

(BN) Exelon Falls From Green Favor as Chief Fights Wind Subsidy
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(Updates with Exelon share price in last paragraph.)

By Jim Snyder and Julie Johnsson

April 1 (Bloomberg) -- Exelon Corp. left the U.S. Chamber of Commerce in 2009 over the group's opposition to a climate-change bill, declaring the "carbon-based free lunch" was over.

The company had a change of heart and rejoined the nation's largest business lobby a few months ago.

It's just one of the ways Exelon's political and environmental allegiances have shifted under Chief Executive Officer Christopher Crane as he confronts cheap natural gas and government-subsidized wind power. Both are eroding profit at the Chicago-based utility, the nation's biggest operator of nuclear reactors.

Since Crane took over 13 months ago, the company -- considered an ally by some environmentalists -- has dropped its support for a clean-coal project in Illinois and shifted its political donations. Last year, for the first time in six years, it gave more money to Republicans than Democrats running for federal office. It has also come out against a tax credit for wind-energy production, resulting in its expulsion from the board of the American Wind Energy Association.

"I think of them as an admirably self-interested company," said Richard Caperton, an energy analyst at the Center for American Progress who has battled Exelon over its opposition to the wind tax credit. "I want to believe they wanted to do the right thing on climate change, but their nuclear fleet would have benefited hugely by putting a price on carbon."

Corporate Support

Support from a corporation such as Exelon can bring money, organization and credibility to a cause. The company's advocacy for measures to combat climate change and in support of tougher clean-air rules has helped advance those issues, Rebecca Stanfield, a Chicago-based senior energy advocate for the Natural Resources Defense Council, said in an e-mail.

"When some companies are trying to convince policy makers that a proposed regulation is going to close down the power sector, it's very helpful to have other industry leaders counter that the regulations are needed to protect public health, achievable and cost-effective," Stanfield said.

Conversely, Exelon's opposition to wind energy is making clean-energy development more difficult in the Midwest, she said.

Exelon was among the most vocal corporate supporters of a sweeping cap-and-trade bill designed to reduce the risks of climate change by pricing carbon emissions. The measure passed the Democratic led U.S. House of Representatives in 2009 before dying in the Senate.

"Inaction on climate is not an option," then-CEO John Rowe said in a speech announcing his company's exit from the Chamber, which said the legislation threatened the economy.

Corporate Merger

Rowe, 67, who has a law degree from the University of Wisconsin at Madison and has funded professorships of Byzantine and Greek history at the school, had built Exelon by merging Unicom Corp. with PECO Energy Co. in 2000.

The combined operation became the largest owner of nuclear plants, with stakes in 21 reactors. The company refashioned itself into a green, low-emissions energy provider after selling most of its coal plants and spending \$893 million to buy wind farms in eight states.

Rowe "was kind of an iconoclast in the industry," said Martin Cohen, regulatory policy consultant and former executive director of the Citizens Utility Board, a Chicago-based consumer watchdog group. "He favored carbon taxes, for example. That did well with the nuclear strategy, but I think it also reflected

his view on climate change.”

Daunting Economics

Driving Exelon’s new advocacy efforts are daunting economics in wholesale electricity markets, and a new chief executive who hasn’t hesitated to publicly challenge adversaries.

Wind’s rapid growth has wreaked havoc with power prices in Illinois, where Exelon operates 11 nuclear reactors with a combined 11,526 megawatts of capacity, enough to light 9.2 million homes.

Spot prices fall below zero on gusty days when demand is light as wind operators chasing the tax credits continue to send their surplus to the grid. Coal and nuclear plants must continue running even as this “negative pricing” forces them to pay grid operators to take the power they produce.

The average price for off-peak power in Illinois fell to minus \$41.083 a megawatt-hour on Oct. 11, 2012, the lowest level since 2005. The on-peak average fell to minus \$7.85 a megawatt-hour on Feb. 19, the least since Dec. 24, 2009, according to data compiled by Bloomberg.

Style Difference

The company cut its quarterly dividend for the first time in its history after its fourth-quarter profit declined 38 percent to \$378 million on lower electricity prices and higher nuclear fuel costs. The second-quarter dividend will be 31 cents a share, down 41 percent from the previous level.

Crane, 54, has been quick to fight what he says are unfair government policies hurting his company’s performance.

“There no question there’s a style difference,” Paul Patterson, a utilities analyst, said of the erudite Rowe and Crane, who rose to the top of the corporate ladder without a college degree.

“I’m not sure what these guys are supposed to do,” Patterson, a New York City-based analyst with Glenrock Associates LLC, said in a telephone interview. “They’re being confronted by policies that are damaging their bottom line. It’s

their fiduciary duty to react.”

In the process, Crane has turned old friends into enemies. The company was booted from the board of the American Wind Energy Association last year for opposing the extension of a 2.2-cent per kilowatt hour production tax credit that spurred a 10-fold growth in U.S. wind installations since 2003.

Tax Credit

While Congress extended the tax credit through the end of 2013, Crane continues to lobby to end the subsidy, which he says distorts power pricing already driven to 10-year lows by an influx of cheap natural gas.

“We’re saying stop the insanity,” Crane said in a Feb. 7 telephone interview. “We have to let this market stabilize.”

Ellen Carey, a spokeswoman for the wind group, said wind power is lowering consumer prices.

If Exelon lost a few friends in the process, it has made new allies among think tanks in Washington that advocate for fossil-fuel development or smaller government.

Benjamin Cole, a spokesman for American Energy Alliance, a group that promotes fossil fuel development, said his group and Exelon communicate in weekly e-mails about how best to fight another extension of the tax credit. The alliance says the credit raises electricity prices.

“They are a major company that took a strong stand and put the issue on the radar,” Cole said in an interview. “They brought a voice and they brought volume.”

Shifting Interests

In Washington, shifting interests often push companies, trade associations and non-profits to join forces on one issue while fighting each other on another, James Thurber, director of the Center for Congressional & Presidential Studies at American University in Washington, said in an interview.

Environmental groups and ideological non-profit organizations often seek out corporate partners both for the money they have and for their employees, who provide a natural grassroots lobbying base, Thurber said.

Paul Elsberg, an Exelon spokesman, said the company decided to rejoin the Chamber after it bought Constellation Energy Group Inc.

“Exelon aligns with the Chamber on a number of issues that are critical to our industry,” Elsberg said.

Two other utilities that quit the Chamber over climate change, PG&E Corp. in San Francisco and New Mexico-based PNM Resources Inc., have yet to rejoin, spokeswoman for the companies said.

Lobbying Donations

Exelon is also spending more to make its point of view heard in Washington. Exelon spent \$3.7 million on lobbying when the U.S. House debated climate legislation in 2009, according to federal records. In 2012, it spent \$6.6 million, a 78 percent increase.

Its political action committee gave \$645,100 to federal candidates for the 2012 election, 64 percent of which went to Republicans, with the remainder to Democrats, according to the Center for Responsive Politics.

In 2009 and 2010, Exelon gave \$548,899 to federal candidates. Of that, Democrats received 59 percent and Republicans 39 percent, according to the Center.

Exelon last gave more to Republicans than Democrats in the 2006 election, according to the Center.

The company ran afoul of one particular Democrat, Senator Richard Durbin of Illinois, when it sued in February to overturn a ruling by the Illinois Commerce Commission requiring its Commonwealth Edison utility to purchase power from a project called FutureGen.

FutureGen Project

Exelon previously had been a member of the alliance of companies that won \$1 billion in Energy Department funding for FutureGen, which proposed to outfit an Illinois coal-burning plant with technology that would capture and store underground its carbon emissions.

Durbin, a champion of his state’s beleaguered coal-mining

industry, called Exelon's new opposition a "heavy-handed corporate betrayal" with "few parallels in Illinois history."

The company said it never officially joined the alliance. Its opposition now "reflects our long-held position that customers should not be forced to pay enormous above-market charges for electricity, as the project is now seeking," Elsberg said in a statement.

Exelon fell 0.4 percent to \$34.35 at 10:54 a.m. in New York.

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