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Duke Energy Edwardsport project: State utility consumer advocate raises concerns about spiraling costs & recommends new ratepayer safeguards

Duke Energy Indiana's construction of a new power plant in Knox County should continue but only with new ratepayer safeguards in place, according to the state agency representing consumer interests in utility regulatory cases.

While the Indiana Office of Utility Consumer Counselor (OUCC) continues its support for Duke Energy's plan to operate a new 630-megawatt coal gasification facility at Edwardsport, the OUCC has serious concerns regarding the project's cost overruns and inaccurate, unreliable cost estimates from the utility. The OUCC's concerns are detailed in testimony recently filed with the Indiana Utility Regulatory Commission (IURC).

In 2007, the OUCC supported Duke Energy's initial request to build and operate the Edwardsport plant based on a number of factors, including the state's need for additional electric generation, the possibility of federal carbon legislation, and the opportunity to utilize coal in a new, environmentally responsible manner. The OUCC has continued to support the project for these reasons but notes that several other factors, on which the agency based its original support, have changed dramatically in the last three years.

While the OUCC's initial support was based on Duke Energy's commitment to pursue carbon capture and sequestration at the Edwardsport site, subsequent studies have shown that the project site is not conducive to carbon storage. The OUCC also based its initial support on the utility's assurances regarding its initial cost estimate of \$1.985 billion. In January 2009, despite those assurances, the IURC approved Duke Energy's request to raise the cost estimate to \$2.35 billion.

In a docket now pending before the IURC, Duke Energy is requesting authorization to increase its projected cost estimate again to \$2.88 billion, a 45 percent increase over the utility's original estimate. The utility also expresses an "85 percent" certainty that no additional cost increases will be needed beyond the current request to complete the project.

"My staff has closely examined Duke Energy's most recent request including current data on the Edwardsport project," stated Indiana Utility Consumer Counselor David Stippler. "While the OUCC recognizes the importance of this project and the state's need for the additional generating capacity, it is deeply concerned about the dramatic rise in the project's costs in this short period of time. The OUCC is equally concerned with Duke Energy's apparent inability to constrain its budget for this project, whose costs are being borne by the utility's ratepayers."

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“Utilities have a responsibility to demonstrate that rate-recovered costs, including increases to approved costs, are reasonable, necessary and prudent,” continued Stippler. “Unfortunately, Duke Energy has not met this burden of proof in its pending request to increase the project’s cost estimate by more than a half-billion dollars.”

The OUCC’s testimony in the pending docket recommends that the IURC cap the project’s overall costs at an amount significantly lower than the \$2.88 billion Duke Energy is currently requesting. If the cap is exceeded, the utility would then be required to seek any additional cost recovery through a base rate case filing rather than through the semi-annual cost tracking mechanism currently in use. (The tracking mechanism allows the utility to incrementally recover project costs through rates as they are incurred.)

In addition, the OUCC is recommending that the IURC discontinue a financial incentive that is allowed in Duke Energy’s cost tracker filings. The utility is currently allowed to exclude deferred income taxes from its capital structure. That incentive has resulted in increased earnings for Duke Energy – on costs up to the project’s original \$1.985 billion estimate – that are significantly higher than what would normally be allowed under traditional ratemaking practices. While discontinuing this incentive would nonetheless allow Duke Energy to continue receiving its authorized 10.5 percent return on equity from its last base rate case, removing this incentive would save ratepayers tens of millions of dollars in the near future.

The 630-megawatt baseload facility now under construction at Edwardsport will replace a 160-megawatt peaking unit that has been in operation since the 1940s. The new facility is an integrated gasification combined cycle (IGCC) plant, designed to convert coal into a cleaner burning synthetic gas with nitrogen oxide, sulfur dioxide and mercury emissions to be removed from the gas before it is burned to generate electricity.

An IURC technical evidentiary hearing in this case is scheduled to begin on September 16, 2010 in Indianapolis. While open to the public, participation in evidentiary hearings is typically limited to attorney and Commission questioning of technical witnesses who have filed testimony on behalf of the case’s formal parties. All hearing and filing dates in any legal proceeding are subject to change.

The OUCC’s testimony in this case, along with other key documents in the IGCC proceedings, can be found online at www.in.gov/oucc/2625.htm.

(IURC Cause No. 43114 – IGCC4 – S1)

The Indiana Office of Utility Consumer Counselor (OUCC) represents Indiana consumer interests before state and federal bodies that regulate utilities. As a state agency, the OUCC’s mission is to represent all Indiana consumers to ensure quality, reliable utility services at the most reasonable prices possible through dedicated advocacy, consumer education, and creative problem solving. To learn more, visit www.IN.gov/OUCC.