

August 2011



It's been hot.

Nothing demonstrates the need for electricity more vividly than the intense heat waves we've experienced this summer. We've needed all of the power generating resources we've got to meet customer energy demands. This is in spite of a still sluggish economy where industry is not operating at full steam.

Some of the generating units we are using this summer are now being considered for retirement due to new, far-reaching environmental rules finalized by the EPA this year. And more regulations are on the way. Traditional coal-burning technology no longer measures up to clean air rules, a challenge for states such as Indiana which depend on coal to fuel 95 percent of its electricity.

So as part of the answer, Duke Energy turned to a technology called coal gasification: Convert coal to gas, strip out the pollutants, and then burn the cleaner gas to produce electricity. We pursued it because it allows us to continue using Indiana coal, a plentiful and local resource, to produce energy. Because of environmental constraints, our state currently imports more than half of the coal it uses. Those are jobs and dollars going out-of-state to purchase a product that is plentiful right here in our backyard.

But while coal gasification is far cleaner and far more efficient, it's also expensive. That's caused controversy for the Edwardsport plant we are building in Knox County, Ind. The project is now about 90 percent complete, and by about this time next year, the plant will be providing cleaner, efficient energy to Indiana customers. It will produce 10 times the amount of power of the plant it replaces, but will have significantly fewer environmental emissions.

The project has had its challenges. A plant using this technology has never been built on this scale before, and the project's scope and complexity drove costs up to an estimated \$2.88 billion. It's noteworthy that although Edwardsport has experienced significant cost pressures, its cost is comparable to similar proposed facilities. The synthetic gas plant planned in Rockport, Ind., is estimated to cost about \$2.65 billion. In Mississippi the public service commission capped Southern Company's coal gasification plant customer costs at \$2.88 billion. Obviously clean energy doesn't come cheap.

No project of this size goes exactly as planned. But recently filed testimony by independent, respected experts shows that the vast majority of decisions we made were reasonable. They reached this conclusion after months of interviews with key project personnel and a thorough review of thousands of documents, including contracts, correspondence, progress reports, audits and much more.

Importantly, we have proposed to protect customers by capping the project's costs that can be passed along through electric rates. In the coming months, regulatory hearings in Indianapolis will sort out these issues. In the meantime, in southern Indiana, we're in the home stretch of completing a facility that will modernize our electric system and provide much needed cleaner power to Indiana.

A handwritten signature in black ink that reads 'Doug Esamann'.



Doug Esamann, President, Duke Energy Indiana