

1 1988 as Chief Executive Officer, I was Executive Vice President of the gas
2 pipeline group of Enron Corp., and President of Enron's interstate gas pipeline
3 companies from 1985 to 1988. From 1979 to 1981 and from 1983 to 1985, I was
4 in private law practice in Washington, D.C. with the law firm of Akin, Gump,
5 Strauss, Hauer & Feld. During that time, I represented natural gas pipelines, gas
6 producers and electric utilities before the Federal Energy Regulatory Commission
7 ("FERC") and various federal courts. From 1981 to 1983, I was deputy general
8 counsel for litigation and enforcement at the FERC. In that position, I directed
9 FERC's litigation efforts in cases involving electric rates, hydroelectric licensing,
10 gas producer and gas pipeline rates. I began my career with the Kentucky
11 Attorney General's office, representing consumer interests in utility cases.

12 Q. PLEASE DESCRIBE YOUR PROFESSIONAL AFFILIATIONS.

13 A. In June 2006, I will become Chair of the Edison Electric Institute. I also serve on
14 the boards of the American Gas Association, U.S. Chamber of Commerce,
15 Business Roundtable and the National Coal Council. I am Co-Chair of the
16 Energy Efficiency Action Plan Leadership Group, formed by the U.S. Department
17 of Energy and U.S. Environmental Protection Agency and approximately 50
18 leading electric and gas utilities, state utility commissioners, state air and energy
19 agencies, energy service providers, energy consumers and energy efficiency and
20 consumer advocates. The Leadership Group was formed to drive an aggressive
21 new national commitment to energy efficiency.

22 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

1 A. Duke Energy Carolinas has applied to the Commission for a Certificate of Public
2 Convenience and Necessity to construct two 800 MW state-of-the art pulverized
3 coal generating units at the Company’s existing Cliffside Steam Station (the
4 “Cliffside Project”). The purpose of my testimony is to discuss the importance of
5 the Cliffside Project to Duke Energy Carolinas’ overall objective of ensuring that
6 its customers have access to reliable, reasonably priced electricity now and in the
7 future. I discuss how the plan for the new Cliffside units is aligned with Duke
8 Energy’s desire to meet this overall objective in a manner that balances the
9 interests of all stakeholders. Specifically, I will discuss the portfolio approach we
10 are using to meet our customers’ electricity needs and how that approach is
11 consistent with Duke Energy’s publicly expressed views on climate change policy
12 and energy efficiency.

13 Q. PLEASE DESCRIBE WHAT YOU MEAN WHEN YOU REFER TO THE
14 OVERALL OBJECTIVE OF ENSURING THE AVAILABILITY OF
15 RELIABLE AND REASONABLY PRICED ELECTRICITY NOW AND IN
16 THE FUTURE?

17 A. As a utility, Duke Energy Carolinas has a number of important objectives that it is
18 called upon to meet. The company strives to meet these objectives in a manner
19 that balances and harmonizes many diverse—and sometimes competing—
20 stakeholder interests. But the most important overall objective that the company
21 must fulfill is to ensure that our customers are able to count on having access to
22 reliable and reasonably priced electricity to meet their needs now and in the
23 future. Providing this assurance helps businesses feel secure in choosing our state

1 and our region as the place to locate new facilities or to maintain existing
2 facilities. These decisions, in turn, translate into quality jobs for our citizens, a
3 strong tax base for the state, and “follow on” economic growth for the region.
4 Economic growth enhances the overall quality of life and encourages people to
5 want to live and raise their families in this area. In addition, access to reliable and
6 reasonably priced electricity is increasingly important to our residential customers
7 as computers and other electronic equipment and devices become more
8 ubiquitous.

9 Q. WHY IS THE CLIFFSIDE PROJECT IMPORTANT TO FULFILLING THIS
10 OBJECTIVE?

11 A. Meeting long term electricity needs requires long term planning. Duke Energy
12 Carolinas’ 2005 Annual Plan shows a growing need for baseload generation to
13 meet customers’ needs over the next five to ten years and beyond. The plan also
14 shows that that both pulverized coal and nuclear generation are currently the only
15 viable forms of baseload generation for our customers in the Carolinas. Further,
16 because of the longer lead time for nuclear power, our North Carolina and South
17 Carolina customers’ nearer term baseload needs can only be met by coal
18 generation. As Company witness Janice Hager will address in more detail, Duke
19 Energy Carolinas’ 2005 Annual Plan indicates that both new pulverized coal and
20 nuclear power are consistently attractive under a variety of sensitivities and
21 scenarios, including changes in existing climate change policy. The two new
22 Cliffside units are state of the art and will be the most efficient and have the
23 highest level of emission control of any coal units on the Duke Energy Carolinas

1 system. For this reason, I believe that these units are important to meeting our
2 customers' electricity needs in the future in an efficient and cost effective manner.

3 Q. THE CLIFFSIDE PROJECT REPRESENTS A SIGNIFICANT INVESTMENT
4 BY DUKE ENERGY CAROLINAS. WHAT IMPACT DOES SUCH A
5 CONSTRUCTION PROJECT HAVE ON THE COMPANY'S FINANCIAL
6 PERFORMANCE?

7 A. The Cliffside Project represents an approximately \$2 billion investment by Duke
8 Energy Carolinas. It is important that Duke Energy Carolinas maintains a strong
9 balance sheet and credit rating during such a significant construction project, and
10 has the appropriate support measures to continue its strong financial position. It is
11 my understanding that under current North Carolina law and regulations, utilities
12 cannot recover generation expansion costs absent a rate case, and then only to the
13 extent that the Commission finds the inclusion of such costs in rate base to be in
14 the public interest and necessary to the financial stability of the utility. The
15 significant capital requirements over an extended construction period create
16 financial stress, potentially exposing the company to higher financing costs.
17 Furthermore, the compounding effect of capitalizing financing costs during
18 construction ultimately results in higher customer costs when the project is
19 completed and added into rate base at a future date. Duke Energy Carolinas
20 would like to explore ways to lessen the financial burden of utility generation
21 expansion plans during the construction period, thereby benefiting both customers
22 and shareholders.

1 Q. HOW DOES DUKE ENERGY CAROLINAS' DEVELOPMENT OF NEW
2 COAL-FIRED GENERATION FIT WITH THE POTENTIAL FOR FUTURE
3 REGULATORY CONSTRAINTS ON CARBON EMISSIONS?

4 A. Duke Energy continues to play a lead role in shaping national policy on global
5 climate change. Our belief is that Congress should implement an economy-wide
6 greenhouse gas reduction program that addresses climate change responsibly and
7 fairly. However, while we believe that it is important to take steps to address
8 climate change, we also know that meeting customers' electricity needs in a cost
9 effective manner requires that we develop a diverse portfolio of supply options.
10 Fuel diversity is an important component of such a strategy. When I survey the
11 utility regulatory environment across the United States, it is clear to me that states
12 with greater fuel diversity generally have lower rates for customers than those
13 with less diverse generation portfolios.

14 We also know that coal is an abundant resource in this country that is
15 increasingly important to our nation's energy security. While I am mindful—and
16 supportive—of the need to reduce greenhouse gas emissions, I know that coal will
17 continue to play a significant role in energy production in the future. I believe
18 that the state of the art technology and emissions reduction equipment we will use
19 at the Cliffside Project will enable us to use this vital, cost effective resource in a
20 manner that minimizes our environmental footprint.

21 In addition, as part of the plans for the new Cliffside units, we will also
22 retire the 1940s vintage Cliffside units 1-4. As we continue to modernize our
23 generation fleet, Duke Energy will continue to meet our customers' energy needs

1 reliably and economically even as we continue to be at the forefront of the climate
2 change policy debate.

3 Q. HOW DOES DUKE ENERGY CORPORATION VIEW THE DEVELOPMENT
4 OF INTEGRATED GASIFICATION COMBINED CYCLE (“IGCC”)
5 TECHNOLOGY?

6 A. Duke Energy believes that IGCC is a promising generation technology. IGCC
7 was considered by Duke Energy Carolinas, and other Duke Energy Carolinas
8 witnesses discuss in their testimony the comprehensive integrated resource
9 planning and technological evaluations that Duke Energy Carolinas conducted
10 that selected pulverized coal instead of IGCC for the Cliffside Project. As a
11 Company, we will continue to support the development of IGCC technology and
12 utilize it where it is cost-effective and best meets the needs of our customers. For
13 example, in Indiana, Duke Energy Indiana is conducting preliminary engineering
14 and design work for a 600 MW IGCC plant it is considering for its service
15 territory.

16 Q. WHY DID DUKE ENERGY CHOOSE TO PURSUE THE CONSTRUCTION
17 OF AN IGCC FACILITY IN INDIANA BUT NOT IN THE CAROLINAS?

18 A. The State of Indiana has abundant local coal reserves, and there is strong local
19 and state support for an IGCC facility to promote this local resource. IGCC initial
20 capital costs are expected to be approximately 15% higher than supercritical
21 pulverized coal generation, so the investment tax credits, property tax abatement
22 and Tax Increment Financing credits from local and state government, and
23 potential investment tax credits from the federal government specifically for

1 IGCC technology, are significant factors driving the deployment of this
2 technology in Indiana. Duke Energy Indiana has experience with this technology
3 at its Wabash River IGCC demonstration facility that it helped develop in the
4 1990s. Studies conducted so far also demonstrate that the Indiana site has the
5 geological potential for future carbon dioxide (CO₂) sequestration. For these
6 reasons, we decided to pursue the next generation of IGCC technology in Indiana.
7 I should add that the size of the facility we are evaluating in Indiana—600 MW—
8 is significantly less than we need to meet the long term generation needs of our
9 customers here in the Carolinas.

10 Q. YOU HAVE TALKED ABOUT THE NEED TO HAVE A DIVERSE
11 PORTFOLIO OF SUPPLY OPTIONS TO MEET CUSTOMERS'
12 ELECTRICITY NEEDS. WHAT ROLE DOES ENERGY EFFICIENCY PLAY
13 IN SUCH A PORTFOLIO?

14 A. Certainly energy efficiency is an important part of a reliable, low-cost energy
15 system. As Co-Chair of the Energy Efficiency Action Plan Leadership Group,
16 formed by the U.S Department of Energy and the U.S. Environmental Protection
17 Agency together with numerous stakeholder groups, I have committed to take
18 action here at Duke Energy and in the energy industry to identify key barriers
19 limiting greater utility investment in energy efficiency, and to develop and
20 document sound business practices for removing these barriers. Through this
21 leadership role, I will also strive to improve the acceptance and use of energy
22 efficiency relative to energy supply options.

1 Duke Energy Carolinas has existing demand-side management (“DSM”)
2 programs, has a DSM initiative underway, and will be participating in the
3 Commission’s DSM working group. In connection with this Commission’s
4 approval of the Duke/Cinergy merger, Duke Energy is contributing \$2 million for
5 conservation and energy efficiency programs. In their testimony, Company
6 witnesses Ellen Ruff and Janice Hager discuss Duke Energy Carolinas’ additional
7 plans for energy efficiency in more detail.

8 Q. DOES THIS COMPLETE YOUR DIRECT TESTIMONY?

9 A. Yes, it does.