BEFORE THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

COLUMBIA, SOUTH CAROLINA

HEARING #10-11157 NOVEMBER 9, 2010 2:30 P.M.

ALLOWABLE EX PARTE BRIEFING

DOCKET NO. 2010-8-E: REQUESTED BY PROGRESS ENERGY CAROLINAS, LLC - Integrated Resource Plan (IRP)

TRANSCRIPT OF PROCEEDINGS

COMMISSIONERS PRESENT: John E. 'Butch' HOWARD, *CHAIRMAN,* David A. WRIGHT, *VICE CHAIRMAN*; and COMMISSIONERS Elizabeth B. 'Lib' FLEMING, G. O'Neal HAMILTON, Randy MITCHELL, Swain E. WHITFIELD, and Nikiya 'Nikki' HALL

ADVISOR TO COMMISSION: Randall Dong, Esq.

STAFF: F. David Butler, Jr., Senior Counsel; James Spearman, Ph.D., Executive Assistant to the Commissioners; Phil Riley and Tom Ellison, Advisory Staff; Jo Elizabeth M. Wheat, CVR-CM-GNSC, Court Reporter; and Deborah Easterling and Hope Adams, Hearing Room Assistants

APPEARANCES:

LEN ANTHONY, ESQUIRE, along with *GLEN SNIDER and SAM WATERS,* presenters, representing **PROGRESS ENERGY CAROLINAS**

SHEALY BOLAND REIBOLD, ESQUIRE, representing the **OFFICE OF REGULATORY STAFF**

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PowerPoint presentation (PDF)
"Progress Energy Carolinas Integrated Resource Plan" of September 13, 2010 - [Public and Confidential Versions]

1 P R O C E E D I N G S
2 **CHAIRMAN HOWARD**: Please be seated. This
3 hearing is now called to order. I'll ask Attorney
4 Dong to read the docket.
5 **MR. DONG**: Mr. Chairman and other members of
6 the Commissioners, this matter comes before the
7 Commission by way of Docket No. 2010-8-E, Progress
8 Energy Carolinas, Inc.'s 2010 Integrated Resource
9 Plan.
10 The hearing in this matter is scheduled for an
11 ex parte briefing on Tuesday, November 9, 2010, at
12 2:30 p.m..
13 Mr. Chairman, other members of the Commission,
14 the docket is in order.
15 **CHAIRMAN HOWARD**: Thank you. And who
16 represents Progress Energy Carolinas?
17 **MR. ANTHONY**: Chairman Howard, members of the
18 Commission, I'm Len Anthony, representing Progress
19 Energy Carolinas.
20 And our two presenters today -- if it's
21 appropriate to go ahead and introduce them -- are
22 Glen Snider, who is our manager of Resource
23 Planning, and Sam Waters, who is our director of
24 System Planning, with Mr. Waters' responsibilities
25 including transmission, as well as generation

1 planning.
2 So if those two would like to come up and take
3 their seats?
4 Mr. Chairman and members of the Commission, a
5 slight introduction: One is, Mr. Waters is a
6 speaker on one of the panels at the NARUC
7 conference that is coming up; it's on Wednesday
8 morning at 9. They're going to be discussing what
9 are the elements and factors that commissions need
10 to be thinking about as they struggle to determine
11 how resources should be selected and added, given
12 the uncertainty with regard to carbon regulation.
13 And I guess that's probably more uncertain now than
14 it has been for the past two or three years, in
15 light of the election results. That issue, as well
16 as the 316b issue that the EPA is addressing --
17 that is, the cooling water intake rulemaking that
18 they are contemplating, which could drastically
19 increase the cost of running the nuclear and coal
20 plants -- the ash disposal issue with regard to the
21 waste from coal plants, and then the Clean Air
22 Transport Rule, which may result in further
23 restrictions on sulfur dioxide and nitric dioxide
24 emissions: Those are the key factors that we hope
25 we can discuss today, because those are some key

1 factors that drive resource selection, have driven
2 our coal-to-gas migration, conversion process, and
3 then how nuclear factors into the resource planning
4 process, and that is hugely driven by what natural
5 gas prices are believed to be in the future,
6 recognizing that those forecasts are going to be
7 wrong, as well as back to the carbon legislation
8 issue. So, the stricter the carbon legislation
9 that's passed, the higher natural gas prices are
10 forecasted, the more cost-effective nuclear loos.
11 And when the reverse is true, the less cost-
12 effective nuclear looks, but I believe every
13 utility in the State and in the Southeast believes
14 nuclear has a role to play in the resource plans,
15 and our presenters will discuss, in our 2010 plan,
16 how we see our nuclear additions panning out.
17 So with that, Mr. Snider, take it away.
18 [Reference: PowerPoint Slide 1]
19 **MR. SNIDER:** Thank you, Mr. Anthony.
20 Commissioners, thank you for allowing us to appear
21 before you today, It's our privilege to be there
22 and present our 2010 Integrated Resource Plan.
23 [Reference: PowerPoint Slide 2]
24 Real briefly, by way of outline, I'd like to
25 spend just a couple of slides and review the

1 process that we undertake when performing our
2 Integrated Resource Plan. I'll quickly move on to
3 a couple of our key variables, and explain some of
4 the changes that we've seen from our 2009 plant
5 when we looked at our fuel and load assumptions.
6 I'd also like to then move from there to the more
7 robust plan that we've provided this year, which
8 includes a significant amount of work around
9 sensitivities and scenario analysis -- the result
10 of that resulted in our 2010 base plan that's filed
11 with the Commission -- and then end with a summary
12 of some of the key points from our plan, some of
13 the issues that are still facing the industry, many
14 of which I think I could just reference Mr.
15 Anthony's statement that he just made.
16 So with that, we'll move through this. And
17 please feel free to interrupt with any questions
18 you may have, moving through this.
19 [Reference: PowerPoint Slide 3]
20 Basically, there's three core tenets in
21 planning, that we follow as planners: Reliability
22 -- and I won't read the slides here, but
23 reliability, cost-effectiveness, and a balanced mix
24 of both supply-side and demand-side options,
25 ensuring that all cost-effective demand-side

1 options are also included in a resource plan and
2 not just supply-side.
3 So with that said, what do we mean by that?
4 Reliability. Our counterparts from Charlotte were
5 explaining the difference today between a capacity
6 margin and a reserve margin. In essence, those are
7 just industry terms that are used to ensure you
8 have adequate capacity on your system such that you
9 don't have a high probability of an outage.
10 There's a technical term many of you may have
11 heard, called "loss-of-load probability." You do
12 very technical math calculations, probabilistic
13 calculations based on your system and your load, to
14 determine your loss-of-load probability, and ensure
15 -- the industry standard that many people have
16 heard in the past is one day in ten years --
17 basically a very small number. And what is the
18 adequate capacity margin or reserve margin? You
19 need to ensure that you will have adequate
20 reliability the vast, vast, vast majority of the
21 time.
22 And for Progress, we plan from about 11 to 13
23 percent. When you're on the front end of your plan
24 and variables are more known, you're a little bit
25 more comfortable being around the 11 percent; as

1 you move deeper into the plan and you're talking 15
2 years out, there's much more uncertainty and
3 perhaps you lean more toward the 13 percent. But
4 we plan to a capacity margin in that 11 to 13
5 percent, and that ensures we have an adequate
6 supply of capacity such that we minimize our LOLP
7 to acceptable levels.
8 [Reference: PowerPoint Slide 4]
9 Least cost. You hear a lot about least cost.
10 In planning space, what we're doing is minimizing
11 the present value of revenue requirements, in
12 essence, looking for those resources that are
13 deemed the most cost-effective to satisfy the
14 needs, the particular needs, of our utility.
15 Often, people like to try to use that very
16 shortcut method such as bus-bar screening curves or
17 average cost per megawatt-hour. That's too
18 simplified of a method. We use a rigorous linear
19 programming model called Strategist, in which we
20 try to optimize for the lowest present value of
21 revenue requirements, and select resources that
22 ensure we meet our reliability needs in a least-
23 cost manner.
24 And then, again, we spoke about balanced
25 solution. Whatever solution we pick needs to be

1 flexible and responsible to the customers' needs,
2 ensuring that we're looking at both supply- and
3 demand-side needs, also addressing environmental
4 concerns, operational flexibility, fuel diversity.
5 All of that is taken into account and we'll speak
6 to that as we move a little further throughout the
7 presentation.
8 [Reference: PowerPoint Slide 5]
9 So how do we determine the resource plan? I
10 believe some of you may have seen this, or a
11 version of this when we were here for our '09, so
12 I'll move through this quickly. But we start with
13 a load forecast that comes from our Load
14 Forecasting Department, and it tells us what is our
15 firm load obligations for our retail and wholesale
16 customers. From that, we subtract out our energy
17 efficiency, load control, DSDR, et cetera, that
18 allows us to reduce our firm requirements. In the
19 case of this year's resource plan we had an
20 aggregate load growth of about 1.8 percent on the
21 gross level. After subtracting out DSM and EE, our
22 energy growth was reduced to 1.1 percent. Over the
23 next decade, we'll have approximately 800 megawatts
24 of DSM and EE in our portfolio to help us meet our
25 needs.

1 From there, we still have a projected need
2 that's above our existing resources less
3 retirements. Again, as Duke spoke of earlier and
4 as you've seen in our previous plans, we're
5 planning on retiring a number of our unscrubbed
6 coal plants. When you take that out of our
7 existing resources and compare it to our net need,
8 there's an incremental projected need. That then
9 is met through supply-side options, whether it's
10 unit uprates, new units, or purchases. And that's
11 how we go about planning.
12 [Reference: PowerPoint Slide 6]
13 So, just real quickly, to jump into a couple
14 of the major variables that have changed since our
15 2009 Integrated Resource Plan, we continue to see a
16 little bit of a downward revision in our load
17 forecast. Again, it's not a huge downward
18 revision, but it's a downward revision nonetheless,
19 from '09 to '10, that is a result of both retail
20 and wholesale reductions. A couple of points to
21 point out there is, while we still see some impacts
22 maybe a little bit beyond what we saw in '09 in the
23 recession, I think the wholesale customers, when
24 they give us their load forecasts, are -- being
25 largely residential and commercial customers -- are

1 really just now starting to fully incorporate the
2 effects of the economic downturn into their
3 forecast, which then flow into our total forecast
4 of obligations that we have to serve. So a little
5 bit of a lag in the wholesale reductions coming in,
6 plus a little bit of lag maybe in the anticipated
7 recovery that we thought would happen, results in a
8 slight reduction. I will say that that still has a
9 growth rate of over 1 percent, net of DSM, as I
10 stated earlier.
11 The bump in load from 2012 to 2013 is a result
12 of a wholesale supply contract that we're serving
13 for North Carolina Electric Municipal Corporation.
14 And that also comes with some resources, as well.
15 But on a gross load basis, we have incremental load
16 as a result of that requirements customer with
17 NCEMC.
18 [Reference: PowerPoint Slide 7]
19 Again, a lot of discussion -- and sitting
20 through this morning, I know we've heard a lot
21 about the impacts of shale gas. So, probably one
22 of the bigger changes in the variables is our
23 downward revision. What I tried to do on this
24 slide was simply put a representative pricing,
25 rather than MMBTU. As an electric planner, I'm

more comfortable talking in dollars per megawatt-hour, and I think people are used to hearing that, not having to do the conversion. So I tried to show, what does the gas price mean, if I'm running that gas through a combined-cycle technology. And basically the top bar was our projected cost to run a combined-cycle back in 2009; the blue bar on the bottom is our 2010 cost to run a combined-cycle. And what you'll see is over a 20 percent reduction in natural gas from near-term prices, as well as the longer-term forecast.

And having done this for a number of years, both on the power and the gas side, perhaps what's most noticeable in this adjustment is the duration of that reduction. In other words, the near-term gas market has historically been very volatile. So what is gas going to be next month, next year, the following year, is, then, very volatile. Long-term econometric forecasts of the cost of gas have not tended to be as volatile. It's basically been a long-term lifting cost or a long-term cost of LNG setting that assumption. And given the discussion you've heard about and we continue to talk about in shale gas, you're seeing a much more pervasive reduction in gas that goes deeper into what we call

1 the forward curve for natural gas. And so, this is
2 perhaps one of the larger reductions that I can
3 remember seeing that goes that deep into the
4 forward curve for natural gas.
5 So those are just a couple of the big
6 variables that have changed within our Integrated
7 Resource Plan, but as we approach planning, bi-
8 annually we'll do a more comprehensive plan, and we
9 take a very complex look at the resource plan from
10 a multiple-variant perspective.
11 [Reference: PowerPoint Slide 8]
12 So, on the next slide -- and again, it's a
13 pretty busy slide, and I'm not going to attempt to
14 walk you through all of this busyness. It's just,
15 you know, there are literally dozens and dozens of
16 input variables that go into a resource selection.
17 And I tried to give you a feel for a few of them on
18 the far left, some of what we call drivers, the
19 individual inputs that feed our modeling process.
20 So you're putting in not just nuclear costs
21 but the costs for all of your generation
22 technologies. You're looking at the economy, the
23 load forecast, carbon prices, fuel prices,
24 renewable requirements, escalation rates, discount
25 rates, cost of capital, et cetera. The list goes

1 on and on. And what we strive to do is identify
2 the key drivers, the ones that really have a
3 potential to change the plan, and run sensitivities
4 on those, and then move into consolidating those
5 sensitivities into a manageable number of
6 scenarios, so that we can see how those scenarios
7 perform under multiple worldviews, to ultimately
8 select a preferred plan. And we're going to spend
9 just a few slides reviewing that sensitivity and
10 scenario analysis approach that we try and
11 undertake on a bi-annual basis.
12 So 2010 was the year in which we undertook
13 this analysis. And, you know, it was really in
14 order to ensure that our plan stands up not just to
15 one set of variables, but that in an uncertain
16 environment -- you know, perhaps one of the most
17 uncertain environments that I can remember, whether
18 it's environmental, fuel prices, cost, capital
19 costs going up only then to retreat -- does your
20 plan stand up to multiple worldviews.
21 [Reference: PowerPoint Slide 9]
22 So, we started with sensitivity analysis, in
23 which the following drivers or variables were
24 stressed from their mid-case assumptions with high
25 and low assumptions of gas prices, construction

escalation rate, the amount of load and energy that we're going to have to serve, the type that you're going to have to serve -- is it a very peaky load, or base load? -- CO_2 prices -- again, a lot of discussion around how the elections and where we stood a year ago and our thoughts on CO_2 prices and how those may be changing over time -- and nuclear costs, and how that drives us to think differently about our plan.

So all of these variables were stressed individually. So, one at a time, you would stress a variable, develop and optimize the plan, and see how that plan changed as you then moved that variable back and stressed another variable.

So, the problem with that is you end up with an unmanageable number of plans to try and culminate and come up with a preferred plan, so the next step was to take the resultant scenarios or plans that came out of these sensitivity analyses, and consolidate them down to a reasonable number of plans that can be run through a scenario analysis. So instead of just having dozens of individual plans, we said there's really -- when we moved on to the scenario analysis stage of it, there's really a finite number of plans that we can

1 examine.
2 [Reference: PowerPoint Slide 10]
3 And those consolidated plans that we ended up
4 with were: Our first plan, or what we call Plan A,
5 was a balanced mix of CTs, CCs, and a 25 percent
6 ownership in two nuclear facilities back-to-back.
7 And that 25 percent is approximately 275 megawatts
8 and our base plan is 2020 and 2021. It does not
9 represent a specific project, per se, but rather a
10 generic nuclear ownership, whether it be any
11 regional partnership that may become available as
12 we move into the future.
13 Plan B is a mix of CTs and CCs with no new
14 nuclear generation. So when we stress some of the
15 variables, such as carbon down, natural gas prices
16 down, traditional generation costs down, and then
17 let nuclear costs rise, in those types of scenarios
18 plans without nuclear generation came into the mix.
19 So we developed one portfolio that had no new
20 nuclear generation.
21 And Plan C is a little bit more of a nuclear-
22 intense scenario where, rather than just taking a
23 25 percent ownership in two shares, it was a 25
24 percent ownership followed by additional nuclear,
25 with only CTs filling in the gap, other than our

1 efficiency and renewables which are in all of our
2 plans. This came out, obviously, when you had high
3 gas prices, high carbon prices, those types of
4 sensitivities led you to a more nuclear-intensive
5 plan.
6 So, in general, the three plans that we ran
7 through our scenario analysis were a moderate
8 nuclear case, a no-nuclear, and a more nuclear-
9 intensive case, so that we can see how they
10 performed under different worldviews.
11 And the different worldviews or scenarios, as
12 we call them, we defined as follow: We had a "Low
13 Stress" where we used the lower end of the range
14 for carbon prices, low gas prices, and carbon
15 escalation. So everything was -- and construction
16 escalation. Excuse me. So everything was at sort
17 of a moderate -- less than your moderate, and
18 things tended to be on the lower end of the range.
19 The "CO_2 Aggressive" was a worldview where CO_2
20 regulation passes, it passes at the type of levels
21 at or above what was being subscribed with Waxman-
22 Markey a year or two ago. You get aggressive
23 carbon that results in a higher demand for natural
24 gas and a higher demand for nuclear units, both, as
25 coal units are forced to be retired at an

1 accelerated pace. And that worldview -- all three
2 plans were run against that worldview, as well.
3 And then the "Current Trends" is really our
4 mid-case for all of our input variables, so that's
5 our current mid-case assumptions for gas, for
6 nuclear costs, for carbon costs, et cetera.
7 So you have a mid-case, a high case, and a low
8 case, where you're moving multiple variables at
9 once, not just a single variable. I know it can
10 get a little confusing as to what's the difference
11 between a sensitivity and a scenario and a
12 worldview, but, you know, the way I think about it
13 and the way -- the shortcut way to think about it
14 is sensitivities are a single variable at a time,
15 scenarios are taking multiple variables and looking
16 at the world from a multi-variant view.
17 And then ultimately what was done is we ranked
18 these, putting weighting on cost, price, and
19 environmental impact, where we said if we looked at
20 each of these plans, when each of the Plans A, B,
21 and C were run against all three scenarios, which
22 one rated the highest across the board? And
23 ultimately, Plan A, the mid-case assumption, turned
24 out to be the strongest plan when run against
25 multiple scenarios.

1 So what does that Plan A look like? What's
2 our base plan?
3 [Reference: PowerPoint Slide 11]
4 Again, a pretty colorful graph here, but a lot
5 of information conveyed visually. When you look at
6 our preferred plan in our 2010 resource plan, I
7 would describe the front five years is our short-
8 term plan -- I believe is the term Duke used.
9 That's pretty much in place. There's not a lot of
10 volatility left in that plan. So, for example,
11 when you see the up bars, the little green are
12 pieces of renewable resources that we are adding,
13 largely from biomass where you actually have
14 dispatchability and get capacity. The blue bars
15 are combined-cycles that are added, so in 2011,
16 that's our Richmond unit coming on-line, Richmond
17 combined-cycle.
18 When you see the downward arrows, that's a
19 reduction in capacity. So in this case, in 2012,
20 one of our purchase contracts are expiring, so we
21 lose capacity in a two-year purchase we had from
22 SoCo. We have a little bit more renewables coming
23 on. Our big addition is in 2013 where we have a
24 three-on-one combined-cycle at our Wayne County
25 facility that is coming on-line; that represents

920 megawatts of summer capacity that will be coming on-line. That has an associated retirement of our Lee coal facility. And they're both at the same site, they're both in Wayne County, but Lee is just the name of the coal facility that's being retired.

One year later, we're planning to retire our Sutton coal facility and adding a two-on-one combined-cycle. In that case we're almost megawatt-for-megawatt replacing 600 megawatts of coal with 600 megawatts of two-on-one combined-cycle in 2014. We spoke about that when we were here in February. We did not have the certificate and did not have finalized contracts. Much of that has taken place since we were here in February, so we have obtained our Certificate of Public Convenience and Necessity from North Carolina to have that site built at Sutton, and must retire -- as a condition of that -- the coal facility at the site.

Two of the other unscrubbed coal plants that were being debated last February, when we were here in front of Commission, were our Cape Fear and Weatherspoon facilities. Those facilities right now are scheduled -- our target date for that is

2015. Again, there is room, because they're not tied specifically to a retirement. Depending on legislation, depending on fuel prices, operational considerations, those could move up or back a year or two, depending on how many variables turn out.

From there, the 2016 is a small amount of CT capacity, and generally we look at that as representing fast-start needs in our western service territory that the utility has. It's not an F-frame machine, but those will need to be either constructed or purchased fast-starts in the Asheville region.

And then once you go beyond there, then it really does become more your long-range plans. So where you see that long bar that says "generic CCs and CTs," and really, you could add nuclear into the mix right there as well, that's where we have the most flexibility in changing how heavily we rely on nuclear, how heavily we rely on gas, and what mix we have.

So on our base plan, if you recall back in 2009, we had two self-built units in our plan a year earlier. We have now moved to a more regional approach where, again, really from more of a planning perspective, not as a result of any

1 specific commercial arrangements that have been
2 made, but just from a pure planning perspective, we
3 said if we allow the model to select smaller
4 increments of nuclear, would it still be selected?
5 Is it still cost-effective? Does it meet all the
6 criteria we just spoke about earlier in the
7 presentation? And it was selected by the model as
8 the preferred. We gave it the option to select
9 larger blocks of nuclear, and just given the
10 current situation of our utility, from a planner's
11 perspective, the model selected smaller regional
12 blocks as opposed to the larger blocks of capacity.
13 So what you see in '20 and '21 are the 275
14 megawatts of regional nuclear. All of the blue
15 boxes -- the light blue boxes are simple-cycle F-
16 frame turbines, where the dark blue -- I should
17 have used more discreet colors here; I apologize.
18 But the slightly darker blue box in 2022 represents
19 a generic combined-cycle technology, and then at
20 the end of the plan, a couple more small turbines
21 coming into the mix.
22 So this was the preferred plan that fared the
23 best when we looked at multiple plans across
24 multiple scenarios in our resource planning process
25 of 2010.

1 [Reference: PowerPoint Slide 12]
2 One of the benefits of this plan is that we
3 really are moving to a more balanced energy mix.
4 It can be deceiving sometimes to look at just
5 capacity. So the top pie charts are our current
6 state and future state capacity mix. I believe
7 these are just after -- at the end of the plan,
8 where you go from what looks balanced on a capacity
9 basis, but when you move down to the energy, what
10 you find is that in 2009, almost all of the energy
11 for Progress Energy comes from coal and nuclear,
12 and with just a small amount of gas and hydro. And
13 I did restrict this to only supply-side options,
14 so I didn't put the renewables and efficiency in
15 the chart; I just wanted to highlight the interplay
16 between nuclear, coal, and gas for this particular
17 slide. But what happens as you move forward is you
18 have -- right now, we're at a unique time in the
19 industry where coal plants and gas combined-cycle
20 plants are very close to which one is more
21 economic. Given the current fuel prices for coal
22 and the current fuel prices for natural gas, for
23 the next couple of years we are seeing combined-
24 cycle plants running ahead in the economic dispatch
25 order of even efficient, scrubbed coal plants.

1 What will happen in the longer term is yet to be
2 determined. Coal returns to being preferred in the
3 base case scenario, but not by a long margin. So
4 for the first -- really the first time in a long
5 time, it's a toss-up between coal and natural gas.
6 So having ample capacity of both gas and coal
7 allows you to switch back and forth, as you move
8 through time, to the preferred fuel. So if you
9 have a period of two to three years where natural
10 gas prices tend to be cheap and where we're at now
11 -- you have shale gas and you have the benefit of
12 that -- then you run your gas plants more like base
13 load and you bring your coal in behind them. If,
14 however, some of the factors that drive gas prices
15 up that we spoke about earlier -- perhaps
16 environmental, perhaps increasing demand for gas --
17 drive gas to be more expensive than coal, now you
18 can move your coal back in front of your natural
19 gas plants, and you run your gas plants less. If
20 you think about that, the net effect that has for
21 the customers to help stabilize their fuel
22 adjustment clause, now not only are you hedging out
23 in your financial and physical procurement but you
24 have a physical portfolio that is balanced and
25 poised to take advantage of whatever fuel happens

to be the cheapest for that period of time.

So when you look at our portfolio in the future we're going to have a very nice mix of both nuclear; efficient, scrubbed, environmentally-compliant coal plants; and new, efficient combined-cycle. And you're within a few hundred megawatts of each, of being sort of a balanced pie. But how does that play in energy? Certainly, your nuclear will run first in the stack, followed by could-be-gas-could-be-coal. So that's what that double arrow is intended to represent, is that the benefit of going down this path is not only a more modern plan, modern portfolio that is environmentally compliant, but you also have a portfolio that can manage your fuel volatility. And so that's going to be a big benefit -- you know, three years from now is not a long time, and we will have that portfolio in place by 2015.

[Reference: PowerPoint Slide 13]

So in summary, you know, some of the issues when we were back in February that we told you we were going to address: Sutton repowering from coal to natural gas. As we spoke about that, that is now in place. The certificates are in place. We've got agreements with our natural gas

1 providers, pipeline providers, EPC contracts, et
2 cetera. So that's well on its way.
3 Potential retirement of additional coal.
4 Again, Cape Fear and Weatherspoon are facing many
5 of the environmental issues that were spoken about
6 earlier today, that we'll finish up with here, 316b
7 Transport Rule, MACT, ash removal, et cetera, and
8 especially given the current prices in the market,
9 the coal and natural gas, the cost of keeping those
10 on-line and operating versus retiring, you know,
11 leads you to a retirement decision for those units
12 that are approximately almost 500 megawatts.
13 And then revisit the timing and ownership
14 structure of additional nuclear. Again, a lot of
15 discussion around nuclear and moving towards a more
16 regional approach. Our 2010 plan clearly moves
17 away from simply showing 2,200 megawatts of self-
18 built and anticipates a more regional approach to
19 nuclear, and that's reflected as a major change
20 from our 2009 to 2010 resource plan.
21 So what are the remaining industry issues
22 still affecting us? Some of the same ones we've
23 been talking about for a while here. The impacts
24 of state and Federal legislation, and regulatory.
25 Again, I would remind everyone -- and I think

1 everyone in this room knows it -- that many of the
2 changes that we may see at the legislative level,
3 as a result of a new change in DC, are not
4 necessarily going to flow through to EPA
5 immediately. So a lot of these issues are at the
6 EPA level right now and are still facing us in
7 terms of the CAIR, which is now the Transport Rule,
8 BART, 316b, MACT, classification of coal ash. The
9 renewable portfolio standard, as I read the
10 industry trade articles and go to conferences and
11 listen to people speak about that, I get varying
12 opinions as to whether or not that's a bipartisan
13 plan that may still be struck in terms of a
14 renewable -- a Federal renewable standard that gets
15 stripped out from a broader bill that does not have
16 carbon in it, but you generally get more agreement
17 around renewables. Carbon becomes a little more
18 polarizing. So when you pull carbon out, you still
19 may get some form of a bilateral agreement on a
20 Federal standard. There are others that think
21 that's too low on the priority list and that will
22 fall to the bottom of the stack, but I am far from
23 hearing consensus on that issue as I travel from
24 circle to circle or read different articles on
25 that. So we are still having a close eye on a

1 Federal RPS standard.
2 Climate change clearly seems to be losing
3 immediate momentum, but again, from a planner's
4 perspective, we look in the long term. You know,
5 we're looking at the '20s and '30s and beyond, and
6 so the question we're asking is not, you know, does
7 it happen in '12, '13, '14, but will there be
8 climate legislation of some form into the '20s and
9 '30s and beyond?
10 Continuing monitoring of the economy. Again,
11 you know, we sat here back in February and were
12 optimistic, got probably a little pessimistic, and
13 are now starting to get optimistic again. So it
14 seems to swing back and forth quite a bit, and so,
15 you know, the impact on our load forecast, over the
16 years you'll see load forecasts get revised
17 downward only, potentially, in years to come, to
18 see them revised upward. So close attention paid
19 to the economy and the resultant impact on our load
20 and load obligation.
21 And I probably should've -- we spoke a lot
22 about natural gas prices, and there is quite a bit
23 of debate around the future of natural gas prices,
24 so that's another issue that we closely monitor, is
25 the long-range view for natural gas, not just

1 happening in the next the 6, 12, 18 months, but
2 what's the long-term outlook for natural gas. So
3 that's another large issue facing the industry.
4 So with that, I will end my prepared comments
5 and open it up to the Commission for any questions.
6 **COMMISSIONER HAMILTON**: Mr. Chairman.
7 **CHAIRMAN HOWARD**: Commissioner Hamilton.
8 **COMMISSIONER HAMILTON**: Thank you, very much,
9 Mr. Snider. That was an excellent presentation,
10 and being here a little early, you pretty well
11 answered my earlier questions today. I thank you
12 for that.
13 Let me ask you one other question on that same
14 line. You talked about the use of either coal or
15 gas, the options that you have. With the amount of
16 gas it takes to generate electricity, the carbon
17 issue would be almost even, wouldn't it? Or would
18 it?
19 **MR. SNIDER**: That's a very good question. We
20 get a lot of discussion around that. When you run
21 gas through a simple-cycle F-frame machine, the
22 carbon footprint of a single megawatt-hour is
23 similar to that of a coal plant. When you add the
24 efficiency that comes with a HRSG and a steam
25 generator, when you put it through a combined-cycle

1 facility, you're putting it through in a more
2 efficient manner, so you need less gas per
3 megawatt-hour -- or we call it a lower heat rate --
4 to run a combined-cycle unit, so the carbon
5 footprint of a combined-cycle facility is only
6 about 40 percent that of a coal-fired facility. So
7 depending on the type of gas facility you're
8 talking about, it can be equivalent, but if you're
9 using more efficient combined-cycles, it is a
10 smaller footprint and is also, you know, why you'll
11 hear natural gas combined-cycles as a bridge fuel.
12 **COMMISSIONER HAMILTON**: Okay. Thank you.
13 **MR. SNIDER**: You're welcome.
14 **CHAIRMAN HOWARD**: Commissioner Mitchell.
15 **COMMISSIONER MITCHELL**: Glad to have you all
16 today. Good presentation. I'm going to ask about
17 the same question I did earlier, and I'm still
18 concerned about -- as you close some of these
19 plants, as they come off-line, what about the
20 impact to those communities and the impact to those
21 residents in that particular area? Could you just
22 tell us briefly what Progress is going to do about
23 that impact to mitigate that from not being so
24 overwhelming to those particular areas?
25 **MR. SNIDER**: Yes, sir, Commissioner Mitchell.

1 And it also is a question that gets discussed a lot
2 within the company. Similar to Duke, two of our
3 facilities that we will be -- gas-fired facilities
4 -- are in the same community at the same site. So
5 with our Lee facility in Wayne County and with our
6 Sutton facility down by Wilmington, the new gas
7 combined-cycle will be constructed on-site. It
8 will have a larger tax base. It will bring not
9 only construction jobs, but natural gas
10 infrastructure to that region, hopefully spurring
11 economic development in those regions.
12 It becomes more difficult when you go to
13 facilities like our Cape Fear and our Weatherspoon
14 facilities where we are not immediately replacing
15 these facilities with natural gas. And from a
16 couple of perspectives, one of the things we're
17 trying to do is give as much advance notice as
18 possible both from an employee point of view -- so
19 that if an employee has three, four, five years of
20 notice prior to a closing of the facility, we're
21 giving priority to those employees within the
22 company; as we have needs arise through retirement
23 or natural attrition, those employees will have
24 opportunities there. When it comes to the
25 communities, we continue to look at those sites for

1 potential renewables, gas-fired facilities that may
2 be needed in the future, as potential.
3 You know, we have transmission there, we have
4 water there, we have infrastructure in place, so we
5 will not easily discard those facilities.
6 **COMMISSIONER MITCHELL**: Thank you, very much.
7 Thank you, Mr. Chairman.
8 **VICE CHAIRMAN WRIGHT**: Mr. Chairman.
9 **CHAIRMAN HOWARD**: Commissioner Wright.
10 **VICE CHAIRMAN WRIGHT**: Good afternoon.
11 **MR. SNIDER**: Good afternoon.
12 **VICE CHAIRMAN WRIGHT**: I want to ask you about
13 nuclear a little bit. I know you've talked about
14 it and said you were potentially interested in
15 partnerships, regional partnerships and stuff like
16 that. I want to be a little bit more specific. I
17 mean, we've heard that there's been -- this
18 partnership that is formed with SCE&G and Santee
19 Cooper, that potentially Santee -- it's been
20 floated that they might be interested in selling
21 off part of it or doing something along those
22 lines. Is that something that Progress is
23 interested in? Or have they even -- have there
24 been any discussions about it or communications or
25 anything like that?

1 **MR. SNIDER**: Yes, sir, I believe there have
2 been. Though I have not been directly part and
3 parcel to those commercial discussions, as we talk
4 to various industry participants around regional
5 nuclear, our involvement from a planning
6 perspective is to say is it still viable? Does it
7 make sense? Is it economic? And certainly, a
8 project such as the one down here in South Carolina
9 would definitely garner significant consideration
10 as being an economic alternative that would be
11 consistent with the plan we just presented, so --
12 **VICE CHAIRMAN WRIGHT**: With Plan A?
13 **MR. SNIDER**: Yeah. -- I continue to support
14 our discussions in terms of a planner saying that
15 they are economic, and we would very much be able
16 to support that as in the benefit of our
17 ratepayers.
18 **VICE CHAIRMAN WRIGHT**: I mean, I understand it
19 has to happen first --
20 **MR. SNIDER**: Right.
21 **VICE CHAIRMAN WRIGHT**: -- but it is a -- thank
22 you.
23 **MR. SNIDER**: You're welcome.
24 **CHAIRMAN HOWARD**: Commissioner Whitfield.
25 **COMMISSIONER WHITFIELD**: Thank you, Mr.

1 Chairman. Good to have you with us, Mr. Snider and
2 Mr. Waters. Thank you all for being here.
3 I think you were in here this morning when we
4 were talking with Duke, this morning. I think you
5 were in here and may have heard a question along
6 this line, and I want to ask it of you, if I could.
7 How do you react to reports such as Oceana's
8 report, *Untapped wealth: The potential of offshore*
9 *energy to deliver clean and affordable energy and*
10 *jobs*. In other words, that offshore wind could
11 supply a significant portion of South Carolina's
12 and the East Coast's additional generating resource
13 requirements in future years. And I think we
14 discussed the distance of wind turbines out
15 offshore, and I think that was discussed. I just
16 wanted to get your reaction on that.
17 **MR. SNIDER**: Thank you, Commissioner. Well,
18 let me answer the distance one first. And again,
19 I'm certainly not the offshore expert. But in the
20 conversations I've heard about that and seeing the
21 UNC study presented, it was my understanding that
22 the view shed is more like 14, 15 miles, and so
23 I've heard things a little further than five miles.
24 **COMMISSIONER WHITFIELD**: I think he said five
25 miles.

1 **MR. SNIDER:** Right. And so we might have a
2 slight difference of opinion as to how far they
3 need to go to get beyond the view shed, but
4 ultimately I think that will be debated somewhere
5 within that range and have a lot of other factors
6 weigh in, other than just view shed, looking at how
7 far they go off the coast.
8 I will concur with the fact that one of the
9 issues I've seen is, ultimately, when you see
10 installed cost per kW, there are several factors
11 often missing. One is not only the transmission
12 cost to bring it ashore, but then the transmission
13 cost to move the generation to the load where it's
14 needed. So first you've got to get it onshore, and
15 then you've got to move it to where the demand is.
16 And so in agreement with our counterparts from
17 Duke, that may be not a large issue when talking
18 about a very small amount of megawatts, but when
19 you talk about that in terms of hundreds if not
20 thousands of megawatts, it can get exponentially
21 expensive, and that is often left out of reports in
22 terms of the transmission costs.
23 One of the issues that didn't get discussed a
24 lot this morning that, as a planner, causes me --
25 or I guess Mr. McMurry spoke about it a little bit,

1 was the intermittency of wind. And again, the
2 question becomes, within an integrated system, how
3 much reliance do you want to have on an
4 intermittent resource? And it's not just the cost
5 to back up the wind. I mean, a lot of discussion
6 is, you know, what do you back it up with, and what
7 do you use for storage, and, you know, is the
8 storage viable? But it's just the day-to-day
9 operations, you know, if you can imagine -- you
10 know, there have already been issues; when you get
11 large-scale, whether it's Texas or other areas, you
12 know, when the wind stops suddenly, not only do you
13 have to back up that generation, it's coming from a
14 different direction, so now you're taxing not just
15 your generation system but also your transmission
16 and distribution system.
17 So there are a lot of logistic issues that
18 often get overlooked. I do believe renewables and
19 wind have a place in our portfolio, but when you
20 look at saying that it's going to be a dominant
21 player, there are many barriers that need to be
22 overcome before you could do that.
23 **MR. WATERS:** And Commissioner Whitfield, if I
24 may add, I agree with everything Mr. Snider just
25 said; I just wanted to add a couple of facts into

1 the discussion. We have, in North Carolina,
2 studied the North Carolina potential and what it
3 might take to get some of that onshore. We looked
4 at about 3,000 megawatts and, of course, that's a
5 fraction of what some folks say is available
6 offshore. Our Transmission Planning Collaborative
7 in North Carolina looked at the cost to bring that
8 onshore and we came up with a figure of nearly
9 $1½ billion dollars to get that onshore.
10 I think there are a number of reasons for
11 that. That's just poles' and wires' cost, and
12 that's just the onshore portion; that doesn't even
13 include a cost to get it onto the shore, you know,
14 and deliver it to our substations. If you look
15 along the coast, I think most people realize, most
16 of the power flows toward the coast, not away from
17 it. So we have a unique transmission issue, as Mr.
18 Snider mentioned, so it's a little bit different
19 when we look at that kind of scenario.
20 And that's just part of the cost. Beyond
21 that, the costs Mr. Snider is talking about, you're
22 seeing more discussion of it now, the things that
23 are called the hidden costs of renewables. It gets
24 into the backup issue, intermittencies, how do we
25 deal with that from an operational point of view,

what do we have to do to deal with that. There are some people who have suggested if we had a national transmission grid and we could bring wind from anywhere it might exist to anywhere we might need it, that would solve the problem. Well, we're talking a lot more billions for that scheme. That is not an insignificant undertaking. So these numbers are starting to come to light a little bit, I think.

And on the jobs issue, I'll just express my opinion. I've seen facts and figures flying around. There are a lot of people promoting green jobs in solar and wind. I've seen statistics that show there are more jobs in nuclear and conventional generation, both in construction and operating, than there are in constructing and operating renewables, so I think that argument cuts both ways, also.

COMMISSIONER WHITFIELD: Thanks to both of you for your answers. That's all I have, Mr. Chairman.

COMMISSIONER FLEMING: Mr. Chairman.

CHAIRMAN HOWARD: Commissioner Fleming.

COMMISSIONER FLEMING: Well, Mr. Waters, while you're on this transmission issue, could you talk a little bit about your -- Progress Energy's --

1 involvement in the Eastern Interconnection
2 Planning --
3 **MR. WATERS**: Sure, I'd be happy to. I knew
4 there was a good reason for me to be here today.
5 **COMMISSIONER FLEMING**: We couldn't just let
6 you sit there and look pretty all day.
7 [Laughter]
8 **MR. WATERS**: As I think most of you are aware,
9 there are -- I believe now it's up to 28 planning
10 authorities that are members of the Eastern
11 Interconnection Planning Collaborative. It's a
12 voluntary, cooperative group of utilities that got
13 together to form this organization, and our focus
14 is interconnectionwide planning, basically East of
15 the Rockies I guess is the easiest way to look at
16 that, including Canada. The major planning
17 authorities are members. And our focus is on
18 coordinating planning for the Eastern Interconnect
19 and dealing with issues that cross regional
20 boundaries, and hopefully will be -- our studies
21 will be informative to public policy.
22 And some of the questions that come up -- for
23 instance, I mentioned the national grid approach
24 that some people have proposed. Well, I think we
25 would be the people who would determine what that

1 would look like.
2 Progress Energy is sort of a founding member
3 of that Eastern Interconnect Planning
4 Collaborative. I'm a member of the Technical
5 Committee, which is there to sort of give technical
6 guidance for what the studies will be and how those
7 are performed. My vice president, Karen Anders, is
8 a member of the Executive Committee of that
9 organization, responsible for policy and budgeting
10 and so on. And right now, we are very active in
11 the process which, today, the planning effort is
12 focused on a Department of Energy grant that is
13 focused on getting this effort up and running and
14 establishing a Working Stakeholder Group that will
15 help determine what studies we will be looking at
16 and what direction we're going to go. And that's
17 where a lot of the effort is being spent right now.
18 Right now we're in the early stages -- we've
19 already accomplished quite a bit, I think. But as
20 a group, we've managed to create a roll-up case,
21 where we've all taken our data, the individual
22 utility plans, and rolled those up into one overall
23 plan for the Eastern Interconnect. Now I will say
24 that utilities have always done that. We had
25 cooperatives in place. What we didn't do, though,

1 beyond rolling up data, and what we've done in this
2 effort is started to compare assumptions and learn
3 a little bit about each other's planning directives
4 and so on, how we each treat different assumptions
5 within the planning process. And that's been very
6 informative and, I think, constructive for all of
7 us.
8 That's basically where we are today, getting
9 set up to look at some major transmission studies
10 going forward as part of this overall DOE effort.
11 **COMMISSIONER FLEMING**: And what do you see --
12 and you've already mentioned some of it, the wind
13 study -- as some of the potential impacts of those
14 studies as we move forward with transmission
15 planning and decision-making?
16 **MR. WATERS**: Well, I think the way I see the
17 major impact of this group -- and our focus is
18 fairly narrow, I want to emphasize that. We are
19 transmission planners in that group, and our focus
20 is developing a transmission plan. It is not a
21 resource planning effort; it is not intended to
22 supplant the resource planning efforts we go
23 through and the plan we've described. But I think
24 where we serve a major purpose is, there has always
25 been a question about what would it really cost to

1 implement some of the policy that has been proposed
2 at the Federal level? For example, we know there's
3 a lot of wind in the Midwest, a lot of wind in
4 certain regions -- in Texas for example. There are
5 all sorts of proposals out there to say, "Well,
6 let's take that wind..." -- if we had a renewable
7 portfolio standard, for example, and we had to take
8 all of that wind from the Midwest into the
9 Southeast, which may be a little lesser wind
10 potential, what would that cost? What would that
11 look like? There was not an industry vehicle for
12 easily answering that question in the past. Now
13 with the Eastern Interconnect, we'll be able to
14 say, "If that's what you want to look at, then we
15 can determine what the transmission costs would be
16 to do that."
17 Now I also want to emphasize the Stakeholders
18 Group will direct which studies we do. So the
19 stakeholders will actually decide, "Do we want to
20 look at that wind study? Do we want to look at a
21 study..." -- and for instance, there have been a
22 number of scenarios proposed, a heavy nuclear
23 scenario where we build nuclear all over the
24 country, a heavy energy efficiency study where we
25 reduce load in the long -- there are all sorts of

1 things that have been proposed, but our role in
2 that, once that's decided, will be to determine
3 what do the poles and wires cost, more or less to
4 go forward with that. You know, is it a billion
5 dollars or is it $100 billion? And I think that's
6 important input into making those decisions as to
7 which way we ought to go.
8 **COMMISSIONER FLEMING**: And as you said
9 earlier, helping to develop policy.
10 **MR. WATERS**: Correct. That's what our intent
11 is, is to help -- at least be informative on part
12 of the information that's needed to be -- needed
13 for that policy decision.
14 **COMMISSIONER FLEMING**: And I wanted to ask
15 about the NERC transmission planning standards.
16 How do you think that is going to impact Progress
17 Energy's plan?
18 **MR. WATERS**: It's a difficult question.
19 There's a lot of tension at the Federal level right
20 now over the new transmission planning standard
21 proposals -- and I'll tell you why that is. The
22 NERC transmission planning standards that exist
23 today and that are being followed are really the
24 standards most of us have followed for years. In
25 simple terms, we look at single outages, double

1 outages, and so on, as we go and plan a system, to
2 make sure we don't have any voltages out of range,
3 any facility overloads, and so on. That's what the
4 standards say today.
5 There has been a lot of discussion at the
6 Federal level of a need to raise the bar. Now,
7 what the driver is for that, I'm not sure I know
8 completely why we need to raise the bar. I think
9 the system has been highly reliable. But in
10 raising the bar, some standards have been proposed
11 that are a little more aggressive and would require
12 additional investment. How much will depend on the
13 form those standards finally take.
14 The way the process works is, the standards
15 are proposed by a drafting team, which consists of
16 industry experts. It is voted on by the industry,
17 and then adopted at the NERC and FERC levels.
18 Typically, that's the way the process has worked.
19 The FERC folks are not happy with that process,
20 because they don't think we're adopting some of the
21 things that they want us to adopt. One of those
22 deals with a very specific issue having to do with
23 serving load after outages on the system. FERC is
24 taking the view, generally speaking -- and I'm
25 oversimplifying -- but they're taking the view that

1 any loss of customer load following a transmission
2 line outage is unacceptable. In the industry, we
3 would tell you that that's, you know, a noble
4 standard, but there are very narrow situations,
5 very specific situations where that may not be
6 feasible, and we do use load shedding to protect
7 the overall volt system and we've done that for
8 years. Very rarely exercised, but it is in the
9 planning criteria. The outcome of this would be,
10 if we're not allowed to do that, you will see the
11 potential for needing additional facilities,
12 additional transmission lines, additional
13 facilities on the system to protect against those
14 less likely events but to make sure we comply with
15 this new standard.
16 So far, the NERC process has not adopted that
17 standard. And I think if you were to poll the
18 industry in general right now, there's a fairly
19 strong industry feeling that we should not adopt
20 that standard. It will not affect, frankly,
21 Progress Energy that much. I think for us when I
22 look at our system and the way we do our planning,
23 I don't expect a major impact to us, but the
24 industry could be impacted significantly.
25 **COMMISSIONER FLEMING**: And will there be a

1 cost to the consumer with these revised standards?
2 **MR. WATERS**: Potentially. If the standards
3 were revised or adopted in their original form and
4 we had to add facilities and new transmission lines
5 and so forth, it obviously would increase the
6 amount of rate base that we have to have to meet
7 the standards. Again, for Progress Energy, I'm not
8 expecting a big impact, as we stand today. But if
9 we went back to the original standards, we -- the
10 originally proposed standards, there might be. But
11 I think we're probably in pretty good shape on our
12 system. I don't expect much impact. But across
13 the industry, yes, there could be places where
14 there are significant impacts on the system and
15 increase the need for facilities, which will
16 translate directly to the customer's bill.
17 **COMMISSIONER FLEMING**: Okay. And Mr. Snider,
18 I guess you're the one to ask this. I know you
19 have some really strong energy efficiency programs
20 in place, that we have approved, or I think -- I
21 hope they're strong. I hear they're strong. Could
22 you talk a little bit about what you see as that --
23 in the energy use, how that will impact that?
24 **MR. SNIDER**: Yes, Commissioner. And we like
25 to have got off to a strong start with our energy

1 efficiency, and we have some very aggressive goals
2 over our planning horizon for efficiency. Our
3 total load growth if we did not have any energy
4 efficiency is at a 1.8 percent annual load growth.
5 And, you know, if you think about it, the load
6 control programs we have, while they affect demand,
7 they do not have a large impact, if any, on energy.
8 So reduction in energy comes largely through our EE
9 -- energy efficiency -- programs, and we are
10 projecting right now to reduce our 1.8 percent load
11 growth down to 1.1 percent. So, you know, one way
12 to think about that is one-third of your -- more
13 than a third of your load growth is going to be
14 offset through energy efficiency, in terms of at
15 least the energy portion of that growth. And right
16 now, we're at the early stages, and it'll -- you
17 know, I think it will be something that -- a
18 question came up earlier about how much dependence
19 do you put on that. Well, clearly, we're going to
20 be looking strongly at the M&V results that come
21 out of these initial programs. We've got some good
22 early indications, but we're at the very early
23 stages of these goals or of these targets. So
24 we're moving towards them and we have about, like I
25 said, 1.8 going down to 1.1. And from a planner's

perspective, I'll be in close contact with our EE Group to see how much of that we believe we are realizing in our load.

COMMISSIONER FLEMING: Great. Thanks.

CHAIRMAN HOWARD: I don't know if that completed Mr. Waters' presentation or not. I mean, he didn't get a chance to give it; we started asking questions.

MR. WATERS: Well, that's okay.

CHAIRMAN HOWARD: Anything else you want to add, go ahead.

MR. WATERS: I'm here to answer questions. That's really why I'm here. We, from past experience, I think -- from this morning's session -- we knew there might be some questions on transmission and NERC issues, and that's what I do, in addition to the resource planning, so that's why I'm here. I didn't really have a formal presentation.

CHAIRMAN HOWARD: Well, good.

[Laughter]

That is, --

COMMISSIONER FLEMING: No offense to you, Mr. Waters.

MR. WATERS: None taken.

1 **CHAIRMAN HOWARD**: We made it for you.
2 [Laughter]
3 Talking about -- I was sitting here thinking
4 of all your cost drivers, and you have very low
5 influence on everything, so anything that -- sure
6 maybe you could take a more aggressive approach
7 maybe on renewable portfolio standards, a couple of
8 things you could do. But, I guess, how does
9 management look at an IRP? I mean, do you look at
10 it as -- how often do you change it, I guess? I
11 mean, do you only make changes once a year when you
12 come before the Commission here or in North
13 Carolina or whatever the case may be? How flexible
14 is your IRP? If the price of gas goes up, or
15 something like that, or, I mean, a driver is
16 affected, how can you react and change it?
17 **MR. WATERS**: I'll let Glen chip in on this
18 too, but I think, from my point of view -- Glen
19 mentioned that there's sort of a short-term plan
20 and a long-term plan. If you look at the next four
21 or five years in our plan, the commitments are
22 fairly solid. We have gone and gotten certificates
23 for the units we're building, and most of that is
24 pretty much in place. Equipment is bought,
25 commitments are made, and we would proceed with

1 that even if we saw fairly dramatic changes.
2 Now, it's always hard to say -- we've seen
3 such volatile changes in so many of our assumptions
4 on just recent history, it's hard to say you're
5 ever totally committed to any course. We would
6 always reevaluate. But generally speaking, once
7 you've sunk money into a decision, it gets harder
8 and harder to back out of that, even if conditions
9 change.
10 Beyond that, I always tell people a plan is a
11 plan; in other words, it's on paper. It is not a
12 commitment. If conditions change, we will react
13 accordingly. Our objective, as Glen said, is
14 always to make sure that we have a reliable system
15 and that it's cost-effective. If gas prices
16 double tomorrow, if carbon is or is not enacted,
17 you know, we will react to that. Right now, we're
18 trying to estimate where we think it will go.
19 But if any of the major assumptions that we
20 have change from what we assumed as our baseline in
21 our planning process, we will react and we will
22 change the plan. And I think it's fair to say
23 that's the way management views it. We are there
24 to respond. That's our job, is to respond to those
25 changing conditions.

1 **CHAIRMAN HOWARD**: There was a situation -- I
2 won't mention the state -- that happened not long
3 ago, but once you announce you're going to retire a
4 plant -- and you touched on it briefly -- what kind
5 of timeline do you have as a legal obligation? And
6 I think the situation in the other state was they
7 announced they were going to close, retire some
8 plants, and put a nuclear plant, or the other plant
9 was off-schedule and there was a lag where they
10 didn't have the capacity they needed between the
11 retirement -- what kind of timeline do you have on
12 retiring, say, a coal generating plant?
13 **MR. WATERS**: I'm really glad you asked that
14 question, because I think -- this is one of the
15 things I have to address at the NARUC conference
16 next week, is because of all of the uncertainty,
17 how do we deal with it? Typically, the way I look
18 at timelines, I establish those based on how long
19 would it take me to add new capacity to the system,
20 to replace anything that shuts down, for those
21 issues that are going to end up shutting a unit. I
22 want at least three to five years.
23 So if EPA -- just as an example, Glen
24 mentioned that EPA's very active. We don't know
25 what the legislators might do, but EPA has still

1 got it in their court to make changes to
2 environmental regulations. If they enact something
3 that goes into place next year, I've got a problem.
4 If the only way I can comply with that is to shut
5 down capacity, I can find myself short of capacity.
6 We would try very hard not to be there. That's
7 definitely where we don't want to be.
8 What we would argue is that you need a
9 transition period; you need at least three to five
10 years. Let us determine what the best course of
11 action is, whether it's adding controls to units in
12 some cases, which we've done, whether it's shutting
13 down and replacing a unit, whatever it might be.
14 But if you can give me that time, I'll tell you
15 what the best course of action is, and I will
16 comply with the standard -- I'm not going to ignore
17 it -- but I do need time to react.
18 **CHAIRMAN HOWARD**: I guess I was sitting
19 through a couple of hearings, but you had -- oh, I
20 see it -- on page nine, that everything in your
21 sensitivity analysis -- if you've got
22 "confidential" by "construction escalation," I
23 would think that would be everything there that you
24 would want to be a confidential subject. Why is
25 construction escalation confidential?

1 **MR. SNIDER**: I don't know who can look to the
2 other person quickest --
3 [Laughter]
4 -- on that question. We're not the ones who
5 determine that, and sometimes, you know, I know we
6 consider some of -- some of the things we get, all
7 kidding aside, may have to do with -- I know like
8 our fuel forecast we file as confidential; others
9 file as non-confidential, and some of it is just
10 the source data.
11 So we use, sometimes, very specific
12 copyrighted source data that, then, we feel like we
13 are obliged to file the information confidentially
14 because we basically would be publishing someone
15 else's copyrighted information, and so we try to
16 limit that. And this may be just simply something
17 like that where we've used something of that
18 nature. But I can't give you a direct answer on
19 that one, but I do agree it's a little odd to see
20 that pop up as confidential.
21 **CHAIRMAN HOWARD**: Thank you. And on behalf of
22 the Commission, we really enjoyed your
23 presentation. Both of you did an excellent job,
24 and thank you for coming. It was a lot of
25 preparation and work that went in, and we do

appreciate it.

Mr. Anthony, you said very little today.

[Laughter]

Do you want more speaking part, or are you through?

MR. ANTHONY: I was under the impression that's what you desired was to have a very limited speaking part.

To close on the confidentiality issue, anything that would suggest to the market from which we're going to be purchasing a good or service what we anticipate paying, we classify as confidential. So escalation rates about what we think a product may or may not cost and the amount of something we're going to be needing, that type of thing, we try to keep that from being publicly disclosed.

CHAIRMAN HOWARD: Thank you. Do you want to make the IRP part of the record?

MR. ANTHONY: Yes, sir.

CHAIRMAN HOWARD: ORS, do you have any questions?

MS. REIBOLD: No, sir, Mr. Chairman.

CHAIRMAN HOWARD: Thank you, very much. With that, the hearing is adjourned. Thank you, again.

[WHEREUPON, at 3:35 p.m., the hearing in the above-entitled matter was adjourned.]

C E R T I F I C A T E

I, Jo Elizabeth M. Wheat, CVR-CM-GNSC, do hereby certify that the foregoing is, to the best of my skill and ability, a true and correct transcript of all the proceedings had in an allowable ex parte briefing held in the above-captioned matter before the Public Service Commission of South Carolina.

Given under my hand, this the 11th day of November, 2010.

Jo Elizabeth M. Wheat, CVR-CM-GNSC

ATTEST:

Jocelyn G. Boyd,

CHIEF CLERK/ADMINISTRATOR