduced our emissions by 6 million tons a year, or 35%. That is the equivalent in greenhouse gas terms of taking more than a million vehicles off the road.

But, of course, we still have work to do. And, surprise-surprise, we did the easy stuff first. To realize our goals and, certainly, for the nation to realize its goals, we have to have focused federal action. It has to start soon, and it has to persist over a very long time. It took us more than a century to create the climate issue. And it will probably take us at least a century to fix it.

There are four components to good federal policy on CO₂ and other greenhouse gases. First, we simply have to put a price on carbon emissions into the marketplace. A price signal sent through a cap and trade system will drive low carbon investments and discourage high carbon investments.

A market-based system will ensure that we make investments in the most efficient way we know how. And this is important at each future point in time. The reason the time is so important is we really did it right for 20 years out. When you have to have a system, it adapts.

The Waxman-Markey Compromise, as it stands, meets this test. Now some on the left will argue that we ought to do this all with renewable portfolio standards. But RPS is only a down payment. If our response to climate is only RPS, we won't make the most efficient investments first.

I commend Chairman Waxman, Chairman Markey and Congressman Boucher for putting a carbon cap and trade mechanism, together with a reasonable

renewable portfolio standard, in their compromise work. Now let me be clear, Exelon has supported, and will continue to support, reasonable renewable portfolio standards.

Wind and solar clearly play an increasing role in meeting our energy needs. Last month, we announced a proposal to obtain stimulus money, along with some of our own, to develop the nation's largest urban solar installation, ten megawatts of capacity on a Brownfield site in South Chicago.

We are looking constantly at further investments in wind and solar, because combinations of wind and gas generation, as a backup, are more economical today than they have been before. But, as with most things, there must be limits.

We believe that the original Waxman-Markey proposal of 25% by 2025 was too severe and too expensive. The compromise, 15% by 2020, should be achievable without undue stress on either the economy or the reliability of our system.

I am equally hopeful that Chairman Jeff Bingaman's years of work in the Senate to achieve a similar result will succeed. We would like to see all low-carbon sources qualify under the RPS, including new hydropower and, surprise you-- no it won't-- upgrades at our existing nuclear sites.

Now, others have called-- usually on the right-- have said that a cap and trade system should be thrown out as a hidden tax. Well, any response to the climate problem will cost money. [noise] is over. A carbon tax would cost us money directly. A cap and trade system does so through the market. And a renewable portfolio standard does so through regulation. There simply isn't any free lunch way to deal with this problem.

The key consideration is always, how do we get the job done at the lowest possible cost? Second, in view of the economy, legislation simply must include robust cost containment. The current crisis is not a reason to defer dealing with the climate challenge. That only makes it more expensive.

The current crisis is a reason to make certain we don't have too much volatility and too much cost in the early years when our options are limited. The initial carbon price should be modest and should increase over time as new technology becomes available.

U.S. Cap recommends this be done through a fixed cap and floor on the price of carbon, with a pool of offsets and allowances to maintain a targeted price. The Waxman-Markey proposal, I believe, adopts a similar mechanism. But we're

not quite sure they have an adequate reserve to fully make it work. A well designed cost containment mechanism is not only essential for the economy, it is essential lest the legislation crumble under consumer outcries at the first serious strains.

Now third, legislation must include a sensible method for allocating allowances. U.S. Cap proposed that a large portion of the allowances should be given to local delivery companies. The delivery companies, which are part of the electricity business, would then sell the allowances or use them as proceeds for rebates or low income assistance, or whatever state regulators determine.

Now some people call this a windfall for polluters. But, when you give the allowances to the LDCs, the utilities can't profit from them. They're required to pass them through to the customers. Now, I take pride in knowing that Betsy Moler of my company was the first one to emphasize giving the allocation to the LDCs, rather than to companies like our own Generation affiliate. This is a position backed by the Edison Electric Institute, U.S. Cap, the National Association of Regulatory Utility Commissions, and to labor unions.

Initially, Waxman-Markey was silent on the question of allocations. But we now understand that, working with Congressman Boucher, they have developed a compromise that would initially grant 35% of the allowances to LDCs. We applaud Waxman and Markey for their flexibility. We particularly commend Chairman Boucher for helping make a compromise so practical.

Now fourth, we need to be honest about the essential role that competition plays in all of this. We simply cannot meet the long-run challenges of climate efficiently without real markets at work. This has been true in oil and natural gas. It is equally true for electricity. But, even more important here, it's true for energy conservation, for carbon dioxide allocations, and for new technologies.

In the electricity industry, wholesale competition has dramatically improved the performance of the existing generation fleet. According to a study by Navigant Consulting, the efficiency of baseload plants in competitive jurisdictions has improved by 9%. Nuclear capacity factors in these jurisdictions have improved by 12%. As Donna said, in my own company's case, it was from 49% to 93. But we can't attribute all of that to competition.

Competitive markets have resulted in real savings to consumers. A decade ago, in Illinois, consumers paid 12% above the national average. Today they pay six percent below. In Pennsylvania, a recent Public Utility Commission study found that customers were paying seven percent less.

And wholesale competition has promoted renewable power. According to DOE, almost three-quarters of the wind resources developed are in organized competitive markets, even though less than half of the wind potential is there. Out of 130 wind farms installed last year, three-quarters were in organized markets. This is not simply an accident. Wind developers benefit from access to the transmission grid, and also from the market mechanisms.

And finally, competition is the best way to foster innovation. Not a one of us knows-- we all believe-- I believe, as Donna suggested, that nuclear power must play a very large part. Others would bet more on solar or on carbon sequestration. We all have opinions. But not a one of us knows what will be the most economic low carbon technologies of the future. And they will change from decade to decade.

Therein lies the danger of doing this all by command and control. We will, inevitably, command the wrong things. Be very, very wary of anyone who comes here, as someone did-- I think it was Lincoln Steffins(?) once and said "I have seen the future, and it works." (Laughter)

Competition doesn't always get it right. Heaven knows we saw some of that in the financial sector the last couple of years. But competition ensures that we adapt. And what we're trying to do with good climate policy is build a mix of regulation and the incentives and markets that works to achieve both economic and environmental objectives. It's really, really important.

You know, the great thing about my business is, you can throw away billions if you screw up. And we just can't afford to do that, either as an industry or a society. So now, I think we are genuinely on the brink of something astounding in Washington. Thanks to the hard work of our President, Chairmen Waxman and Markey, Congressman Boucher, Senator Bingeman, Senator Specter, Senator Lieberman and many others, we are on the fringe of really productive legislation.

That gives me three particularly ironic notes. First, a utility executive who'd rather stay in Chicago, has come to Washington to praise the Congress. (Laughter) This is a rare and unseemly event, although not as rare as someone praising utility executives. (Laughter)

Second, it appears this bill will pass the Energy and Commerce Committee without Republican votes, ironic in view of the campaign position of Senator McCain. And third, here I am, admittedly a dyed-in-the-wool Mayor Daley supporter in Chicago, but generally someone whose basic sympathies on issues of economics, regulations and markets lie with the GOP. And here I am praising Mr. Waxman and Mr. Markey and Mr. Boucher.

I have not forgotten what Republicans have done for low carbon policy. I'm endlessly grateful to former Chairman Barton for his work on competition and for his support for nuclear power, the largest low carbon energy source we have.

But here is a great irony. On this critical issue, it is Chairman Waxman, Chairman Markey, Chairman Boucher and the Democrats who are working the market-based solution. And they are the ones who have asked my colleagues in the utility industry to help make all of this work.

Well, the political die seems to have been cast in the Commerce Committee. I expect a very partisan vote. But I hope we see a more bipartisan result on the House floor. And I hope we see a more bipartisan result in the Senate. Because many Republicans, including, as I said, Senator McCain, are also concerned about the climate issue.

We at Exelon will work very hard to make this opportunity a reality. And we hope the rest of you do too. If we delay in beginning to deal with the climate issue, the economic costs will multiply. And the environmental impacts will be more severe.

We are, as an old *Star Trek Movie* says, carbon-based organisms. We live in a carbon-based economy. The road to a low carbon future is long and steep. We simply must begin to march it now. Thank you very much.

(Applause)

MS. LEINWAND: Okay, our audience has supplied me with a lot of questions here. So, why did Exelon become involved in the climate action partnership initially? And how has your involvement with the group changed your initial thinking on the best way to reduce greenhouse gas emissions?

MR. ROWE: Well, the answer to the second part of the question is it hasn't. I think were this a simpler world, the best way would be a carbon tax, thought so a long time ago, still think so. But it's not very politically feasible. We got involved in U.S. Cap because I had already spent three years working with Phil Sharp, with Sue Tierney, with Jason Grumet, with others at the National Commission. And we thought we had put out a pretty good outline for how to deal with this.

But U.S. Cap managed to get more formal involvement of more large corporations. And it managed to get more formal commitment from large environmental groups, so it looked like a pretty good train. And we climbed on, and asked to help steer. (Laughter)

MS. LEINWAND: Didn't you support a carbon tax at one time? And what changed your mind?

MR. ROWE: I think I just answered that. Several people, including President Obama's Chief of Staff, told me that with bright ideas like that, it was good I wasn't in politics. (Laughter)

MS. LEINWAND: Wouldn't a tax spread the burden over a larger part of the economy, making it fairer and more effective than cap and trade?

MR. ROWE: Go see the Chairman. Go see the President. I think they're dealing with all the "T" words in the Congress they know how to handle already. And they want this one done through a more direct market mechanism. But I've already answered how I feel about that issue.

MS. LEINWAND: Once a price on carbon is set, it seems that, in commercial markets, where the price of electricity is set at the margin, which is usually coal or natural gas, the profits from nuclear will go up. How would you respond to critics who say you'll make windfall profits through regulation? And have you done any type of projection of what your increased profits from deregulated nuclear will be?

MR. ROWE: We hope so, is-- (Laughter) But I would remind everyone that, when my predecessor companies were suffering huge losses on the nuclear plants, no one called those "windfall losses" and came leaping to our rescue. And I would also point out-- and I think, if you talk afterwards with some of my colleagues on the National Commission-- that I was among the first to say that we had to have a good cost control mechanism.

And, if I really believed that I could just advocate something that pumped my prices and just run out and collect them, I would be a fool. The simple fact of the matter is, it's hard to make these market systems work. And, with 12 million retail customers, it's as important to me as it is to anybody else, that these prices not go up too much.

MS. LEINWAND: You have said that, in order to create the largest utility, you must buy a Texas utility, or at least have a larger presence in Texas. If you do not acquire NRG, what is your next step? Or, do you have another utility in mind?

MR. ROWE: I'm an aging male. Lust is a constant problem. (Laughter) Seriously, if we don't succeed on NRG, although I surely think we will, we will keep looking at other attractive opportunities to build a value-added expansion to our Generation footprint.

But, as I've said to my own investors many, many times, I'm 64 next week. I've done this for 25 years. There's an old song that goes something like "We built this city on rock and roll." I built my reputation on value. I have survived this long by resisting fads, by looking in the mirror and seeing a plump, round face instead of an elegant one, by understanding that what I see in the mirror is not the future.

I have built Exelon by a constant and almost rabid devotion to shareholder value. And that will not change, so I guess we'll just have to keep my lusts under control in this area, as we do at others. (Laughter)

MS. LEINWAND: Okay, well happy almost birthday. (Laughter) So far, there has been huge resistance on the Hill to making nuclear energy count as a renewable power source for purposes of utilities meeting a renewable portfolio standard. What are the prospects for growing congressional support for nuclear?

MR. ROWE: Patience is a great virtue. In my 25 years of being committed to nuclear energy, I could probably list, on five fingers, the number of converts I've made through argument or persuasion. The only way you make converts on nuclear energy is first, by running them with a superb safety record; second, by showing some humility and responsibility about the risks; and third, by waiting for people to see.

If folks like Marv Fertel of NEI and I are right, that nuclear energy is an essential part of a low carbon future, then I believe that more and more people will come to realize it. And building and operating nuclear plants is a tough job. If there ever were any Homer Simpsons in it, we've long ago stomped them out and sent them over to some of our competitors. (Laughter)

But actually, we don't want them there either. Because the problem at the competitor does us as much harm, almost, ...(inaudible). But, I have never seen a convincing forecast of an energy future that is low carbon and competitively effective, that does not include a large component of nuclear energy. And, from a political point of view, from a social point of view, from a government point of view, I will never flinch on championing that belief.

But, as a businessman, it's my job to spend my shareholders' money, as I said before, on value, not propositions. And nuclear power will remain a very difficult challenge until large majorities of both parties come to their own conclusion that this technology is necessary. I fervently hope it may be sooner. But, as a business person, it's my job to manage the investments until it happens, not to exaggerate my own importance in making that happen.

MS. LEINWAND: Speaking of both parties, given the challenge Chairman Waxman has had in getting enough Democratic support to get the Waxman-Markey bill through his own committee, something that is not even assured, what do you think the prospects are in the entire House? And then, what do you think the prospects are in the Senate?

MR. ROWE: I think the prospects in the House are very, very good. There are some that suggest that there is a high measure of control on House votes in the end. And this compromise is very appealing. What I intend to do, on that front, is work with some of my Republican friends and see if we can't get at least a few Rs along with those Ds, and to work with some of my Blue Dog friends. Emily Duncan of Betsy's staff says I'm really a Blue Dog masquerading as a Republican. "Arf, arf."

But-- (Laughter) But, when it comes to the Senate, the challenge will be larger. And I think the key thing, there, is that it not be so partisan. But there are a large number of Republican Senators ranging across the spectrum from folks like Snowe and Collins in Maine to Lisa Murkowski from Alaska and Lindsey Graham from South Carolina, who have in the past been interested in the climate issue. I do not know where they are all going to vote. But I deeply believe that if they want the Republican Party to be, as I hope it to be, an effective force in the North and in the urban parts of our country, that this is one of the issues they have to come to terms with. And I hope they seize this occasion to do it.

MS. LEINWAND: What do you think about the President's FY 2010 budget which lashes funding for nuclear energy across the board?

MR ROWE: (Laughter) Obviously I regret some of the cuts. But it's not so much the Presidents and the budget that make me regretful. It's that what he really cut was largely the Yucca Mountain Nuclear Waste Repository. And Senator Reid had already made clear that that wasn't going to happen. And so what I really regret is that the Nation is still failing to come to terms with our need for a practical and effective solution to the nuclear waste issue. This is not technically that hard, but it's been politically very difficult for a long time. When I grew up as a kid, my mother used to say, "Somebody lies to you once, that's his problem, lies to you twice, that's your fault." I don't know what she would have thought about somebody being lied to for 50 years. (Laughter) But we need the Government of the United States to find the solution it has long promised to the nuclear waste problem. And that I regret; and that it do not blame on the President.

MS. LEINWAND: With Yucca Mountain apparently not available, what's your plan for long-term handling of nuclear waste?

MR ROWE: First we keep in the spent fuel pools and watch it. And then when it gets to a certain level of coolness, we put it into NRC-approved concrete casts and put it on pad within the protected areas or our nuclear sites. That will work for a very long time. It will, in fact, work for longer than anyone that I see at the moment in this room is likely to be around. It, however, is not the best way to do the problem, and we ought to get on with a more effective way.

MS. LEINWAND: What would be the best way?

MR ROWE: Well, Yucca Mountain wasn't that bad in my opinion. But I think given that Yucca Mountain is not going anywhere, the best way is something like a half a dozen regional surface storage facilities, probably on Federally-owned property and with security provided under some form of Federal supervision, but ultimately paid through, through the users of nuclear energy.

MS. LEINWAND: What must the Obama Administration say or do to demonstrate a long-term commitment to nuclear power?

MR ROWE: Well, you're first assuming they want to do that, which may or may not be an open question. I don't exactly know. But I think Secretary Chu has made it reasonably clear that he thinks, he hopes that over a period of a century. Advances in bio fuels create options that are better than any we have today. But I think he believes that it's quite clear, and has said in speeches that I've heard, that there has to be a significant nuclear component throughout the century. And I take the man at his word, and I have reason to believe that's what he says over at the White House.

As to what else the Administration does, it will have something to do with its appointment, something to do with how it administers the Federal loan guarantee program that's already been authorized. But, you know, these are kind of busy people at the moment. And it's hardly a shock that their first priority hasn't been my industry. Folks like me will keep asking them to make it one, and we shall see as it plays out. You know, it has been one of the great ironies of my work that we have one party that always seems to talk more about energy supplies and another party that talks more about environmental issues, and it's really a scissors.

Unless you get them both together, you have nothing. And it's awful hard to get people to put the two blades into scissors, and yet it has to be done. And I hope the President sees it that way as he sorts through these issues.

MS. LEINWAND: Senators Hatch and Reid have sponsored Thorium Energy Independence Act. What do you see as the future for alternative nuclear fuels in this country?

MR ROWE: My nuclear folks probably don't think I'm competent to understand the answers to that question. They already don't let me touch any buttons, and they rightly suspect that when I stopped my physics at the end of high school, I might have missed something thereafter. But the answer is, yes, there will be alternatives. There will be alternatives across the entire fuel cycle ranging from the fuel itself to ultimately, I think, reprocessing large parts of the fuel with new technologies that are less prone to nuclear proliferation problems. And the whole nuclear fuel cycle will keep changing. But I don't think there are any magic pills in all of this. All of the studies that I have seen suggest that what we have right now works pretty well for quite a while.

MS. LEINWAND: The phrase "market based" that leads the description of cap and trade is not as popular as it was a year ago. Will popular mistrust of complex financial markets undermine Congressional support for a cap and trade program?

MR ROWE: Well, I think some of the opponents are banking on it. But the opponents would be even less willing to do an effective carbon tax. One of the virtues of carbon tax is it keeps it simpler. And most of opponents wouldn't like heavy renewable portfolio standards any better. And I think they would be right in realizing that that just makes the matter more costly but in a different way. You know, what we have from the financial sector is one of those never-ending issues of how we get regulatory frameworks right so that we then get markets to work in the public interest. All markets are creations of property rights, contract terms and legal remedies. You can't have a real market, as opposed to a bazaar among thieves, without a legal structure as to what is good property rights.

The failures we've seen in the financial sector -- there's a new book on this by Judge Posner that might be interesting to some of you -- are failures of excess, financial ingenuity and inadequate financial prudence, no doubt of that, and shocking and sometimes disgraceful failures. They're also failures of good regulation at the Fed and in Washington. I don't know enough about them to know the whole interplay of how much the Fannie and Freddie contributed to the mess, how much excess enthusiasm for mortgage loans to people who couldn't pay them back had to do with it, how much tax cuts while we fought a war had to do with it, and how much not adjusting interest rates had to do with it.

But this is a compound failure to get law and markets right. And while we'll never get them perfect in any area, there's no legitimate escape from trying. The failures of the United States in 2008, while grievous, are no reason to adopt the policies of the German Democratic Republic. (Laughter)

MS. LEINWAND: You mentioned the Department of Energy's Loan Guarantee Program as a way to get new plants up and running. Do you really have any hope that DOE will actually reward a loan guarantee?

MR ROWE: Well, actually, I think it will. I mean, I might be batty. I actually have confidence, it's just I'm not at the top of their list and I don't expect it to be me. And that might put me to sleep, except one of the companies that is at the top of the list is NRG and I have an offer out to buy them on terms their shareholders seem polite. So what does Maria say in *The Sound of Music*? If God closes a door, he opens a window.

MS. LEINWAND: Will we ever get economical small reactors, say 300 megawatts?

MR ROWE: I doubt it, but could happen. Nuclear technology is a technology that likes scale. About eight years ago, we spent a long time looking at something called Pebble Bed Modular Reactor, which was a 150 megawatts and looked sexy on paper, except it didn't have containment. Seems people in this country prefer containment. But as I looked at, because I had a colleague at the time who liked it, I noticed that its coming in a 150 megawatt modules was terribly appealing. They didn't become potential economic unless you bought ten of them at a time. And I'm not really sure that ten 150's, that you have to do at once, is all that different from one 1500. Nuclear is a technology that likes to be done at scale. Every technology has its natural scale. I doubt that we're going to see small as the nuclear wave of the future.

MS. LEINWAND: Nuclear power advocates talk about advances and safety of nuclear energy production, but what assurances to you offer for those concerns about where waste generated from nuclear power facilities would be disposed of or stored?

MR ROWE: Well, we talked about that before. If I had the answer to that question, I'd be real smart. The only assurance I can honestly give people is that we know how to handle it safely and we will. But as to where it will ultimately go, that will be made by some future Congress long after I've hung up my spurs. I'm at least as frustrated as the person who asked that question might be. And what I tell my officers is this involves something like the cocktail, what I call the Cocktail Party Test. Before this Nation builds a lot of new nuclear plants, we have to have a better answer to that question. Saying we have reasonable assurance satisfies the NRC under its regulations, as it should. They satisfy the courts, as it should.

Congress can pass something saying we have reasonable assurance. But I do not believe we have the significant nuclear expansion that a major contribution

climate problem would require until I can go to a cocktail party with folks like those here, and look you in the eye, and say, "This is the long-term answer to that problem and it will happen." And as long as I have to look at my shoes or at the cocktail wieners when I'm answering that question, I think we should go slowly.

MS. LEINWAND: There's a debate in Congress over how much renewable energy to require in an RES. What renewable potential do you see in your company?

MR ROWE: Well, the world's our oyster. We have all the renewable potential that anybody else has. It's a simply a matter of cost. When we try and excel on 2020 to evaluate the cost of all low-carbon options in terms of their basic economic value in today's market, and then in terms of dollar-per-ton of CO2 avoided. And surprise, surprise, there's lots of energy efficiency out there -- no one knows how much including us -- that has not cost in terms of avoiding CO2. The trouble is nobody can draw a good supply curve for that. There's some hundreds of megawatts or thousands of megawatts, but no one knows how many tens of thousands. The best estimates I've seen are something like third of electricity growth. And then building new gas-fired generation that's low-carbon but not no-carbon costs somewhere between \$0 and \$20 dollars per ton depending on what the gas price is, which, of course, no one knows.

And then, when we did these numbers last year when gas prices were high, almost any up-rate to our existing nuclear power fleet had a positive value. Now some of them have no carbon cost and some of them have a distinct carbon cost. New nuclear plants, at that time, were something like \$40 dollars a ton of avoided CO2, and wind something \$60 or \$70. Now with lower gas prices as the only significant change, new nuclear is more like \$60 dollars a ton and wind is more like \$60 dollars a ton. For the first time those two curves have crossed.

So we can get a lot, it depends on first, how the markets behave, second, how much people are willing to pay for it, and third, how imaginative we are in creating new and better solutions. We will have wind, we will keep experimenting on solar, but the curves of technical improvement are very different on those technologies. The ultimate capability of solar is much larger, but its cost today is somewhere between \$300 and \$1,000 a ton of avoided CO2. It's very expensive. But it's also the place where the technology and the costs are improving the fastest.

So we can't give you a good supply curve with good economic data on far it costs. And that's the fundamental challenge, and it goes back to why cap and trade is so important. Cap and trade forces you to try to make the most economic decisions instead of taking the popular out and making the least economic decisions.

MS. LEINWAND: We've had a lot of big, scary acronyms today, so I'm wondering what your message is to the average American consumer? What should be the issue for them?

MR ROWE: Well, it's how not to throw the baby out with the bathwater. We've got to deal with this problem. Phil Sharp's folks did a study; they already on that. But Phil's study said Americans believe the problems should be addressed. They don't want a tax because they know it will cost them money. They distrust cap and trade because they rightly think it will cost money. And they like renewable energy standards because they want to believe it will only cost me money. Don't tax me, don't tax the tax fat(?) fellow behind the tree.

Unfortunately, that kind of thinking never works. Because it forces you to less efficient and more hidden solutions. So the right message to the American people is get on with it but make certain you have practical cost caps in the early years so you don't get hit with something you just can't afford.

MS. LEINWAND: Okay, we are almost out of time. But before asking the last couple of questions, I have a few important matters to tell you about. First of all, let me remind our members of our future speakers. On May 21st, Ray LaHood, the US Transportation Secretary, will discuss his energy's involvement in President Obama's \$787 billion dollar stimulus package aimed at turning around the US economy. On May 28th, Mary Tyler Moore, Actress and International Chairman for The Juvenile Diabetes Research Foundation, will discuss research in finding a cure for diabetes at a luncheon. So you're all welcome to bring and toss your berets. Second, I'd like to present out guest with the coveted NPC mug. (Applause)

Got a couple of strange questions here. I think somebody wants to get you drunk and take advantage of you, he asks, "What is your favorite single male whiskey?"

MR ROWE: The only effective rival to the 25-year Macallan is the Johnnie Walker Blue, which is actually a blend. And being the person who believes that all responses require a mixed portfolio, I go back and forth. (applause.)

MS. LEINWAND: I'd like to thank you for coming today, and thank you all for joining us. (applause.) I'd also like to thank National Press Club staff members, Melinda Cooke, Pat Nelson, JoAnn Booz and Howard Rothman for organizing today's lunch. Also thanks to the NPC Library for its research.

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Thank you and we are adjourned. (Gavel sounds.)

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