

Update of the Duke Energy's Proposed Coal Gasification Plant for Edwardsport, Indiana

There are 2 open proceedings at the IURC relevant to the 630 MW (megawatt) Edwardsport IGCC (Integrated Gasification and Combined Cycle plant), cause #43114-IGCC-3 and cause #43653 proposed by Duke Energy. The Commission has already issued three separate rulings of note on the plant. A brief recap of those events is below.

In the original ruling approving construction of the plant in November 2007, Duke was ordered to come in every 6 months with ongoing progress reports, updated cost estimates, and requests for recovery of actual expenditures.

The first sub-docket was filed in May 2008. Duke requested the cost estimate be updated from \$1.985B to \$2.35B and requested cost recovery for actual expenditures through Feb 2008, approximately \$190M. They also indicated that expenditures through the remainder of 2008 were estimated to be \$40-50M a month. In that same filing, Duke also requested \$16-17M to study the capture of 17-18% of the carbon from the proposed plant. CAC intervened in that docket.

CAC's filed testimony in that cause that shows:

- 1) Duke should have anticipated the cost increase of the project
- 2) It is reasonable to conclude that costs will continue to increase
- 3) Duke's modeling does not prove that the plant is the least-cost or lowest risk option for ratepayers
- 4) Duke overstates the risk that natural gas generation poses
- 5) To allow the project to continue is highly risky, and it is Duke ratepayers that face all the risk which violates the regulatory and public policy bargain
- 6) Carbon capture and sequestration will make plant even more costly and risky
- 7) The commission has previously noted the risks and challenges associated with a heavy reliance on coal, therefore Duke should be required to diversify their portfolio instead of being allowed to build another coal plant
- 8) Energy efficiency and renewable resources are a better and cheaper alternative and provide a better hedge against carbon risk than CCS
- 9) Duke should put the project on hold until they economically and technically capture and sequester carbon
- 10) Ratepayers should not be responsible for cost increases that were clearly foreseeable and Duke should be made to live by its commitment that costs would not significantly increase

To read the complete testimonies go to:

(<https://myweb.in.gov/IURC/eds/Modules/IURC/CategorySearch/viewfile.aspx?contentid=0900b631800f56e6> and <https://myweb.in.gov/IURC/eds/Modules/IURC/CategorySearch/viewfile.aspx?contentid=0900b631800f56ee>)

In January 2008, the IURC approved recovery of expenditures to date, adding about \$10M to the annual rate base. The commission also approved the \$16-17M for Duke to study the capture of carbon and the updated cost estimate of \$2.35B. Duke Energy was also ordered to retain Black and Veatch as the IURC contractor for active and continuing independent oversight of the project, at ratepayers' expense. The IURC also ordered Duke to initiate a separate proceeding for consideration of a study related to the storage of carbon.

Duke filed their second sub-docket, 43114-IGCC-2, seeking cost recovery of current expenditures and approval of their ongoing status report on November 3, 2008. CAC intervened in that docket and provided testimony that shows:

- 1) Electricity usage is declining, therefore the need for the plant is questionable
- 2) Particularly because of carbon compliance costs, the real final cost to ratepayers continue to escalate, therefore the plant is not the least cost resource
- 3) The Utility Power Plant Construction Act allows for the ongoing review to ensure the project is still in the public interest. The Act clearly states the commission has the authority to modify or revoke the Certificate of Need.
- 4) Pending carbon legislation adds more uncertainty, risks, and costs to the Edwardsport project

To read the complete testimonies go to:

<https://myweb.in.gov/IURC/eds/Modules/IURC/CategorySearch/viewfile.aspx?contentid=0900b631801027c0>

In March of 2009, as ordered, Duke filed a petition requesting \$120M to study the storage of carbon. CAC has intervened in this filing and will be submitting testimony. Evidentiary hearings for this docket begin on November 10, 2009. The cause # at the IURC is 43653.

Also in March of 2009, the IURC approved the second sub-docket, 43114-IGCC-2. The commission approved both the ongoing status report and the cost recovery of actual expenditures through September 30, 2008, adding another \$17M annually to the rate base. This brings the total annual increase to \$27M.

In May of 2009, Duke filed the third sub-docket, 43114-IGCC-3, requesting approval of the ongoing status report and recovery of actual expenditures through March 31, 2009. Duke shows that to date, expenditures plus rate of

return amount to approximately \$581M. CAC intervened in that docket and provided testimony that reiterated what was stated in IGCC-2:

- 1) Electricity demand continues to decline and Duke has not demonstrated a continued need for the plant
- 2) Particularly because of carbon compliance costs, the real final cost to ratepayers continue to escalate, therefore the plant is not the least cost resource
- 3) The Utility Power Plant Construction Act allows for the ongoing review to ensure the project is still in the public interest. The Act clearly states the commission has the authority to modify or revoke the Certificate of Need.
- 4) EIA reports show that electricity usage is expected to continue to decline, therefore forecasts of future growth in demand by Duke used to support the plant are suspect at best

To read the complete testimonies go to:

<https://myweb.in.gov/IURC/eds/Modules/IURC/CategorySearch/viewfile.aspx?contentid=0900b63180114f61>

Other than the 2 open dockets currently at the IURC, there are pending appeals on the air permit. Instead of requiring a new permit, IDEM issued a modification of the permit for the existing Edwardsport plant and issued a construction permit. Those permitting decisions were appealed to the Office of Environmental Adjudication by the Sierra Club and CAC in 2008, and a ruling has yet to be issued. Duke has filed four separate motions in that case, none of which have been ruled on yet. The air permit case is essentially stayed until a ruling is issued.

Citizens Action Coalition, along with Sierra Club and Valley Watch, recently submitted comments to the Indiana Department of Environmental Management regarding the renewal of the Title V air permit for Duke Energy's proposed coal plant in Edwardsport. The groups contend the plant will violate air quality standards for a dangerous and harmful form of pollution known as fine particulate matter, or soot, which can lodge deep inside the lungs and cause serious health problems.

A federal district court recently ordered Duke to shut down one of its existing plants that was found by an Indiana jury to be in violation of the Clean Air Act. In its ruling, the federal court found that there is no safe level of fine particulate matter. Duke's proposed coal plant will exceed one particulate matter limit by 18%. These limits are currently in the process of being strengthened by the federal government, which means the Duke plant will be even farther out of compliance.

The Coal Gasification Plant is Not the Least Cost Option for Duke Customers

Energy efficiency technology (more efficient lights, appliances, electric motors, pumps, heating and air conditioning) can be installed at less than half the cost of the proposed Edwardsport coal gasification plant.

Wind turbines in northwest Indiana are now being installed at half the kilowatt cost of the proposed Edwardsport coal gasification plant.

The cost of coal and nuclear plants continues to rise while the cost of energy efficiency and renewable energy technology continues to fall.

The price points between coal and nuclear plants compared to energy efficiency and renewables will continue to widen.

Coal prices are becoming increasingly volatile, meaning that neither the customers nor the company can rely on low, stable prices for coal over time.

It is cheaper to stop construction of the plant now than to build and operate it.