

Remarks

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**Conference on Climate Solutions for the Northeast
Hartford, Connecticut
May 12, 2003**

The Business Case for Action on Climate Change

First, I want to both thank and extend congratulations to Clean Air-Cool Planet and the Connecticut Clean Energy Fund for putting together such an excellent program. It seems to be an unfortunate fact of our society that opportunities for civil discourse are rare even as the public policy challenges that demand such dialogue grow in scope and complexity. I am pleased PSEG was able to help make the conference possible and I'm honored to participate.

Public Service Enterprise Group (PSEG) is a diversified energy company which this year is celebrating its 100th anniversary. The PSEG family of companies includes Public Service Electric and Gas Company, New Jersey's oldest and largest electric and gas distribution company, PSEG Global, which owns and operates energy production and distribution facilities overseas, and PSEG Power, the electric generating subsidiary I represent. PSEG Power, which owns and operates about 13,000 megawatts of electric generating capacity, recently joined the Connecticut business community through the purchase of electric generating stations in Bridgeport and New Haven. Collectively, PSEG brings to industry and public policy forums the perspective of a business with a long history of operational excellence, financial strength, and responsible corporate citizenship, as well as the up-to-the-minute perspective of a business competing on the forward edge of an industry experiencing fundamental change.

My assignment today is to discuss the business case for taking action on climate change. To me, it's pretty simple: When you're responsible for billions of dollars of assets in an industry that produces more than a third of this nation's man-made greenhouse gases, indeed, about 10% of the entire planet's greenhouse gas inventory, climate change becomes an issue where social responsibility and business risk management go hand-in-hand.

You can believe, as I do, that climate change is a real phenomenon and a real problem that deserves to be addressed as part of a comprehensive and integrated national environmental policy.

Or you can remain a member of the order of the unconvinced.

The reality is, that when it comes to managing business risk, especially in the electric power industry, it doesn't really matter. At least in the near term, it is the policy response and the outcome of the political debate rather than the physical phenomenon itself that will create winners and losers in the electric industry and across the broader business landscape as well.

This is one of the primary reasons PSEG continues to be a leader in the national debate on environmental policy affecting our industry and is also actively participating in international, national, and regional forums on climate change and greenhouse gas reduction strategies.

Many in the industry share PSEG's view that improved environmental performance and reductions in the emissions of pollutants most associated with the industry – nitrogen oxides, sulfur dioxide, and mercury – are justified by public health concerns and the availability of new technologies that make emissions reductions feasible and achievable. The reality is, this nation will not achieve the promise of the Clean Air Act without additional emissions reductions from the electric power sector.

There are those in the industry who don't share this view but have come to the conclusion that some level of additional emissions reductions requirements and more stringent standards are inevitable anyway.

All of us, however, can probably agree that in terms of business planning, investment strategy, commitment of capital, deciding on what assets to buy, which to sell, what development projects make sense, what emissions control technologies are economic, and what new generation technologies deserve support, we spend as much time trying to figure out the permutations and possible outcomes of future environmental requirements as anything else.

We can look ahead to regulatory programs already on the books for nitrogen oxide, sulfur dioxide, and the onset of mercury standards. PSEG Power, in fact, pushed the public policy envelope a little farther here in Connecticut by working with the environmental community on legislation reducing mercury emissions from coal-fired power plants. I understand the bill passed the House of Representatives by a 147-to-Zero vote last week, and while I've learned to be careful about making political predictions, we have every expectation the bill will be approved by the State Senate and enacted into law before the current legislative session ends. We believe this initiative is an appropriate response to concerns that were expressed by Connecticut stakeholders even before we completed acquisition of the coal-fired plant in Bridgeport. And it will facilitate making the technology and investment decisions that will keep this plant a productive asset well into the future.

There is, however, one great, unknown element that will have a profound impact on the cost and direction of future environmental policy, and ultimately, the direction of our industry, and this is the public policy response to climate change and future requirements for controlling greenhouse gas emissions.

I can tell you that as a business leader this makes me very uncomfortable. I prefer an environmental policy that is clearly defined and one that establishes precise emissions targets and timetables. I believe that such a program, for no other reason than to mitigate risk and provide an appropriate level of certainty on which to base investment decisions, must include a sound, mandatory program for reducing greenhouse gas emissions.

PSEG has been working very hard for a number of years to develop some of the methodologies and measurements that would be required to implement a meaningful greenhouse gas reduction program and we've tested some assumptions through voluntary greenhouse gas reductions initiatives.

We're working with the Coalition for Environmentally Responsible Economies to foster an ongoing dialogue among leading companies in the U.S. utility sector and the financial community on the climate change issue. Our goal is to raise the consciousness of the investment community about climate change and how it could affect investment decisions. We think that a financial community that better understands the science, policy, and business implications of climate change will be better prepared to recognize, and perhaps, reward those companies that begin to make investment decisions that include consideration of greenhouse gas reduction initiatives. And we also believe a more engaged and informed financial community will be better prepared to play a productive role in developing a national climate change policy.

At the international level, PSEG was an active participant in the World Resources Institute/World Business Council for Sustainable Development process that developed a set of uniform greenhouse gas emissions accounting protocols. We were also one of the Fortune 500 companies that volunteered to "road test" the protocols by using them to create a greenhouse gas emissions inventory.

There's no question that accurate, reliable, and uniform procedures for measuring greenhouse gas emissions and inventories are absolutely critical to the success of national and international climate change initiatives and regulatory programs. This work was a valuable tool for us to start understanding potential opportunities and liabilities against possible future regulatory and emissions reductions scenarios.

And just to give you an idea of how long we've been at this, in 1993, PSEG adopted a goal of stabilizing carbon dioxide emissions at or below 1990 levels by the year 2000. We achieved that goal and while our emissions rate continues to be below the 1990 benchmark, our overall quantity of emissions this year will be above 1990 levels. This is due, simply, to considerable growth in our electric generation portfolio. We have not made a decision about officially extending the stabilization target or adopting a new one.

In 2001, PSEG Power adopted a voluntary goal of reducing the carbon dioxide emissions rate of our New Jersey-based fossil-fueled generation fleet 15% below 1990 levels by 2005. We adopted this target as a way of encouraging improved efficiency at

our New Jersey based-plants and as an added incentive, we included a commitment to pay the State of New Jersey one-dollar for every ton of emissions emitted in 2005 above the target rate. Considering both Connecticut's interest in moving ahead with emissions reductions initiatives and the state's current budget problems, I'm not so sure I shouldn't have kept quiet about that last piece of information.

As we focus on what a climate change program should look like, a couple of important questions come to mind.

First, what's the likelihood of any kind of meaningful consensus developing from the current debate in Congress?

For most of the past two years, this debate has centered on the Bush Administration's "Clear Skies" initiative, a proposal that calls for power plant reductions of nitrogen oxide, sulfur dioxide, and mercury but doesn't address greenhouse gas reductions, and legislation proposed by Vermont Senator Jim Jeffords and Connecticut's Joe Lieberman, that calls for much greater reductions of nitrogen oxide, sulfur dioxide, and mercury as well as a carbon emissions reduction program that most in the industry, including my company, don't believe is economically viable.

The quick answer to the question is that agreement on national power plant environmental legislation is not on the horizon.

However, it's not all bad news from Washington. PSEG, along with its partners in an industry coalition called the Clean Energy Group, continues to advocate for legislation called the Clean Air Planning Act introduced by Senators Tom Carper of Delaware, Judd Gregg of New Hampshire, and Rhode Island's Lincoln Chaffee, that stakes out a responsible middle ground position between the polar extremes of the Administration's Clear Skies proposal and the Jeffords/Lieberman bill.

The Clean Air Planning Act bill includes aggressive but achievable and affordable emissions caps on nitrogen oxide, sulfur dioxide, and mercury and implements a fixed cap and mandatory reduction of carbon dioxide emissions achievable through flexible, emissions trading and other market-based mechanisms.

The bill would:

- Reduce power plant nitrogen oxide emissions by 50 per cent below current regulatory requirements by 2009.
- Cut sulfur dioxide emissions 50 per cent below the current requirements of the Clean Air Act, also by 2009, mandate a 60 per cent reduction by 2013, and another 15% cut by 2016.
- Establish 10-ton cap on mercury emissions by 2013.
- The greenhouse gas provisions of the bill call for stabilizing power plant carbon dioxide emissions at 2005 levels by 2009. The requirement would tighten to stabilization at 2001 levels by 2013. As noted, the proposal calls for a wide range of market-based compliance options including emissions trading, allowance

allocations for renewable energy, carbon offsets from domestic and international sequestration projects, and other credible reductions achieved outside of the electric industry.

Our view is that the Clean Air Planning Act represents meaningful reductions on an aggressive schedule and represents the best hope for a congressional consensus. We will continue the work of building political support for the legislation but the reality is that a compromise in this session of Congress is a long shot.

And this brings us to the second set of questions: In the absence of a cogent national policy, what's the right level of local, state, and regional action on climate change? What are the programs and activities that will help build a national consensus and prod the federal government into action while taking into consideration the enormity of the problem and potential impact on specific industries as well as local and regional economies?

In the best case, successful state and regional initiatives will help build political momentum and provide incentives for the federal government to move forward.

In the worst case, we could set in motion a process that impairs the economic competitiveness of our region and increases costs to consumers without advancing the federal debate, and without making any appreciable contribution to solving the world climate problem. This is why, in my view, we need to approach this set of issues thoughtfully and carefully.

We should bring to these discussions the awareness of the profound interrelationship between energy production and carbon emissions. We should be certain that the geographic scope of policy measures are rationalized with the geographic boundaries of where we produce and consume energy. And we should also be cognizant of the impact of policy measures on the continued development and functioning of competitive markets. Our efforts should be judged not only on the degree to which we can reduce emissions of greenhouse gases but at what cost. Climate change policy is a domain in which size matters. The scope of the problem, the fact that the impacts are truly global in nature, and the scale of the effort required to effect meaningful action all point to as large a playing field as possible. In this regard, coordination of policies on an international basis are more efficient than national programs, national policy is better than regional efforts, and regional efforts are better than individual state activity.

I want to be clear that I'm not advocating for everyone here to pack up their things and go home. There are significant policy discussions under way at the state level and regionally and this dialogue should continue.

PSEG, in fact, is participating in the Regional Greenhouse Gas Coalition that includes representatives of the electric generating, waste management, manufacturing, retail, and financial sectors across the Northeast. The goal of this coalition is to serve as a catalyst for a regional policy dialogue and build a consensus among policy makers,

industry, and environmental groups. Among some of this group's short term objectives are: development of a highly credible regional greenhouse gas emissions registry that uses standardized accounting and reporting protocols and development of reasonable emissions trading and offset rules that could set a strong financial signal for investment in energy efficiency, renewable energy, and low-emission technology. The coalition also is exploring the protocols for a mandatory, Northeast regional greenhouse emissions reduction and emissions trading program. And we are bringing to these discussions the same concerns and caveats about cost, industry impact, and competitive implications I just expressed.

I'm also pleased to report that PSEG Power has accepted the invitation to participate in Connecticut's Climate Change Task Force that will be looking for ways to implement the state's commitments under the New England Governors/Eastern Canadian Premiers climate change accord.

And this is the appropriate forum to commend New York Governor George Pataki for his recent efforts to engage his counterparts in the Northeast in a collaborative, regional effort that would establish common protocols and programs addressing climate change. It's important to note that Governor Pataki is seeking to extend the initiative beyond the traditional Northeast partners on air quality by enlisting Pennsylvania and Maryland. This reflects the critical nature of scale and scope to the climate change issue. We would be pleased to bring to these discussions the perspective of a growing energy company operating and competing in markets that align with the geographic reach of the governor's initiative.

It's also important to acknowledge the efforts under way at schools, universities, government entities, small and large businesses all across the region and across the country that are focusing the ingenuity and creativity of thousands of concerned and committed people on this issue. Finding ways to increase efficiency, manage resources, reduce and recycle wastes, yes, and save energy, represent important environmental contributions, and they also cut costs and improve profitability. Clean Air-Cool Planet is an important catalyst in making sure these efforts don't get lost or overlooked while the political and public policy debates play out.

I started this discussion by indicating that the future of direction of environmental policy is probably the biggest public policy question facing my industry.

I've made the pitch today for what I believe is the right public policy course and one that provides my industry with the business certainty and a reasonable framework for investment decisions – an integrated national program that will achieve necessary and meaningful reductions in nitrogen oxide, sulfur dioxide, and mercury, and include a mandatory program for action on greenhouse gas emissions that is flexible and achievable.

I encourage the continued dialogue, discussions, initiatives and regional cooperation that will build the momentum toward this outcome. It means less risk; more

certainty; real, substantial, measurable, reductions in emissions of pollutants, and cleaner air. It will also be an important measure of progress toward insuring that future generations will be able to ski in Vermont, enjoy the sun and surf of the Jersey Shore, and experience the beauty of a crisp autumn afternoon in Connecticut.

Thank you.

