

Remarks as prepared for delivery by Lew Hay, Chairman and Chief Executive Officer, FPL Group, Inc., at the National Association of Utility Regulatory Commissioners Winter Committee Meeting

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## **THE PATH TO A CLEAN ENERGY FUTURE**

Good morning, and thank you very much for having me here today. I must confess that I can't fully understand the rationale for having a meeting of state utility commissioners in Washington, D.C., in the middle of February. As you plan next year's meeting, I have two words of advice for you: South Florida.

Actually, I understand perfectly well why you chose Washington. Every day the Obama Administration is writing a new page of history, and you want to be part of that. So do I. It has been more than 30 years since energy issues have played such a dominant role in the national debate. The President and Congress have proposed sweeping changes to energy policy – a huge boost for renewables, a dramatically expanded transmission system, and a price on carbon dioxide to begin to address climate change.

### **FPL Group's Leadership on Renewables**

As the CEO of the nation's number one producer of renewable energy from wind and solar power, I have a keen interest in the outcome. As you know, the credit crisis has caused a contraction in the renewable energy space. Many players who were talking about building wind farms and solar fields have put those plans on hold.

At FPL Group, we are forging ahead. In 2008, we received approval to build 110 megawatts of solar power in Florida, and we added more than 1,300 megawatts of wind power nationwide, the most in our history. Our wind fleet now totals approximately 6,400 megawatts, which is enough to power 1.5 million homes and represents billions of dollars of investment in rural areas. But even we are not immune to the economic downturn. While we still plan to build between 7,000 and 9,000 megawatts of wind power over the next four years, we've had to scale back our 2009 expansion plans by hundreds of megawatts.

As proud as we are of our accomplishments on the renewables front, they wouldn't have been possible without your leadership. Indeed, over the past few years the strongest direction on energy policy has come not from Washington but from Austin, Sacramento, Tallahassee and other capitals, and many of you deserve praise for that. Whether through RPS standards, regional efforts to curb greenhouse gases or competitive renewable energy zones, the states have been leading the way to a clean energy future. As regulators, you are at the forefront of these initiatives, and in many cases you have been leading the debate yourselves.

### **The Challenges We Face**

But there is much more to be done. Our nation is at a critical moment in history, confronted by a triple threat of challenges – an economy in recession, an overdependence on foreign energy, and a warming planet. As I pondered which of these topics to focus on today, I realized that no matter which one I picked, I would end up giving the same speech, for the solution to any one of these challenges is the solution to all three.

Simply put, we must create a clean-energy economy for the 21<sup>st</sup> century – one that will help pull our economy out of recession, strengthen America's energy security in a volatile world, and address the threat of global climate change.

But a word of caution. All of these lofty goals, and all of the support Washington is expected to provide for them now and in the coming years, can be undone by shortsighted

policies that make it impossible for utilities to be full partners in the low-carbon future – or by policies that impose too high a cost too quickly for our customers to bear. The electric power sector contributes 40 percent of the nation’s greenhouse gas emissions. If we are not part of the solution, there won’t be a solution, and that is where we need your support.

### **The Need for Capital**

The power industry is one of the most highly capital-intensive sectors of the economy. Whether it’s clean-energy generation, expanded transmission, or a smarter and more reliable grid, utilities can only invest if they have the financial capacity to do so. A constructive regulatory climate has always been the linchpin of a healthy utility industry that can attract needed capital on reasonable terms. Now, with the tightening of the credit and capital markets and the extreme uncertainty that plagues investors, your role has never been more important.

With major financial institutions failing, capital is scarcer and more expensive than it has been in decades. Utilities must compete with one another and with every other sector of the economy for what little financing is available. As always, capital seeks the highest return at the lowest risk. With sound policy that makes investment in the electric power sector attractive, we can lead the transition to a clean-energy economy. Without it, we will fail.

I’d like to spend a few minutes giving you my view of what the clean energy economy looks like and then expound a bit on how your leadership can make it a reality that benefits consumers in every state.

### **A Price on Carbon**

My proposal contains seven elements.

First, we must put a price on carbon dioxide. Starting with a modest price on carbon and then steadily increasing it will create powerful incentives to reduce emissions, as companies find it increasingly expensive to burn high-carbon fuels.

This is exactly as it should be. Carbon emissions impose huge costs on society – costs that the emitters don’t bear. To use a phrase you don’t normally hear from a power company CEO, we must “make polluters pay.” Only when carbon carries a price equal to its cost to society as a whole will we have a level playing field among all forms of electricity generation.

A broad consensus is forming around the need to price carbon. The U.S. Climate Action Partnership, a coalition of 31 leading companies and environmental groups, has proposed pricing carbon through a cap-and-trade program. And the Edison Electric Institute recently issued points of industry agreement on carbon legislation: set tough standards aligned with the targets proposed by the Obama administration, protect consumers, and ensure a fair allocation of emissions allowances.

I want to emphasize this last point. After two years of countless meetings and conference calls by utility CEOs, we reached a consensus on how allowances should be shared among utilities. Of critical importance – the benefits would accrue to customers, not shareholders. There would be no windfall profits for big emitters under EEI’s approach.

A price on carbon will drive investment toward low- and no-carbon technologies, but we must be careful. Excessive price volatility will make business planning impossible. Instead, we need a predictable, steadily escalating price on carbon. This will allow utilities and regulators to make informed decisions about how best to deploy capital going forward.

With a price on carbon in place, America’s fierce entrepreneurial spirit will do the rest. Tell a capitalist there’s money to be made in finding CO<sub>2</sub> reductions, and watch the market burst with solutions. And over time, as more countries accept the necessity of controlling carbon, American entrepreneurs will export their technologies across the globe.

### **Policy Support for Renewables**

Because it may take a long time to enact a price on carbon, as a second step the country should provide large-scale investment incentives for renewable electricity, including an appropriate cost-recovery framework. Despite a late start, the United States just passed Germany to become the leading wind energy country in the world. The reasons are simple. First, we have incentives at the federal level in the form of production tax credits. And second, 30 states require that a certain percentage of electricity generation come from renewable sources.

We should keep going. The stimulus package is a step in the right direction. By providing financial incentives for renewables, it will encourage additional supply of emissions-free energy and create much-needed jobs. But in order to ensure adequate demand, we need a national Renewable Portfolio Standard – not at some point down the road, but now, this year, before the first session of the 111<sup>th</sup> Congress adjourns.

Our current energy policy is too vulnerable to short-term fluctuations in the price of fossil fuels. A national RPS will put a floor under the price of renewables by ensuring demand for wind and solar energy. At the same time, it is likely to lower electric bills in competitive markets by reducing the price of natural gas, according to the Energy Information Administration.

The guiding principle with an RPS should be balance. We can't be so timid that nothing happens, and we can't be so aggressive that we create risks to an already fragile economy. However, I am not swayed by those who say their states cannot comply with any meaningful renewable standard. Climate change does not respect state boundaries. Those who can't build low-carbon power can always buy it – that's what REC markets are for, and that's why we need a freely traded, uniform national REC market.

Just as companies today purchase their natural gas from the U.S. Gulf States and their coal from the Powder River Basin, they should buy their renewable energy where it is the least costly and most efficient to produce. Requiring companies to buy renewable power within their own states – which is generally the case with most state RPSs – only saddles customers with higher costs. It's the equivalent of requiring grocery stores in Washington, D.C., to buy oranges grown only in Washington, D.C.

### **An Electron Superhighway**

Of course, all the renewable energy in the world won't help if we can't transport it to where it is needed. The best sites for wind and solar energy are far from major population centers – on treeless plains and sun-baked deserts. That's why the third step is for the United States to build a new "electron superhighway" to carry emissions-free energy to America's cities.

This should not be controversial. It is not even new. In the 1950s, the federal government funded the creation of the nationwide interstate highway system, which made it easy for people to move across the country. Today, we need strong support for a nationwide transmission build-out to make it equally easy to move renewable energy across the country. The only difference is that we do not need the federal government to own it.

As utility regulators, you recognize that harnessing more of our domestic renewable energy resources requires improvements to the transmission grid. The current system was never intended to move lots of power over long distances or to handle the large amounts of wind and solar energy we have seen coming online in recent years. It was designed for a different, more provincial era – for Nikola Tesla, not the Tesla Roadster.

Getting more towers and wires built won't be easy, and it won't happen overnight, but we must get started now. One of the most immediate requirements is to finalize the rules regarding cost allocation for a transmission build-out. If this issue is not properly addressed, we will derail initiatives to expand the grid, whether they come from Washington or one of your states.

The solution requires more than just money. For too long, transmission development has been thwarted by disputes within and between states over where the lines will go as well as who will pay for them. The time has come to move past those disputes.

I know NARUC is scheduled to consider a resolution as early as today that would accept a broader federal role in transmission siting, which is a positive step. Transmission expansion is so critical to our energy security and economic recovery that it is time to assign jurisdiction for siting to the Federal Energy Regulatory Commission.

I am encouraged that acting FERC Chairman Jon Wellinghoff appears to share this view. Only with a stronger federal role will we resolve the thorny issues of siting and cost recovery that threaten the growth of renewables in our country.

### **Shift to Plug-In Hybrids and Electric Vehicles**

The fourth essential step is to improve our system for transporting people. America's long love affair with the internal combustion engine cannot go on forever. It is time to embrace lower-carbon options such as plug-in hybrids and electric vehicles.

If we could switch the entire U.S. automobile fleet, the reduction in CO2 emissions would be a staggering 75 percent and the drop in fuel costs would be 80 percent. Our oil imports would plunge by almost two-thirds, which would strengthen our national security by keeping revenue out of the hands of regimes hostile to the United States and dramatically improve America's balance of trade. Keeping more of our dollars in the United States will further spur our own economic growth. My recommendation is that the nation set a goal of converting 50 percent of the U.S. automobile fleet to plug-in vehicles by the year 2030.

### **A Nationwide Energy Efficiency Program**

It's not just our cars that need to become more efficient. It's our homes and offices too. Which brings us to step five – a robust nationwide energy efficiency program.

We cannot deny that America is capable of doing much more to conserve energy. The buildings where we live and work squander significant amounts of energy. They need better insulation, better shielding from the sun, more efficient lighting, and dramatically more efficient heating and cooling systems. Inside, the appliances we use to cook, cool and clean all need to use energy far more efficiently.

At Florida Power & Light, we are proud to have the nation's number one conservation program. Since 1980, FPL's efficiency and conservation programs have allowed us to avoid building 12 power plants. Under the wise policies put in place years ago in Florida, no public utility can move forward with the construction of a new power plant until it has exhausted all cost-effective energy efficiency options. For us, energy efficiency is not the "fifth fuel," it is the first.

As with all energy policy, the preferred approach to efficiency is to provide incentives to send the right price signals to consumers and producers of energy. Home builders and home owners need incentives to create efficient new homes or to upgrade existing homes. And the utilities that power these homes should earn a premium return on investments they make in energy efficiency.

Of course, efficiency needs to happen at the utility level as well. Replacing 40-year-old power plants with modern technology not only provides cleaner energy but it also yields significantly improved power-generation efficiency. And with more efficient transmission lines, we can ship additional power from renewable-rich zones with fewer line losses.

### **Carbon Capture and Storage**

The five steps I have outlined so far have drawn a surprising amount of support from both the business community and ardent environmentalists such as former Vice President Al Gore.

But if we stop here, we will have failed, for we still lack agreement on the fuels that power seven out of every 10 American homes – coal and nuclear. Including these abundant and low-cost energy sources is vital to constructing an effective national energy plan.

Some wish to banish coal altogether, which has a surface appeal but is ultimately counterproductive. Instead, we must fund the research, development and large-scale deployment of carbon capture and storage technology as quickly as possible. Coal is an inconsequential part of FPL Group's generation portfolio, but at 50 percent of the nation's electricity mix, it is simply too abundant, too domestic and too cheap for America to abandon it entirely. Our goal should be to perfect carbon capture and storage technology – and then export it to the world.

Congress should pass legislation providing substantial research and development support for these technologies. The Carbon Capture and Storage Early Deployment Act, introduced last year by Representative Rick Boucher of Virginia, is an excellent blueprint that we wholeheartedly support.

### **Additional Nuclear Power**

Last but certainly not least is nuclear power. A minority in this country has persuaded many thought leaders that nuclear power is controversial. It is not. More than seven out of every 10 Americans support additional nuclear energy.

In my view, we need to build 50 to 100 additional nuclear plants over the next 20 years. The simple truth is that any effort to combat global climate change will fail without more nuclear plants – the only current source of energy that is both abundant and carbon-free.

The United States has been generating electricity from nuclear sources safely and reliably for decades. We currently have 104 nuclear reactors operating in the United States. Over a 19-year period, from 1970 to 1989, we brought 105 nuclear plants online, but only seven since. And over the last 20 years, the world has brought 90 nuclear reactors online.

So I absolutely believe we can build 50 to 100 plants over the next two decades -- we only need the political will to do it. A true nuclear renaissance would help win the battle against global warming, free us from dependence on foreign sources of energy, and rebuild a vital part of the energy economy in which we once led the world. It would create thousands of high-tech, high-paying jobs, and it would improve our competitiveness as reactor components that are currently available only from France or Japan would be made in America again.

With these seven steps, we can dramatically reduce CO2 emissions and the threat of global warming. We can significantly improve our energy independence, which has both national security benefits and economic benefits. And we can create millions of high-tech, good-paying jobs that can never be outsourced. Above all, we can continue to provide reliable, low-cost power to our customers.

### **The Role of State Regulators**

Each one of you has a critical role to play in moving America in the right direction on energy policy. You have the power to ensure that utilities remain financially capable of investing in the clean-energy economy. I don't want to minimize how difficult exercising this power this will be in the current environment, but I encourage you to take a long-term view.

We need investment in renewables and other forms of clean generation. We need investment in transmission and distribution to transport renewable power, to build a solid foundation for economic growth, and to quickly recover after natural disasters. And we need investment in a new "smart grid" to increase reliability and help customers manage their energy usage.

Over the next decade alone, the Edison Electric Institute estimates that we will have to invest more than \$650 billion to meet the electrical needs of the nation while simultaneously meeting climate change requirements. Given the enormous size of this required investment,

overall demand for capital will only intensify after the economy begins to turn around. The bottom line: A reviving economy could make it *more* expensive for utilities to access capital, not less.

In the meantime, the financial crisis has made it difficult for all but the most creditworthy companies to raise capital, and even they have to pay more. Now more than ever, establishing reasonable returns on equity is essential.

It might be tempting to believe that since Treasury rates are at historic lows, the cost of capital for utilities must also be low, but nothing could be further from the truth. Just a few years ago, financially strong companies could borrow money at 100 basis points above Treasuries. Now it is as much as 500 basis points, and more than 700 basis points for lower-rated companies. The last time we saw credit spreads this wide was during the Great Depression in the 1930s.

And those rates are just to borrow. Equity investors demand risk premiums several hundred basis points higher still.

Particularly in the current economic climate, we will hear calls to dramatically reduce ROEs. As utility regulators, you are the public officials who best understand what it takes for utilities to attract capital on reasonable terms. If a clean-energy economy is to be more than a slogan, I suspect that your role will have to expand from decision-maker to educator.

Simply put, our national energy goals depend on rational and reasonable returns to investors, who will be called upon to supply hundreds of billions of dollars in capital to make those goals a reality. If misplaced political pressures lead to further reductions in ROEs, the ability of utilities to lead the charge toward a new energy economy will be crippled. Utilities cannot afford to suffer credit downgrades. Impatient capital will either find another home, or it will become far more expensive, saddling customers with unnecessary costs.

## **Conclusion**

Ladies and gentlemen, the triple threat of challenges we face – the economy, energy security, and climate change – seems almost overwhelming. Together, our mission must be to tackle these challenges with courage and conviction.

Here is what the world will look like if we succeed: A new, thriving clean-energy economy will emerge, our dependence on foreign sources of energy will decline, and emissions of heat-trapping gases will fall to levels where we have a fighting chance of averting the worst impacts of climate change.

And here is how the world will look if we fail: We will forfeit clean-energy leadership and jobs to other nations, America will remain addicted to foreign energy, and the slow march toward potential climate disaster will continue.

As a power company CEO, I can help determine which of these worlds we will choose. As regulators of the industry responsible for 40 percent of the country's carbon emissions, you can too. Together, let's make the right choice – for ourselves, for our children and for future generations.

Thank you very much.

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