

**Opening Statement by Duke Energy CEO Jim Rogers
Before the Indiana Utility Regulatory Commission
Technical Conference on the Edwardsport Project
Nov. 3, 2010**

Thank you for the opportunity to address the Commission today. I've testified many times before this Commission over the past 22 years as CEO of this company. And, I've never felt more strongly about a proposal than I do about Edwardsport. It is solidly in the public interest over the long term.

In my judgment, the Commission should reaffirm the need for the plant, especially in the context of the pending settlement that we have negotiated with the Indiana Office of Utility Consumer Counselor and several of the intervenors.

It is the cornerstone for our strategy to modernize our aging electric infrastructure.

Once complete, Indiana will have one the cleanest coal plants ever built, and, most importantly, it will meet our customers' needs in the future.

It is Duke Indiana's first new base load coal plant in 30 years and it is a sound investment for customers. It balances the benefits of reliability, affordability, and clean energy, and thus, responsibly helps secure Indiana's energy future.

The facility is critically important to the economy now and will be even more important in the future.

It is good for the environment and still allows us to use coal – an abundant natural resource in Indiana.

Edwardsport has received broad support because people understand this facility is an important resource to include in Indiana's energy playbook.

This is the sixth time in four years that Duke has had the opportunity to demonstrate need for this facility.

Regardless of ongoing changes in the landscape, each previous time this Commission has determined there is a need for Edwardsport. That need, in my judgement, continues today.

Before I discuss the need in more detail, it may be beneficial to look at where we are in terms of completing this project.

As you can see from a comparison of this artist's rendering of the completed project, to this recent photo of the project, it is well on its way to being a completed facility.

Construction began in 2008 and as we sit here today, the project is about 78% complete overall (including engineering, procurement and construction).

All the major equipment which has been delivered to the site has been set in place – the gas turbines and generators, the step-up transformers, the heat recovery steam generators, and the material handling systems.

Engineering for the project is nearly 100% complete. As of several months ago, all engineered equipment orders were placed.

Given the status of this project, from just a common sense perspective, it makes sense to me that we finish this project.

Project Benefits

The Edwardsport IGCC Project will be the largest in the world to use advanced technology to gasify coal, strip out pollutants, and then burn that clean gas to produce electricity. As a result, it will be one of the cleanest coal-fired power plants in the world. Once it's online, it will produce about 600 MWs of baseload power, replacing the 160 MW existing Edwardsport units that date back to the 1940s.

In addition to being a future source of needed capacity and energy for our customers, the IGCC project provides other benefits to customers, the surrounding community, the state of Indiana, and of course, the environment. Importantly, it also allows the continued use of Indiana coal as a generating resource despite the expectation of more stringent environmental regulations in the future. For example:

- The IGCC project will produce over 10 times as much electricity as the 60+-year old existing units at Edwardsport, yet with significantly less environmental impact than the much smaller plant it replaces. In fact, emissions of sulfur dioxide, nitrogen oxides and particulates combined will be 70% lower than the existing plant. It also uses 30% less water than a typical pulverized coal plant. In my judgment this is especially important because I believe water will be the new oil in the next century.
- The project will produce less solid waste to be land filled than a typical coal plant; instead, it will generate marketable byproducts such as sulfur and slag for agricultural and construction uses.
- If greenhouse gas emission reductions are required in the future, the Edwardsport IGCC Project has the potential to capture CO₂ more efficiently than traditional coal-fired power plants, and we believe southern Indiana has the right geology to store it for the long term.
- The project is one of the largest construction projects in Indiana, and currently employs about 2,500 skilled construction workers on site. In addition, we have about 550 supervisors and safety and quality control personnel on site. Also, as of October 1, \$700 million in contracts have been awarded to businesses in Indiana to support this project.
- Once operational, the project will require 110 to 120 permanent full-time positions and an estimated annual payroll of between \$11 and \$12 million.

It has been and now continues to be a great benefit to Indiana now during these tough financial times, but it will be an even greater benefit to consumers in Indiana over the next 30-40 years.

Now, let me go a little deeper into the justification of need and why completing the Edwardsport plant continues to be the best option for our customers.

In my testimony in 2006 for the CPCN case, the world was much different than it is today, just four years later. But we must all remember that we are building a plant for our customers that will be viable for the next 30 or 40 years.

When we build a power plant, we need to focus on the benefits to future generations. Many have heard me call this applying the grandchildren's test.

There are 2 basic inputs to a determination of need:

- (1) the electric load forecast (showing the projected growth in peak demand, the projected growth in energy usage, and including energy efficiency impacts), and
- (2) The utility's existing resources such as power plants and long-term purchased power arrangements, and the future of those resources.

Once a utility has determined that it has a need, the issue then becomes what are the best options for meeting that need reliably and cost-effectively?

There are five specific considerations that I would like to focus your attention on that we have had to contend with in our decision making process on this project. They are:

1. the load forecast;
2. the impact of tightening environmental regulations;
3. the accelerated need to retire and replace generation;
4. the volatility of gas prices; and
5. the role of energy efficiency and renewables.

Although they have all changed to different degrees in the past years, what has not changed is the fact that Edwardsport was needed in 2006 and is still needed today.

Load Forecast

Let's turn and talk about the load forecast. We have a need for generation in 2013 of about 400 MW, and growing over time. Changes in the forecast between now and back in 2006 have been driven primarily by the recession and energy efficiency, including the level of customer participation in energy efficiency programs.

Our recent load forecast, presented in this Subdocket case, projects a growth rate in retail peak demand after reductions for energy efficiency of about 0.8% per year for the period 2010 to 2020, and a growth rate in retail energy requirements of about 1.1%.

Even assuming higher levels of energy efficiency, we still forecast about 0.3% annual growth rate in retail peak demand and retail energy requirements over the same period.

While we experienced a temporary reduction in demand due to the recession, demand is already picking up quite substantially, and that temporary reduction in demand does not obviate, in my judgement, the need for new capacity resources.

For example, although industrial sales declined 27% from December 2007 to March 2009, since then, energy use by industrial customers has recovered 3/4ths of that reduction. Our entire MISO region, in fact, is similarly experiencing significant growth right now.

Some parties argue that we don't need the Edwardsport IGCC plant because of the reduced net demand for electricity. That is just not true.

Let me now turn to the handout. It is a graph comparing the capacity of the Edwardsport IGCC plant to our capacity need if we do not have the plant under a range of different conditions.

In some cases, we need every megawatt from this plant immediately when it is completed. In all cases, we have a clear need by 2015 at the latest and completion of the Edwardsport plant is the best way to meet that need.

I'd like to speak now about pending environmental regulations and how they are driving the need for Edwardsport because of the anticipated accelerated retirement of our old coal plants that have not been retrofitted with pollution control equipment.

Environmental Regulations and Retirements

As my 2006 testimony reflected, the base case then assumed that the recent Clean Air Interstate Rule "CAIR" and the Clean Air Mercury Rule "CAMR" requirements would be met and that no climate change initiatives and hazardous air pollutant controls would be implemented during the relevant time period.

Since then, the DC Circuit overturned CAIR and CAMR and the Supreme Court determined that greenhouse gases were pollutants and ordered the EPA to consider whether they should be regulated. The EPA determined that greenhouse gases should be regulated and will begin regulating them in January 2011.

The EPA is also considering eliminating ash ponds at our plants and imposing more stringent regulations for our water discharges.

As a result, we moved from a scenario of compliance with a lower cost cap and trade regulatory mechanism to a higher cost command and control mandate that fundamentally changes our compliance plans in the future. The impact of these regulations is quite frankly a game changer... a game changer that reinforces the need for Edwardsport all the more.

The prospect of these regulations accelerates the need for modernization of our generation fleet and the retirement of many of our existing coal units today. The average age of our coal fleet today is 47 years.

Although we welcomed the Oct. 12 decision from the Appeals Court reversing the court order requiring us to remove our Wabash River units 2, 3, and 5 from service, at best, this decision represents only a temporary reprieve for these units.

The increasing environmental regulations, which are likely to play out over the next few years, have the potential to force the retirement of our smaller, older coal-fired generating units in Indiana.

We have almost 1400 MW of these smaller, older coal-fired generating units, 900 of which the Integrated Resource Plan (IRP) continues to show as operational through this period. All of these MWs are at risk and if they are not available, it will drive up the need for additional resources.

In addition to our units, another 15,000 MWs of coal-fired generation within the Midwest ISO footprint will be over 50 years old by 2015 when many of these regulations are expected to take effect.

Because the cost of retrofitting them with environmental compliance equipment will simply be uneconomic, many of those plants are anticipated to be retired. This issue presents capacity and reliability issues not just for our company and our system, but for the region. This dramatic impact on the region will limit our options for replacement capacity.

Several industry reports from experts, as recently as last week, show a significant impact to electric utility reserve margins and reliability if EPA's environmental rules are implemented.

For example, The North American Electric Reliability Corporation (NERC) just issued a reliability assessment concluding that the electric utility industry may need more resources in the very near term (e.g. 2015), beyond those identified in existing plans, in order to maintain bulk system reliability.

Notably, Indiana is in one of the most affected regions, with NERC projecting a 6% to 9% reduction in capacity resources in our region under the Combined EPA Regulation scenario. Importantly, NERC's conclusions do not, underscore do not, even include potential impacts from greenhouse gas regulation from the EPA.

For all these reasons, clearly the capacity and the energy need we have are significant, both for our company and our region in the future. Evaluating the best option after establishing need requires us to make sure the choice is economically viable and cost effective for the foreseeable future.

Some suggest that we should be looking at natural gas, renewables and energy efficiency as options to replace Edwardsport. This is not a case of either/or. We need all of the above AND Edwardsport to provide the most reliable and affordable portfolio of energy generation for our customers.

In fact, we have added over 1400 MW of gas-fired generation in the last seven years. That means we now have 22% of our capacity, or 1549 MW, in gas.

Volatility of Gas Prices – New natural gas generation is considered one of the alternatives to the IGCC project. It is clear to me that we must ask the question, do we want to make an even bigger bet on gas prices remaining low over the next 30-40 years.

In 2006, the spot price was \$6.73 per mmBtu, in the past four years it has gone to a high of \$12.67 and is \$4.04 today. Over the past decade, gas prices have ranged between \$1.72 and \$18.41 per mmBtu, and four times during this decade, the price has been over \$10. This is just in the last four years and the last decade. Prices for gas have had a history of great volatility as has the estimates of reserves.

Let me turn now to talk more about reserves. In 2006, the US Potential Gas Committee did not include shale gas in its estimate of gas reserves for the United States. For the first time, in their 2008 report, they identified 615 trillion cubic feet of potential shale gas reserves.

The question is whether getting to these reserves is in fact viable. At Congress' request, the EPA is currently studying the environmental impact of the fracking process.

It uses significant quantities of water and hazardous chemicals to release the difficult to access gas. This study will not be complete until 2012. That all, in my judgment, begs the question of the price and availability of shale gas over the long term. Many are debating today whether it's a reality or just a mirage.

Moreover, last month, ICF International, which does much of the modeling for EPA, projected that the current use of gas to generate electricity will rise from 20 percent today to 37 percent by 2030. This growth in demand likely will be reflected in even higher gas prices in the future.

So I believe converting the IGCC plant to natural gas is not a good 30-40 year bet in coal rich Indiana, at least not for base load capacity needs.

There is a place for natural gas in our portfolio. But for base load generation, it's not here and not now.

Now let me briefly address the view from some parties that we should be pursuing even more renewable resources and energy efficiency rather than building a base load plant.

Energy Efficiency and Renewables

I have long been an advocate of a portfolio approach to resource planning, particularly given the many uncertainties our industry faces, and I believe Duke Indiana's IRP bears out that philosophy.

For example, our plan includes aggressive amounts of both renewables and energy efficiency – both great “carbon-free” resources. With regard to renewables, in our IRP analysis we assumed a renewable portfolio standard. That standard would be in place by 2015 with a 3% energy obligation, ramping to 15% by 2026.

Of course, neither Indiana nor the federal government has established a renewable portfolio standard.

Therefore, our analysis includes more renewable resources than it otherwise would if we had not assumed a renewable portfolio mandate. Let me put it another way, because of this assumption, our analysis may understate the capacity needed from traditional supply-side resources.

But it's also important to recognize the limitations of renewable resources – in particular, their intermittent nature.

Today, the Midwest ISO has reduced the amount of wind capacity utilities can count toward their reserve margin requirements. While it was 20% at one time, the Midwest ISO currently only allows utilities to count 8% of nameplate wind capacity toward their reserve margin requirements.

The resource plans that we have in our IRP modeling include between 1400 and 1600 MWs of new wind generation. That's a lot. But even if we are able to achieve that, we only get capacity credit for 110 to 130 MWs toward meeting our reserve margin.

Wind resources may only be producing a small fraction of their capacity when the power is needed most and that is on the peak. Clearly, intermittent resources are not the best answer for meeting baseload/around-the-clock needs for electricity.

Energy efficiency is a great resource as well – it's a resource I've pushed very hard as our industry's "fifth fuel." And it's a resource about which this Commission has recently set some very clear expectations and some very aggressive targets. The targets are especially aggressive for utilities like Duke Energy that have been investing in energy efficiency for almost 20 years and have harvested most of the "low-hanging fruit" in this area.

Energy efficiency impacts, though, are difficult to predict, in part because they are not totally under our control. In fact, they significantly depend on customer behavior. For the energy efficiency impact in this case, we analyzed two scenarios:

- a high energy efficiency case based on this Commission's order on energy efficiency; and

- a base or lower case that reflects our judgement on what we believe is economically achievable.

While we plan to continue to aggressively pursue energy efficiency, we clearly recognize that additional significant impacts will be more difficult and more expensive to achieve in the future.

But even if we are successful in meeting the Commission's aggressive requirements for energy efficiency, we are only projecting that energy efficiency and demand response initiatives will meet about 800 MWs of our approximately 7000 MW peak load needs by 2020. This has already been taken into account in our assessment of Need.

One thing to keep in mind is that our resource plan over the next 20 years includes much more than just Edwardsport. It also includes energy efficiency, demand response, renewables and natural gas-fired generation.

None of these options, however, replace the need for Edwardsport. Quite simply, Edwardsport is needed to meet our customers' energy requirements over the long run.

The Bottom Line

I know there are questions about the increased cost of the plant.

In our most recent analysis, we thought about the alternatives before us and chose three potential directions to examine:

1. Continuation of the IGCC project (with the updated cost estimate of \$2.88 billion and at the settlement hard cap cost of \$2.975 billion);
2. Conversion of the IGCC project to a natural gas-fired combined cycle plant; and
3. Cancellation of the IGCC project with capacity needs filled by an optimized portfolio of resources such as natural gas fired combustion turbines, combined cycle plants or wind projects.

Our base case modeling supports my view that completion of the IGCC project is still the best option for customers.

Even with low gas prices and high carbon dioxide allowance prices, our most recent modeling shows that in no case does stopping the project look best.

Moreover, we have a settlement pending that caps the cost of the project to our customers at \$2.975 billion and effectively offsets any rate increases associated with our increased cost estimate of \$530 million in the near term. We have agreed to absorb a financial penalty for every dollar invested above the previously approved \$2.35 billion.

Finally, we have agreed to forego our planned rate case for one year.

Throughout this project, we have done everything possible to mitigate the cost impact on consumers including at the beginning of the project with the \$460 million in local, state and federal tax incentives and we have prudently managed this project every step of the way, and today with the proposed settlement pending before the commission.

In sum, even with the unanticipated cost increases, completing the Edwardsport plant is the best option for our customers.

In conclusion, I would like to say that the regulatory process in Indiana has been very comprehensive and citizens of Indiana are well served by such a thorough process. We have tried to be as responsive as we can to help all parties in this proceeding and people across the state to understand how important this project is to Indiana at this time in history.

- Our IRP models we have used are widely accepted in the utility industry.
- The major assumptions we use for fuel price forecasts, emission allowance forecasts are primarily prepared by independent outside experts.
- The Commission took the extra step in 2008 of ordering Duke to retain an outside engineering firm. They independently report to the Commission and assist the Commission through active and continuing oversight of the IGCC project.
- As I said earlier, our witnesses have testified and been responsive to extensive discovery and cross-examination questions from the Commissioners and other parties about this project in what is now six proceedings.

It is my view that the merits of this project have been thoroughly examined and established many times over a wide range of scenarios and in the context of rising cost estimates.

For all these reasons, I strongly believe the completion of Edwardsport IGCC project will provide needed baseload capacity for the Duke Indiana system, and continuation of the project is the most cost-effective and responsible option.

Edwardsport is the first new Duke Indiana base load coal plant to come on line in 30 years.

It is a sound investment for customers. It balances reliability, affordability and clean benefits and thus responsibly secures Indiana's energy future.

It is important to the economy now as I have demonstrated and it will be even more important in the future. It is good for the environment. There continues to be strong support for it because people understand across this state that it is an important resource. It is the cornerstone – and I want to underscore this – the cornerstone – of our strategy to modernize our coal plants and answer our customers' needs in the future.

I would urge you to reaffirm at the appropriate time our need for additional base load generation and reaffirm that the Edwardsport IGCC project is the best option at this time.

Thank you for this opportunity to be here today and I'll be happy to answer questions.