

Argus Q&A: John Stowell

John Stowell is vice president of environmental policy at Duke Energy. Stowell has been with Duke or its predecessor companies since 1986. He assumed his current position in April 2006 upon completion of the merger between Cinergy and Duke Energy. In this interview, edited for length and clarity, Stowell talked to Argus about the hurdles facing climate change legislation and concerns Duke and the industry have about the impact of forthcoming Environmental Protection Agency (EPA) regulations for greenhouse gases (GHG) and conventional pollutants.

Argus: Do you think that Congress will be able to take up any significant energy legislation before the end of the year, and if so what types of provisions do you think are most likely to be included?

Stowell: A renewable energy standard (RES) probably has a better shot than cap-and-trade. We do not support it though. I am not really optimistic though that anything of significance will pass prior to or even right after the election if there is a lame duck session. It just seems that with respect to energy legislation they are kind of stuck in the mud right now.

Argus: Why does Duke not support an RES?

Stowell: Our position has always been that renewable standards are best left to the states so that plans for compliance can be designed that are state specific. There is a lot of potential, for example, for solar out west, very little in the Southeast or the Midwest. In the Southeast the biomass potential is much higher than it might be in the West. Each state ought to take account of the unique attributes that it has and be able to design an RES around that, as opposed to having a one-size-fits-all approach for the whole country.

Argus: Duke was involved in talks with other utilities and environmental groups on a potential utility-sector approach on cap-and-trade just prior to Senate Majority Leader Harry Reid's (D-Nevada) decision to drop climate legislation. What were some of the key issues and what were areas of possible agreement?

Stowell: Everyone around the table was of a common opinion that an economy-wide approach was better, and that a cap-and-trade system was best and has been demonstrated to be a very successful compliance strategy in terms of meeting the emissions reductions at the lowest possible cost. But we can count votes just like Sen. Reid. We came to the conclusion unhappily that an economy-wide bill was not going to happen, largely due to the economic situation. But it seemed like what we call the utility-first option was still possible because the industry had, by and large, been out in front earlier than the other industries in seeking regulatory clarity on greenhouse gas emissions, and might be prepared to go first. It is important, we all agreed, that it just be utility first, that the rest of the economy phase in later on. We talked about how we might be able to take the draft climate bill by Sens. John Kerry (D-Massachusetts) and Joe Lieberman (I-Connecticut) and redesign it for the utility sector. That pushed us right back into the many issues that we have been discussing over the last many, many months - everything from allowance allocation to the treatment of offsets, both international and domestic. An area of agreement that we maintained was that local distribution companies should be the beneficiaries of the allowance allocation. That means the customers are the beneficiaries.

We actually made a lot of progress. We did not really get to the end though. Before we were finished it was obvious that utility-first was not going to go forward either. That said, we had some great conversations. We will continue to have them in the fall. Not that we necessarily think there are political legs in the fall for something to happen. But dialogue is good and perhaps readying ourselves for whatever the next round might be is important for us.

Argus: When a climate bill comes up again, do you think it will be an economy-wide approach or is the utility-sector first option the new starting point?

Stowell: A lot is going to depend on who wins the elections. But

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absent a change in our economic situation, it is really hard to see how an economy-wide approach gets legs in the 2011-12 timeframe. It could happen. The economy could turn around. But I think the same problems that held back the bill in this Congress are going to hold it back again.

The fact that EPA will soon begin regulating CO₂ from stationary sources could help bring a bill forward. But that will depend on what Congress' appetite might be to address CO₂ in a manner that would probably be construed as defensive of the industry. It is likely that it would address those industries that would be directly affected by the EPA regulations, rather than economy wide.

Argus: Does Duke support efforts such as the bill by Sen. Jay Rockefeller (D-West Virginia) to suspend EPA regulation of stationary sources for two years?

Stowell: We have not made up our minds on that. We are still talking about it internally and will probably make a determination by the end of this month.

Argus: Before Reid's decision, Duke Chief Executive Jim Rogers wrote him a letter warning that without a price on carbon, new coal and new nuclear generation would not be part of the company's business-as-usual planning. Could you talk a bit more about how the legislative uncertainty affects Duke's decision-making for new generation?

Stowell: It is not just Duke, it is everybody. Why we have been in this debate to begin with is to get the legislative clarity that at least begins to address the carbon issue and hopefully the so-called train-wreck issue, where we have a blizzard of regulations coming down the pike over the next five to 10 years that makes it very difficult for us to plan new generation and the expansion of current generation that is essential to getting the economy going again. What we are really focused on is having a regulatory plan in place


that makes sense, that our customers can afford, that gives us a bit of a roadmap so that we know what we are getting into when we decide whether we are going to build a new plant. Absent a carbon price, how do you make those kind of economic decisions, which are maybe inappropriate or uneconomic over the next year or two as these new regulations come down the pike. Only Congress can really give us the answer to that. EPA regulations, they come and they go.

Argus: What should Congress do to provide the regulatory certainty?

Stowell: You look at the various timelines for EPA regulations planned over the next decade or so and they are kind of like drip, drip, drip. Pretty soon the dam bursts. A lot of coal-fired power plants are going to be mothballed in cases where it is not going to be economic to install scrubbers, selective catalytic reduction systems or baghouses. What we need to worry about in our mission of 24/7, 365 power is how are we going to reliably deliver if we are going to have a lot of megawatts going offline over the next decade or so, if we cannot replace them in a very sober way with other forms of generation where we know what the regulations are going to be over the next 10 to 20 years. That is our dilemma. Our company is very interested in the concept of Congress taking a look holistically at the various emissions and seeing if there is a way of harmonizing all this so we can have the regulatory clarity.

What we worry about is regulation 'A' comes down the pike in say 2015 and we comply with it, it is very expensive to do so, and then regulation 'B' comes down the pike in 2018 and everything we do to comply with the 2015 rule is uneconomic because we did not see 2018 coming. Or we did not see what was going to be the result of 2018. That is just not an economic way to approach environmental regulations. We have been talking to EPA, as have other utilities, about a way to harmonize these rules. One way is

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<p>Main offices: London (head office): Argus House, 175 St John St, London EC1V 4LW Tel: +44 20 7780 4200 Fax: +44 20 7780 4201 email: agm@argusmedia.com — email: sales@argusmedia.com Houston office: 3040 Post Oak Blvd, Suite 550, Houston, TX 77056 Tel: +1 713 968 0000 Fax: +1 713 622 2991 Washington office: 1012 Fourteenth Street NW, Suite 1500, Washington, DC 20005 Tel: +1 202 775 0240 Fax: +1 202 872 8045 Singapore office: 22 Malacca Street, #10-02 Royal Brothers Building, Singapore 048980 Tel: +65 6496 9966 Fax: +65 6533 4181</p>	<p>Publisher: Adrian Binks CEO Americas: Euan Craik Business development: Daniel Massey, Miles Weigel, Caroline Gentry Bureau chief: Ross Allen Argus US Carbon Editor: Mike Ball Production editors: Andrew Sutton, Daniel Wackerow Sales and marketing Chris Bozell, Peter Brown, Charles Davis, Karen Johnson, Ashli Matus George, Umer Qureshi, Susan Teves, Howard Walper, Tammy Tiedt, Christina Vassil All rights reserved (ISSN 1942-387X). Copyright © 2010 Argus Media Ltd</p>	
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for EPA to try and figure out a way to harmonize them. Another way is for Congress to harmonize them through legislation.

Argus: Is it a matter of lining up the timelines for each regulation?

Stowell: Harmonizing would give us a roadmap for each of these emissions. It is a little bit like what the Clean Air Act of 1990 did. It had a phase one and a phase two. So we had 10 years of knowledge of what we were supposed to do. It was after that time, due to other clauses in the Clean Air Act, where the drip, drip, drip started. What we would like to do is get the drip, drip, drip out of the way and replace it with a very clear path like we had before.

Argus: Would the multi-pollutant bill introduced by Senators Tom Carper (D-Delaware) and Lamar Alexander (R-Tennessee), which would replace EPA regulations for SO₂, NO_x and mercury, provide some of the certainty you would need?

Stowell: What they have proposed is in the ballpark. We would quibble with some of the details but that is the kind of the path that I am talking about.

Argus: How can the EPA-Department of Energy (DOE) carbon capture and storage (CCS) task force help push the technology forward?

Stowell: It is going to definitely help in terms of the dialogue and

the overall picture we need to paint about how are we going to supply electricity reliably and affordably over the next 10, 15, 20 years, and still keep coal as a viable fuel. It is not just carbon that threatens coal, it is all of the other environmental regulations coming down the pike, everything from coal ash to NO_x, SO₂ and mercury. We are going to see a lot of coal plants close in the next decade or so as a result of these regulations. They are going to be older and smaller plants. We need to keep the big guys open. But down the line those big guys need CCS possibility. You are not going to get that without that forward price for CO₂ to inspire the investment and development of the technology.

Argus: Does DOE's decision not to include integrated gasification combined cycle (IGCC) technology as part of its FutureGen project (to build a near zero-emission coal-fired power station) signal that the administration is not supportive of the technology?

Stowell: We do not really feel that way. I am a little puzzled with what the plan is going forward. It is still kind of fresh news; we have to look into that a bit further. But I do not look at this as the government turning its back on IGCC. Quite the contrary, there has been a tremendous amount of investment in our Edwardsport facility by the federal government already. We have had DOE officials on site, taking a look at the construction. There is a lot of excitement around that plant and we are going to be one that will demonstrate on a utility scale that IGCC is a very effective, efficient way of reducing coal emissions. Not just CO₂, which will require the CCS component, but NO_x and SO₂. Water use is going to be way down. It is going to be a really clean plant.

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