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Thank you, Karen. I appreciate the kind introduction and the opportunity to be part of the Chamber's Leadership Series. It's a pleasure to share my thoughts on some of the major challenges we face in meeting America's energy needs.

Before I begin, I'd like to recognize the Institute for 21st Century Energy for its efforts to encourage the development of a common-sense national energy policy – one that capitalizes on our country's abundant natural resources, unrivaled technical skills and unlimited ingenuity. America's diverse and low-cost energy resources can be a catalyst for business expansion, job growth and a more vibrant economy – and the Center's policy leadership is a welcomed voice in the debate.

All of us have been challenged by the economy over the last few years. And even though we're seeing some signs of economic recovery, the electric utility industry continues to experience weak demand for electricity and soft market prices for power.

For example, in FirstEnergy's six-state service area, our 2013 utility sales were below 2007 levels – and, during that period, wholesale energy prices dropped by more than 40 percent. While this isn't the first time we've faced tough economic conditions, this is the longest period of economic stagnation I've seen in my 40 years in the industry. We will ultimately work through this... and as the economy grows, so will the use of electricity.

But quite frankly, the challenges we now face from government interference in the electric business are far more intrusive and disruptive, and I believe far more significant to our industry's future, and to your future. That's because whether it impacts our traditional regulated business or our competitive operations, government policy is now aimed at stifling the growth and use of electricity – and picking winners and losers in the competitive marketplace.

To help put this in perspective, consider the following questions:

Would you want to compete in a market in which the government can and does suppress the demand for your product?

Or, would you want to compete in a market in which the government subsidizes your competitor?

Or, would you think it is fair to face competition from a supplier who can be indifferent to price... since all of its costs, including a return on investment, are guaranteed?
 These questions summarize, in part, the conditions we face in today's electric business.

Keep in mind, electricity represents nearly three percent of our country's gross domestic product. The industry has invested more than \$840 billion... employs more than 500,000 workers... and pays billions of dollars in taxes. This year alone, the industry is projected to invest about \$93 billion in transmission and distribution upgrades, environmental compliance, new generation capacity, and other capital-intensive projects needed to keep the electric system reliable.

More important, we provide the cleanest and most efficient end-use energy source available. Simply put, electricity is more productive and more useful than any other form of energy. In fact, it's critical to our quality of life and our nation's economic vitality and security – which explains why creating a stable and reliable electric system is a key priority in every developing country.

America has done a better job than virtually any other country in keeping electricity reliable and affordable. Here in the United States, we keep the power on 99.97 percent of the time. And we do it at a price that, for the most part, is substantially below the price of electricity throughout the world.

Despite these advantages, electricity is under attack in our country – and this battle is being waged through largely untested policies that will ultimately impact the reliability and affordability of electric service, and the choices customers now enjoy.

Thomas Sowell, a noted economist and commentator at Stanford, summarized a broader trend, now playing out in our nation's energy policy, when he said, quote: "Much of the social history of the western world, over the past three decades, has been a history of replacing what worked with what sounded good."

In the electric utility industry, energy efficiency, renewable power, distributed generation, micro grids, roof-top solar and demand reduction are examples of what "sounds good" – and while they may all play some role in meeting the energy needs of customers, they are not substitutes for what has worked to sustain a reliable, affordable and environmentally responsible electric system. And, the mandates and subsidies needed to force their use have far-reaching consequences for our customers and our economy.

Consider the fact that you can no longer buy a 100-watt incandescent light bulb in the United States, but you can purchase a 500-horsepower vehicle.

Or that electric customers are being forced to pay additional costs for subsidized, unneeded generation.

Or that these policies and others – designed to achieve a social agenda that has little, if anything, to do with maintaining electric service – are shifting the fixed costs of the

system to customers who can least afford it... and are undermining our nation's competitive position.

Let me give you a few examples of these policies – starting with the mandates and subsidies for renewables.

Twenty-nine states and the District of Columbia have adopted mandatory renewable portfolio standards. Together, these states account for about 65 percent of total U.S. electricity demand.

I'm not suggesting that renewables should not be appropriately pursued... but experimenting with the electric system can have serious unintended consequences. And, we are now seeing those play out.

For example, in Germany, renewables now represent 25 percent of that country's generating capacity. The mandates provide wind and solar energy producers with a guaranteed price – usually well above the market price – and ensure that any electricity they produce is dispatched to the grid before conventional sources.

As a result of these mandates, Germany's electricity prices have more than doubled – and are now more than 37 cents per kilowatt-hour. In comparison, the average electricity price in the U.S. is about 10 cents per kilowatt-hour.

The fact is, Germany's electricity policies are not only hindering economic growth, but they are creating a class of energy-poor customers. This isn't just the case in Germany – Spain, Italy and other countries that have pursued this path are seeing the same impacts.

But here in the United States, enthusiasm for renewable mandates and subsidies persists. And that means the electric system is relying more on intermittent sources of generation, such as wind and solar. These resources only produce electricity about 30 percent of the time, at best, and require back-up generation and substantial investments in transmission to maintain reliability. Also, subsidies such as the Production Tax Credit encourage developers to build whether or not the generation output is needed.

This unneeded, excess capacity is not only uneconomic, but it puts additional pressure on baseload coal and nuclear assets that are essential to grid stability and affordable energy prices.

Now, let's look at the impact of energy efficiency mandates.

Let me be clear – FirstEnergy supports and encourages energy efficiency and the wise use of electricity by our customers... we always have. And, in some cases, it makes sense to charge all customers to fund energy efficiency programs for customers who cannot make those investments on their own.

But when efficiency targets are mandated by government – and based on arbitrary, overly aggressive goals – all customers pay the price... and it is a substantial tax on those who do not, or cannot, participate in the program.

For example, by 2025, Ohio's energy efficiency mandate would eliminate nearly 22 percent of the electricity currently used by Ohio customers. Even though we are only at about a 3 percent reduction, industrial customers in Ohio are already seeing the impact, with some paying more than \$1 million per year for mandated energy efficiency programs. And, the tax Ohio customers will pay for these programs will greatly increase over time in order to achieve the much-higher targets mandated by state law.

In parts of the country, the electric system is also now being designed under the assumption that customers won't use electricity... It's called demand response. And, as a result, while system emergency interruptions were not something electric customers have been used to in the past, since June 1 of last year, demand response customers in Ohio were called upon to curtail their use of electricity six times! To put that in perspective, no emergency curtailments were called in Ohio over the previous four years.

Many businesses are now considering whether they can continue to interrupt their ability to manufacture the product they sell in order to accommodate the changes being made in the electric system. If they change their minds, all customers could be left with inadequate power supplies.

So why are we engaged in this effort to experiment with the electric system by taking away customer choice... increasing prices... and jeopardizing reliability?

It can't be because electricity is the cleanest end-use source of energy.

It can't be because it improves our comfort and productivity. In fact, the true value of electricity to our economy, national security and our quality of life far exceeds the price paid for the product.

It can't be to reduce our trade imbalance – electricity is primarily produced from domestic resources, and always has been.

Nor, can it be related to growth in our economy, since electricity is fundamental to expansion – without it, the economy cannot grow.

Quite frankly, I believe state and federal policymakers are manipulating the supply and demand, and distorting markets for electricity, to further advance the “war on coal.” And, the convergence of government policies, laws and regulations aimed at coal use – both directly, through EPA rules, and indirectly, through subsidies, preferences and mandates – will lead to higher prices and less reliable service over the long term.

The United States holds the world's largest estimated recoverable reserves of coal. We're a net exporter of coal – and over the past three years it has been used to generate about 40 percent of this nation's electricity.

The continued use of these important and cost-effective domestic resources, however, is being challenged by new environmental rules. For example, as a result of the U.S. EPA's mercury and air toxics standards, an estimated 376 coal-based units will close in 38 states over the next three to five years. That's nearly 17 percent of our nation's coal fleet's capacity. And, there are additional EPA rules being considered that could have similar impacts on the fleet.

But, it's not just EPA rules that are challenging our use of coal. In competitive states, if market rules don't change to reflect the true value of baseload generation, additional units may be shut down.

Coal isn't the only energy source in jeopardy due to the state of competitive markets. Nuclear units might also be prematurely shut down, and it's unlikely that any new ones will be built in competitive markets under current conditions. Yet, we will need to replace as many as 100 nuclear units by 2050 if their licenses are not extended again.

Whether you agree or disagree with the need to control carbon emissions, the simple fact is, without nuclear energy, it will be difficult to meet any carbon objective – and if we turn our backs on coal, it may prove impossible to sustain the reliability and affordability of the electric service we now enjoy.

No discussion of the future is complete without recognition of the role natural gas is likely to play. We have been blessed with a new abundant resource to produce electricity – but more important, to stimulate our economy. In fact, we now have an energy cost advantage for both electricity and natural gas that should change the prospects for growth, economic development and expansion in all of our manufacturing segments.

While we expect natural gas to play an increased role in electricity production, substantial changes will be needed in the natural gas pipeline and storage infrastructure to make it match the just-in-time nature of the electric system. Unfortunately, as we learned during the Polar Vortex in January, that infrastructure is a long way from being able to assure reliable electric service.

Some generating units were off-line as natural gas was used to meet higher priorities – and the entire market was affected by a substantial increase in the price of natural gas. To put this price increase in perspective, it was the equivalent of paying about \$85 per gallon of gasoline!

The regional grid was under severe stress during this weather event. And the lesson learned should be obvious: We need to maintain a diverse fleet – including real generating assets such as coal, nuclear and natural gas – to ensure reliable, affordable service over the long term.

But, perhaps more important, we need to develop a national energy plan that will allow us to take advantage of our vast supply of domestically produced resources – both coal and natural gas – and our superior electric system to stimulate and support our economy.

As President Ronald Reagan stated in a letter to Congress on July 17, 1981, “Our national energy plan should not be a rigid set of production and conservation goals dictated by government... When the free market is permitted to work the way it should, millions of individual choices and judgments will produce the proper balance of supply and demand our economy needs.”

Reflecting on this advice, we need an approach to electric energy that makes reliability, affordability and economic expansion our key priorities:

- We need to reaffirm this nation’s long-term energy policy in favor of diversity of supply and reliance on the market, not the government picking winners and losers among energy technologies and customer choices.
- We need better coordination among federal agencies and the regulatory certainty needed to support the long-term investments that have been made, and will continue to be made, to maintain essential electric service.
- We need an energy policy that recognizes regional differences and provides the flexibility and time needed for each region to adapt to its resources and conditions.
- And, we need an energy policy that establishes a balance between necessary and effective environmental standards and the reliability and affordability of electricity.

There are no easy choices – there never have been. However, we can strike a balance that not only ensures we can continue to enjoy the overwhelming benefits of our electric system, but also supports further economic expansion and keeps our country strong and secure.

Thank you.