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ALLOWABLE EX PARTE BRIEFING

REQUESTED BY DUKE ENERGY CAROLINAS, LLC - Look Ahead at 2011 and Review of Nuclear Operations

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

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APPEARANCES:

FRANK R. ELLERBE, III, ESQUIRE, *along with* ***JAMES E. ROGERS*** *[CHAIRMAN/PRESIDENT/CEO, DUKE ENERGY CORPORATION],* ***CATHERINE E. HEIGEL*** *[PRESIDENT, DUKE ENERGY SC], and* ***DHIAA M. JAMIL*** *[GROUP EXECUTIVE/CGO, DUKE ENERGY CORPORATION; CNO, DUKE ENERGY CAROLINAS], presenters,* representing **DUKE ENERGY CAROLINAS, LLC**

NANETTE S. EDWARDS, ESQUIRE, representing the **OFFICE OF REGULATORY STAFF**

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Please note the following inclusions/attachments to the record: PowerPoint presentation (PDF); Duke Energy Mission Statement; Insurance information referenced by Mr. Jamil and supplied post-proceeding

P R O C E E D I N G S

CHAIRMAN HOWARD: Y'all please be seated. Good morning and welcome. We'll call this ex parte briefing to order, and I'll ask Attorney Melchers to read the docket.

MR. MELCHERS: Thank you, Mr. Chairman. Commissioners, this is a request for allowable ex parte briefing that was filed by Duke Energy Carolinas, LLC. It's scheduled for today, Friday, March 25, 2011, here in the Commission's hearing room at 10:30. And the subject matter to be discussed at this briefing is Duke Energy Carolinas, LLC's look ahead at 2011 and review of nuclear operations.

Thank you, Mr. Chairman.

CHAIRMAN HOWARD: Thank you, Mr. Melchers. And who is -- Mr. Ellerbe.

MR. ELLERBE: Mr. Chairman, members of the Commission, Frank Ellerbe just to introduce the speakers for the company today. We have Jim Rogers, the chairman and CEO of Duke Energy; Dhiaa Jamil, who is the chief generation and nuclear officer of Duke Energy; and Catherine Heigel, who is the South Carolina president of Duke Energy Carolinas. Mr. Rogers is going to talk about the

company more generally, Ms. Heigel is going to talk about the South-Carolina-specific matters, and Mr. Jamil is going to talk about nuclear operations. And I will turn it over to Mr. Rogers now.

And by the way, we have copies of the -- we only have one set of slides, PowerPoint slides, that go with Mr. Jamil's presentation, and we have copies of those on their way here from my office. So I'll hand them out to you, I expect, anytime now.

COMMISSIONER FLEMING: He might be right behind you.

[Laughter]

MR. ELLERBE: Mr. Rogers.

[Document distributed]

JAMES E. ROGERS [DUKE ENERGY CORP]: Thank you. Mr. Chairman, members of the Commission, thank you, very much. We're delighted to be here today and to talk about the future in our industry, and specifically with respect to the future for Duke.

I want to start, though, because it's on my mind and I'm sure it's on your mind, and talk a little bit about what's going on in Japan. Dhiaa Jamil, who is our chief nuclear operator, is going to get into greater detail about it, but I had the

opportunity, because I'm on the board of both INPO and WANO -- and WANO is the World Association of Nuclear Operators -- I had an opportunity in board meetings on Wednesday to be briefed on this in some detail.

Obviously, the situation is serious. Every day we think it's solved and every day a new event seems to occur. The nuclear industry in the US is following the events there very closely. The US NRC will conduct plant-by-plant reviews. We take the events in Japan seriously, because embedded in our culture is two things: One is safety, and continuous learning. And I think as a consequence of this accident, and very, you know, unique situation -- I mean, when you think of having an earthquake of 9 on the Richter Scale, followed by a tsunami, I mean, you couldn't have a tougher situation from a nature standpoint, to deal with -- but there are some lessons we can learn from this, and I think there are lessons we will learn from it.

As I said, the NRC will conduct a plant-by-plant review. I am hopeful it doesn't slow down the COL process and the issuance of new COLs. But common sense tells me that there might be some

hesitation or at least some political pressure to slow down the process a little bit, but as I said, I just really hope that doesn't happen. We will certainly apply the lessons learned to US plants; there's no question about that. We'll make any necessary improvements. Duke and South Carolina have been nuclear leaders, and we are going to continue to be, in my judgment, once we get beyond this incident.

As you all know, Senator Lindsey Graham was up at our Oconee plant in the upstate area earlier this week; he wanted to demonstrate -- he grew up near there and he wanted to demonstrate -- he did a press conference afterwards -- that it's safe, and it's part of our destiny as a country, to continue to stay committed. And as you all know, 50 percent of our electricity here in South Carolina comes from nuclear. And so we believe it's a critical part of the future, and I believe our current systems have numerous redundant backup systems, we have highly experienced operators. As I said, safety is our number one priority 24/7.

And also -- and I'm going to share this with you, and it will sound like bragging -- and it probably is, but I'll take that risk. But our

plants last year, for the second year in a row, had the lowest cost per kilowatt-hour of any plants in the United States. We also, in our 39-year history, had our highest load factor, about 96 percent. So when you combine low cost and use at that level, I think it's a tribute to Dhiaa and his team, in terms of their operation of these -- our nuclear fleet.

As I said, Dhiaa is going to talk more about this, but I think nuclear is important to the world's energy future. It's reliable, it's carbon-free, it's cost-effective. So from our standpoint, if you take anything out of what we say today, we are still committed to nuclear; we are committed to building the Lee Station; we're working hard to get the changes that we need in North Carolina, so that their statute will reflect the statute that's here in South Carolina, which we think is perfect legislation that allows us to move forward in a cost-effective way for our customers, and in a way that protects our investors. So again, we have more work to do in North Carolina, but we are moving forward.

Y'all all have heard me say before that I'm a great believer in regional planning. And when I

say that, what I mean is, is companies coming together, planning, looking -- at the beginning -- what plants to build, what ownership to have, how to structure that ownership, from the beginning, and then start down the road together hand-in-hand. I believe that's better for the investor, I believe it's better for the customer, because it allows you to smooth out the cost increases over time, and you share the risk, which is good for the investor.

We have been taking -- in discussions with our friends in Santee Cooper with respect to the Summer Nuclear Plant and the Lee Plant, in terms of ownership in each, by each. We're in negotiations. And we haven't reached any agreement yet; we are working toward it. We are hopeful, but more to come with respect to that in the future, as to whether we'll be able to get it across the goal line.

Let me quickly mention National Energy Policy. I should be silent for a few moments, because we don't have one.

[Laughter]

But the reality is, is that we've played an active role in trying to shape energy and environmental policy in Washington. The EPA is

working -- they're going to -- they have a multi-pronged set of initiatives that are coming out. They've already issued the one with respect to mercury that will affect coal plants in the United States. They have subsequent rulings on SOx, NOx, ash ponds, water discharge. I mean, there's going to be a plethora of new regulations on coal plants in this country. I think that's inevitable.

I do not see any legislation coming out of Congress in this session of Congress. There will be a lot of talk about a Clean Energy Standard, but personally I do not believe the Federal Government should dictate to states how their -- what their mix of generation ought to be. I think the state commissions are in a better position to make that, and that's why historically I've been, on behalf of the company, against renewable portfolio standards that are fixed nationwide. I think if they leave it -- they should leave it to the states, and 30 states have moved forward, as they thought it appropriate. So I feel very strongly about that.

But even with debate not occurring and nothing happening in Washington, we've got to move forward. We have to plan. We are plotting our course to a cleaner future, and we believe that we'll have to

retire and replace virtually every plant, except our hydro, and maybe not our nuclear if we can extend their lives from 60 to 80 years, but virtually every other plant is going to be retired and replaced by 2050.

So our challenge is to modernize our plants, modernize our grid so we have two-way communication. I mean, it's actually remarkable that we're using an analog grid to provide electricity to a digital world. It's actually remarkable in the 21st century -- you know, we don't know when our customer's out until they call us. So I think it's going to be critical in the future that we're able to have two-way communication so that we know when our customer's out before they know. And in states where we've actually implemented smart grid both with the meter and with the distribution, we've been able to predict when there would be outages or a capacitor problem, and replace it in advance. I think you're going to see that is critical to the future of our industry.

We started in the early 1900s as a high-tech company. We were the Google, the Intel, the Microsoft of the early 1900s when we started down

the road to universal access. I think we will become a technology company once again, a company that deploys technologies: advanced coal, advanced nuclear technologies, advanced technologies with respect to the grid. I envision us integrating electric vehicles into the grid. In my judgment, this represents our energy future.

But I also think critical to that is a collaboration with universities and R&D firms. As you all may know, at Clemson, we contributed to and named the Duke Energy Innovation Center, working closely with new developments, because I think it's critical to have those partnerships. We're working with environmental organizations, software and hardware developers, large technology companies. We have six MOUs with major Chinese utilities, because they are scaling the technology so fast, I believe there's IP -- or intellectual property -- associated with scaling. I mean, think about it: They're building 24 nuclear plants; 61 reactors are being built around the world. A nuclear renaissance is going on in every place but the United States. We crea- -- we innovated the technology; we produce twice as much as anybody, of any country in the world; and yet we haven't gotten

started with the renaissance yet, in our country, and I think that's unfortunate. And those in the future will look back and say, "Why didn't they get started on it sooner?"

Let me quickly talk about the merger. It remains on track. We have numerous regulatory filings in months ahead. We are filing with you all, with respect to joint dispatch and how that would work. We have to file in North Carolina for approval of the merger, as well as approval of the joint dispatch, which creates immediate savings, in our judgment, as we've said, to customers, day one after we close the deal. We have to get approval from the Kentucky Commission. The FERC, of course, the NRC, the FCC, the Department of Justice, then our shareholder votes, and then I'm calling my mom for a final okay --

[Laughter]

-- on getting it done. But we have a lot of regulatory approvals that we have to get done, and I'm confident we'll get them done.

But in the meantime, we're working hard planning on how to integrate these two companies. We are doing detailed analysis, we're looking at the facts, we're looking at similarities and

differences, opportunities to reduce cost. And, you know, we think reducing cost is really critical. Our company in the last four years has kept our O&M costs virtually flat, and that's been tough to do because a very large component of our cost structure is our labor cost. But, that means, as we've allowed increases in wages, we've had to find ways to decrease costs. We know we're going to have rate cases here in the future, and they're primarily going to be rate-based type cases, so we thought it was prudent for us to really work as hard as we could to keep our costs as low as possible, particularly during these really difficult financial times.

So I'm hopeful that as we build the largest utility in the United States, that we don't become a slow, bureaucratic organization, that we remain agile, and that being the biggest in my judgment means nothing unless you're the best, and if it doesn't translate into being the best, it would be an exercise of no great value for investors and for our customers. We'll keep you fully apprised as the merger progresses in the months ahead.

And that's my presentation, but let me just say, to give y'all a feeling that I am comfortable

with any questions in terms of what we're doing in any jurisdiction -- North Carolina, Kentucky, Ohio, and especially Indiana -- so if you have any questions about what's going on in those jurisdictions, I'd be delighted to answer them. So with that, I would conclude my part of the presentation and now turn it over to our president, Catherine Heigel.

CATHERINE E. HEIGEL [DUKE ENERGY SC]: Thank you. Good morning. It is indeed a pleasure to be back before you. About a year ago -- tomorrow -- my position was announced right here before this Commission, and so a year, on, I think is a unique opportunity to take a look back at what's been accomplished and what's been achieved by this role and, in particular, by our company in the State.

Over the past year, we've maintained our strong commitment to our communities and, in fact, enhanced it. We have, through our charitable giving, through AdvanceSC and through various other initiatives that we have to help our struggling customers pay their bills, really contributed to this State. And I have a few statistics to share with you about that.

In 2010, the Duke Energy Foundation allocated

more than $1.17 million in grants to South Carolina. What does that philanthropy look like? What did we do with that money? In partnership with a number of agencies and groups that we work with, like the Nature Conservancy, in their efforts to preserve the Blue Ridge Escarpment. South Carolina Wildlife Federation. We gave money to USC Upstate for their wonderful new program in downtown Spartanburg, which we hope will lead to the revitalization of downtown Spartanburg. Two programs like the Women in Engineering at Clemson program, to encourage women to enter what is perceived to be a mostly male-dominated discipline. To Meals on Wheels, the Urban League of Greenville, the Children's Museum of Greenville, and many, many other organizations, but one of which I'm very proud of is our partnership with the Red Cross. And as we see, the Red Cross is an agency that is very instrumental to our preparedness for weather-related events, and as we watch the work that they do in Japan, I think we do so with great pride. And I have a little show-and-tell. We have readiness kits that we worked with the Red Cross to put together [indicating]; you can see that it's co-branded, in the upstate. Our storm schools, et

cetera. These are very, very valuable partnerships that we have, that are, I think, a great reflection of the value that we are able to help bring to those communities that we serve.

In 2010, Duke Energy, with its employees and customers, donated over $824,000 to low-income South Carolina customers through the Share the Warmth Program, to help struggling customers pay their bills. That represents a 17 percent increase over the previous year, which provided more than $700,000. Also in 2010, Duke Energy and its employees contributed over $735,000 to United Way organizations in the South Carolina service territory. And also through AdvanceSC, which I know you all are very familiar with, we contributed over $5.89 million in 2010 to economic development, education, public assistance programs, and our manufacturing competitiveness fund. That is money that is used to, again, develop and enhance and grow the economy of this State.

So in addition to our strong support for the communities, we have also worked very hard to strengthen our relationship with higher education institutions in the State and, in particular, Clemson and University of South Carolina by forging

some new strategic partnerships with them. We believe that these relationships, coupled with our ongoing commitment to the technical college system, are critical to providing our company and those companies that we hope to recruit to this State with a pipeline of technology and talent that we need to be successful now and for many, many years into the future.

This, I think, is kind of a nice lead-in to economic development. Having a skilled workforce, of course, is essential to that. But also having tools like what Duke Energy can bring to the table is significant to the achievements that we're able to claim.

As we discussed in January when Clark Gillespy and I were here, 2010 was a banner year for us. We had the good fortune to work with local economic development agencies and the South Carolina Department of Commerce to bring over $1.6 billion in new planned investment in the State, as well as over 5,100 planned new jobs. And we are especially pleased -- it just come to my attention yesterday -- that the March issue of *Site Selection* Magazine features Spartanburg, South Carolina, as number two in the nation for markets of 200,000 to a million

people, for the total number of economic development projects in 2010, with 29 projects. And I'm pleased to say that a majority of those are on the Duke system.

And so far in 2011 -- obviously, we don't want to rest on our laurels -- we have helped to generate additional new investment in South Carolina, and I'm just going to tick off a few of these: Century Plastics, in Fountain Inn, with $3.5 million in new investment and 25 new planned jobs; Delta Power Equipment in Anderson County, $3.6 million in new investment and 40 new jobs; Atlantic Beverage, $10 million in new investment, 300 planned new jobs, and that's also in Spartanburg County; and PermaShrink, $3.3 million in planned new investment and 16 new jobs in York County.

Since 1904, economic development in South Carolina has been a central focus of Duke Energy's operations in the State, and we remain committed to that vision and know that competitive rates, now and into the future, are key to driving continued economic growth and development in South Carolina. And in order to preserve the long-term sustainability of this competitive rate advantage,

both ours as a company and as a State and a region, we have to make investments to modernize our system -- and Jim referred to those earlier. These modernization costs and the costs to comply with Federal mandates are key drivers of a general rate increase filing that we will make this summer.

In that filing, we will seek Commission approval to adjust and update base rates to better align those rates with the costs that we have to serve our customers. And although news of a general rate increase filing is never welcome news, it does reflect the substantial investment that we are making as a company in this State and for our customers, to ensure that we can continue to deliver affordable, reliable, and clean electricity to our customers 24/7.

And to ensure that there are no surprises and to provide greater transparency regarding this upcoming rate request, we have undertaken a very robust education initiative throughout the State. We initiated an outreach campaign using our district managers, our customer relationship managers, our lobbyists, and even myself, to educate both residential, commercial, and industrial customers, to give them a heads-up on

our plans for the summer and to explain to them the primary drivers for the case and emphasizing our continued commitment to this State and the continued value in the power that we produce. And it is our expectation by the time we file the case this summer, that we will have touched every county that we serve and every major city that we serve. To date, we've delivered these messages to over 1,400 customers at 60 different events.

I won't downplay the challenge of trying to explain to customers why rates have to go up so that we can ensure low costs into the future, but I am pleased to say that the reception that we have gotten has been one of openness, of appreciation, and of, I guess, some concern -- to be candid -- but the one thing that we've heard is, "We appreciate the no-surprises approach."

At the end of the day, our commitment to South Carolina is stronger than ever. We continue to work with our communities and with our customers to make their lives better. This commitment is part of our mission and reflects our values as a company. And I believe you all should have a document that provides the Duke mission and our values. And you'll see there safety, caring,

integrity, openness, passion, respect listed. And I want to draw your attention to safety; it's the first value listed. And as you can see there, it states we put safety first in all we do.

And I think that that is an appropriate hand-off to Dhiaa, who is our chief generation officer and chief nuclear officer, who can talk about this safety culture and our defense-in-depth philosophy at Duke. It is core to who we are.

So with that, I'm going to pass it off to Dhiaa.

DHIAA M. JAMIL [DUKE ENERGY CORP/DUKE ENERGY CAROLINAS]: Thank you, Catherine. Good morning. I do have a presentation --

[Reference: PowerPoint Slide 1]

-- that helps us with a particular picture that we will get to later on. It's my pleasure to be here, and I'm proud also to be representing the nuclear team in this briefing.

[Reference: PowerPoint Slide 2]

Just a reminder -- I'm sure you are very familiar with the system -- we operate seven units across North and South Carolina. Five of those units happen to be in South Carolina. All of our seven units are the PWR -- the pressurized water

reactor -- variety. Oconee, in the Oconee County part of the State, is our oldest nuclear plant. Oconee enters into its extended license in two years. All of our seven units have had their license extended to 60 years from their original 40 years.

Shifting over to the next slide --

[Reference: PowerPoint Slide 3]

-- which highlights the accomplishments for the fleet in 2010, I'll start by telling you that 2010 was a banner year for the fleet. The fleet set records in almost every aspect of operation. Jim alluded to the capacity factor of 95.88 percent. As you well know, capacity factor is a measure of the energy that was provided by the fleet, compared to the total energy that could be provided by the fleet had everything run at 100 percent without accounting for any perturbations or any refueling outages. It is the eleventh consecutive year that our fleet has had an above-90 percent capacity factor.

Now, we generated a record amount of electricity from the fleet. Given that it is our least-cost resource, generating lots of electricity from our nuclear fleet only means lower fuel bills

for our customers. Built into that record is a record lowest number of days of refueling outages in the history of the company. The 134 days that you see there for four outages is 24 days lower than the best this fleet has ever done, which was back in 2001.

Many units and stations set capacity records for the unit or the station. As you can see from the slide, McGuire 2, Oconee 1, and the whole Oconee Station, this was their best year ever.

Capacity factor is a measure of reliability, as you well know. It is also a measure of safety. The bias in the nuclear industry and the type of regulation that we have, there are a multitude of different requirements that a nuclear unit has to meet continuously. They are very strict requirements that they have to operate within, and when they deviate from any of those requirements, the mode of bias is to shut the unit down.

So long runs on units are a direct indication of safety on those units, as well, in addition to reliability. And our fleet had many long runs during 2010. We had four outages, I mentioned. Three of those outages ended with the unit coming off ending a breaker-to-breaker run, meaning that

when we put the unit on-line the last refueling outage, that unit stayed on-line until we took it off deliberately for the next refueling outage. Now, this is the longest number of continuous breaker-to-breaker runs the fleet has had also, in 2010.

And also as Jim mentioned, the fleet -- we measure performance of the fleet relative to other fleets in the country. There are ten nuclear fleets in the country. One of the measures that is important to all of us, all stakeholders, is the cost of the operation. We use the total operating costs as the measure. That includes all aspects of operating the station, including fuel, A&G, and O&M. The fleet ranked number one among all fleets in the country, for the second year in a row. In fact, our Catawba Station, which is just about an hour north of here, was the number one cost-efficient station in the nation among all 67 stations in the country.

So we're proud of the records in 2010, but we quickly realize that we don't sit and enjoy those records long. We focus on the year ahead, and 2011 is going to be a very challenging year for us. It has five very important outages. We're going to be

doing lots of upgrades to the stations during those outages, and also it's a year that's going to be challenged by merger integration, so we need to continue our focus on running those plants day-to-day in a safe and reliable manner, in order to produce the type of results that we've all become accustomed to.

With that, I would like to switch to the current events taking place.

[Reference: PowerPoint Slide 4]

And, of course, the Japanese tragedy has added focus on the nuclear fleet across -- fleets across the world, and here in the US, as well. I start by saying that much is not known about the developments in Japan, and those lessons will come out, as they have in previous incidents around the world, and those lessons will be applied, just like we have with every incident that has taken place.

If you remember Three Mile Island, Three Mile Island maybe is the single biggest event responsible for the type of safety records that I spoke about in 2010. The industry leaped ahead in reliability and safety directly as a result of that accident. The same can be said for the Chernobyl accident in the '80s. And the same will be for

these developments in Japan. The hallmark of this industry is its ability to perform even better after a setback like the ones I've discussed.

Again, there are several things that are not known today about, really, the magnitude of issues that have taken place. There are a few things that are known. I want to highlight a few things that we know about, and I want to start with one particular feature that has been prominent in many of the media discussions, and that is the containment itself.

As you well know, the station that has received the most attention in Japan is a boiling water reactor station. I want to pause and say that I am in no way suggesting that boiling water reactors are not safe. They are, indeed, very safe, particularly the ones that we do operate here in the US. I want to highlight, however, that the ones that we do operate in our system have a containment that I would like to describe.

The picture that you see there represents a typical PWR -- pressurized water reactor -- containment. This happens to be the typical one for a McGuire/Catawba type of reactor. You can see the outside containment is made of three-foot

concrete that is reinforced with rebar, steel rebar, vertically and horizontally -- which is unusual to have that type of reinforcement. Inside of that, there's a three-quarter inch steel shell. Inside of that, there is yet a second three-foot containment that is also reinforced with vertical and horizontal reinforcing bars, and inside of that is the vessel, which is made up of eighth-inch carbon steel surrounded by more concrete. And all of that sits on an eight-foot concrete foundation that also sits on rock.

So it's -- I tell you, the way I describe this is, these structures are some of the most robust structures on earth, and they are designed to withstand significant forces, including natural forces from tornadoes, hurricanes, floods, and seismic events -- which leads into the next slide.

[Reference: PowerPoint Slide 5]

Those criteria that are set forth in the design are developed on the basis of what was known at the time that those facilities were licensed, assuming worst-case scenarios, built into the design-basis criteria. As a designer or engineer, it is typical and very much the case in the nuclear industry to build margins on top of those design

criteria. And then, vendors that come in and meet those design criteria also build margins in their design, in order to ensure that they envelope the design criteria set forth by the utilities. What you end up with is a margin of safety that far exceeds the initial design.

I recall in the 2001 timeframe, one of the most common questions that we got at that time was, "Are you designed to withstand the impact of an airplane?" As an engineer, that was a very difficult question for me to answer, because the correct answer for that is no; we were not designed for the impact of an aircraft, because no one thought at the time that that was something that we needed to design for. But if the question was, "Can you withstand the impact of an aircraft impact," then the answer would be yes, simply because we design for a set criteria that seems to be reasonable and bounding at the time of licensing, but as engineers and regulators, we anticipate that there are some things that we have not thought about, and in order to ensure that we cover all things that could reasonably come up in the future, we build margin, and we build redundancies. That is our method of covering these

things: redundancies and margin. Since the 2001 events, analysis and testing has taken place to indeed demonstrate that we can withstand the impact of an aircraft. So margin and upgrades that we have done come into play, in the design of nuclear plants.

[Reference: PowerPoint Slide 6]

My final slide talks about the things that we do know about the Japanese developments. While we don't know exactly the magnitude of ground acceleration at this point and how that relates to the design criteria, or the actual tsunami defense mechanism that they had in place relative to the actual size of the waves that came in -- all that level of detail will come later -- we do know that they lost power. They lost off-site power and on-site power -- on-site emergency power.

And I'm comforted to know that, in the US, our regulators required us to demonstrate that we can withstand and cope with exactly that scenario, the scenario that goes: you lose off-site power and you lose your committed on-site emergency sources that you have on-site. We have to demonstrate that we can cope with that scenario. And all licensees in the US were required to do that back in the mid-

'80s. I can't tell you whether that is the case, or not, in the Japanese requirements. Those are the kind of details that will come later.

I also alluded to the aircraft impact. Since 9/11, new regulations have come in that required us to demonstrate that we can safely shut down the plant and cope with an event that removes a significant part of the site through explosion or fire. We all had to go make changes to the way we operate the plant, to the procedures that we have in place, to the training, and added new equipment -- remote equipment -- positioned those in strategic places to account for any part of the plant that is lost due to whatever event, we can shut down the plant safely.

And finally, built into our training is severe accident mitigation guidelines that basically says, regardless of the regulation, regardless of what you're telling me about redundancies, let's just start from the point of view that says you've lost all of this, and let's develop some guidelines and drill those, and make sure we have the equipment and systems in place, already known to the people that will respond to such accidents, and let's see -- we demonstrate that we can, indeed, do those.

When I look at what's taken place in Japan, I will tell you that they found themselves in that space. They found themselves in spaces where they had not anticipated. Severe accident mitigation guides, whether they had them or not, I really don't know, and those are some of the facts that will come. It will be interesting to see whether they have them and how effective they were.

Regardless, I fully anticipate that once the facts are known, that will result in yet more changes in our business, additional enhancements, and this will be the foundation that will strengthen this industry even more than it is today.

That concludes my presentation, and I'll be glad to take some questions.

CHAIRMAN HOWARD: Thank you. The presentations were very interesting. Commissioners, any questions of the panel? Commissioner Wright.

VICE CHAIRMAN WRIGHT: Good morning.

CATHERINE E. HEIGEL [DUKE ENERGY SC]: Good morning.

JAMES E. ROGERS [DUKE ENERGY CORP]: Good morning.

DHIAA M. JAMIL [DUKE ENERGY CORP/DUKE ENERGY CAROLINAS]:

Good morning.

VICE CHAIRMAN WRIGHT: And thank y'all for coming. Your presentations are very good. And I apologize -- I wish there were something you could do about my allergies. You can build a nuclear plant to withstand everything, but, boy, I've been fighting back a sneeze that might shake the Oconee plant.

[Laughter]

Mr. Rogers, first off, thank you for coming and being available, but I can't pass up the opportunity to ask you a question. And it's about the merger. I'm going to go right to the merger, and you mentioned some things about filings in different states and everything. Our legal staff is convinced that Duke and Progress should be coming to our Commission seeking approval for the merger. I mean, your company has expressed another opinion. I guess, regardless of what legal position is the right position, or not, don't you think that, out of an abundance of openness and transparency and respect, that, you know, maybe you ought to be seeking approval of our Commission on the merger?

JAMES E. ROGERS [DUKE ENERGY CORP]: Well, if it's

your judgment that we ought to, then we will. It's that simple, because we have nothing to -- I mean, we're an open book. We want you to see every aspect of it. That's our intention. We've read the statute a little differently, that you clearly have authority over the joint dispatch; and if it's merger approval beyond that and that's your judgment, I would -- we're prepared to respond to it appropriately.

VICE CHAIRMAN WRIGHT: Okay. Thank you for that answer. Thank you.

CHAIRMAN HOWARD: Any other questions? Commissioner Fleming.

COMMISSIONER FLEMING: Well, I just want to say that I appreciate your response, and I agree with what Commissioner Wright -- his comment and question. And we will look forward to your coming before us for merger approval.

COMMISSIONER HAMILTON: Mr. Chairman

CHAIRMAN HOWARD: Commissioner Hamilton.

COMMISSIONER HAMILTON: I too would like to echo Commissioner Fleming and Commissioner Wright, and certainly thank you for being here, and I appreciate the answer that we just heard. I think it relieves this Commission greatly, and I think

it's something that we brought the question up earlier when the merger was presented to us, and we thank you for your position today.

I think what we've gone through today is very helpful to each of us. Jamil, I know you have relieved some tension. We had a report earlier in the week from SCANA about their nuclear fleet, and we're happy to hear from you, too, today that I think -- I hope all the people in South Carolina could hear you and could hear others that our nuclear fleet is alive and well, and safe, and hopefully can continue the road to -- the renaissance well-being in the US.

I had an opportunity to see Mr. Rogers's interview when he was in Europe, and I thought he did an excellent job, and I think he kind of put it out there that we're a little bit behind, but maybe we can catch up. And we appreciate that.

And Catherine, your Pee Dee heritage is certainly showing. Thank you, for being here.

[Laughter]

CATHERINE E. HEIGEL [DUKE ENERGY SC]: Thank you.

CHAIRMAN HOWARD: Commissioner Mitchell.

COMMISSIONER MITCHELL: Well, I too -- I think a lot has been said, and I certainly want to say

that I certainly agree, because -- but I want to change just a little bit the focus, since we have so many nuclear facilities here in my Third District up in the Clemson area you mentioned. I guess my one question would be to Mr. Jamil.

What do you see as the effects from the Japanese experience, as far as the timeframe for your development of the Lee Plant? Do you think it's altered that in any way, or could you --

DHIAA M. JAMIL [DUKE ENERGY CORP/DUKE ENERGY CAROLINAS]: I'll take a shot -- I'm sorry.

COMMISSIONER MITCHELL: Oh, yeah -- oh, I'm sorry. I think we decided we wouldn't discuss that today. I'm sorry, it just came up. I just -- at least we can be thinking about that, and I think in the future --

[Laughter]

DHIAA M. JAMIL [DUKE ENERGY CORP/DUKE ENERGY CAROLINAS]: I might --

COMMISSIONER MITCHELL: I guess I could focus my question a little bit differently. Do you see it slowing the development of nuclear? And completely leave off the Lee Plant. Because I'm interested in that.

DHIAA M. JAMIL [DUKE ENERGY CORP/DUKE ENERGY CAROLINAS]:

Commissioner, actually, that's what I was going to suggest.

COMMISSIONER MITCHELL: We need to have another lawyer to oppose some of our own lawyer.

[Laughter]

I think he'll agree with my rephrasing of the question.

MR. MELCHERS: I'll go with that.

DHIAA M. JAMIL [DUKE ENERGY CORP/DUKE ENERGY CAROLINAS]: Commissioner, I see potential impact first on the operating plants, of course, and we are responding to --

COMMISSIONER MITCHELL: Right.

DHIAA M. JAMIL [DUKE ENERGY CORP/DUKE ENERGY CAROLINAS]: -- those very quickly. We are undertaking some immediate actions on the operating plants -- today, we are doing those -- and we anticipate additional actions in future, as I mentioned.

As for the development activities for new nuclear, it will naturally not accelerate things. I think that would be a safe bet. We are seeing signs around the country that utilities are responding more cautiously, as a result. For example, the South Texas project, there was an announcement that they are slowing their

development activities and will focus on licensing at this time, and that was attributed to the developments in Japan. So I suspect we'll see more of those. From the regulator point of view -- this is an opinion at this stage -- I hope that we do not overreact to the issue before the facts are out; however, the political system is such that there will be some additional caution, probably, added into the process. There may be a possibility of slowing down some of the reviews. We hope not. At a minimum, maybe the hearings, the mandatory hearings, will invite views -- more extreme views against nuclear, and that would be their opportunity to do that. So it could have an impact on slowing down the schedule on some COLs. We're hopeful that it would not.

JAMES E. ROGERS [DUKE ENERGY CORP]: If I may, Commissioner, just --

COMMISSIONER MITCHELL: Certainly.

JAMES E. ROGERS [DUKE ENERGY CORP]: -- add to that --

COMMISSIONER MITCHELL: Certainly.

JAMES E. ROGERS [DUKE ENERGY CORP]: -- I think the Administration came out immediately after the event -- both President Obama and the Department of

Energy Secretary Steven Chu -- came out saying it's not going to alter our path forward with respect to nuclear in this country, and I found that encouraging. But having lived in Washington for nine years and been involved in the political process for a zillion years, I can't help but believe that those who oppose nuclear will seize on this -- and just yesterday in the *New York Times*, there was a story where a professor from Princeton wrote an op-ed where he basically was saying that he thought there wouldn't be another nuclear plant built in this country for 20 to 25 years as a consequence of the event in Japan. Now, I think -- I won't tell you exactly what I think about his opinion, but I will say I think that is way off the mark. And while there might be some delay, I do not think our country is going to slow down significantly. But common sense tells you, once the political process starts to work and those opponents of nuclear get vocal, it's going to have some impact on the timing.

COMMISSIONER MITCHELL: And I guess just as a final question, still upon the effects of the Japanese experience, do you see a trend that as we go day-by-day further away from the event that

maybe the event, the -- I know it was a very serious event, but in the fact that the seriousness -- maybe the Japanese have addressed this issue in a more efficient way than they were given credit to earlier? Do you see that maybe, as the facts come out? We had a presentation yesterday and I -- we somewhat gathered that from the presentation yesterday. I just wondered if your summarization is along those same lines.

DHIAA M. JAMIL [DUKE ENERGY CORP/DUKE ENERGY CAROLINAS]: Absolutely. I feel that way right now, actually, and that is, when you step back and take a look at what was thrown at them -- you know, now they're saying it's a 9.0 on the Richter Scale. That puts it as one of the most severe earthquakes on Planet Earth, followed by a tsunami that far exceeded, based on what we're seeing, what they were designed for. You know, we all watched in horror on TV as cars and homes moved around like little toys. Yet, that plant is still standing. And finding today there's been some release of radiation and that some radiation levels are elevated -- but I tell you, those levels, those of us that are familiar with what those levels mean, those levels are not seriously harmful to the public at the levels they

are now.

The statistic I've been hearing is that the human toll from this natural event could be in the 20,000 range. Yet, two people have been hospitalized, to date, due to radiation impact. And based on the levels I saw, it's out of caution, as opposed to out of serious dose impacts. So it's kind of put things in perspective.

I think once the dust settles on this, naturally some people will try to exploit some of the data, but the fact that it withstood what could be considered the worst-case scenario and came out as well as it did -- that site will never generate electricity again, but was the health and safety of the public maintained? I think history will show that that site performed very well.

COMMISSIONER MITCHELL: And in closing, I certainly want to thank all of you for being here, and certainly for your transparency, and the presentation. Thank you, very much.

CHAIRMAN HOWARD: Commissioners? Commissioner Whitfield.

COMMISSIONER WHITFIELD: Thank you, Mr. Chairman. Mr. Jamil, I'd like to thank you for being here and for that presentation. We've all

been concerned and have participated in conference calls with our national organization, and we've all been concerned since the events that have occurred in Japan, and all watching it closely, and we appreciate you coming down and sharing that with us. And Ms. Heigel, we appreciate you being here, as well. Mr. Rogers, I'd like to thank you also for being here and for your answer to Commissioner Wright's question, and we appreciate that. And thank y'all for being here.

CHAIRMAN HOWARD: Any other questions?

COMMISSIONER FLEMING: Oh, well, I have some questions.

CHAIRMAN HOWARD: Chairman Fleming -- Commissioner Fleming.

COMMISSIONER FLEMING: Once Chairman, always Chairman.

[Laughter]

CHAIRMAN HOWARD: Commissioner, Chairman, whatever name you want. Ask the questions.

COMMISSIONER FLEMING: Thank you, Chairman Howard. Yes, well, I will echo what others have said, how much I appreciate all three of you being here today, and the very different perspectives of Duke Energy that you presented to us. I think it's

great to learn about the economic development and contributions to our State, and especially to the upstate. I'm very happy to hear some of the stats that you presented. And your leadership in South Carolina over the last year, I think it's great to have someone of your standing doing the job you're doing, and being a model for other female leaders in the State. Thank you, for that.

CATHERINE E. HEIGEL [DUKE ENERGY SC]: Thank you.

COMMISSIONER FLEMING: And, Mr. Rogers, I really -- I always enjoy hearing you come, and you always have a surprise for us, and this was a great surprise today, so thank you for that. But the information that you gave, too, was very helpful. And for that reason -- both you and Jamil talked about nuclear energy and how you see it moving forward -- I'd like to know what your convincing argument would be to those who are maybe not as supportive of nuclear, and I guess I'm being a little selfish asking this, because I'll probably be in a position next week where I'll be arguing that point for our State, so I would just like to hear what you would say to others, to convince them to be supportive of nuclear energy.

JAMES E. ROGERS [DUKE ENERGY CORP]: That's a

great question. And trained as a lawyer, I'm going to ask my expert to answer the question, and then I'm going to close it.

COMMISSIONER FLEMING: Okay.

[Laughter]

He'll give me the facts about nuclear, and you'll give me the way to convince them, huh?

JAMES E. ROGERS [DUKE ENERGY CORP]: Or some combination.

DHIAA M. JAMIL [DUKE ENERGY CORP/DUKE ENERGY CAROLINAS]: Well, in my view -- and those views are really colored by the comments I've heard my boss talk about, as well, so I hope I'm echoing his sentiment. My view is, no resource has no risk. That does not exist. Every resource has some level of implied risk with it. And we are demonstrating -- and even, as I mentioned to Commissioner Mitchell, even the events in Japan will show that this industry has been able to manage the risks of this particular technology very well. The records I've spoken about for our fleet speak for themselves. You step back and take a look that if we take a position of every resource that has a problem, we decide as policymakers to step away from it, I think very quickly we'll be doing that

in the dark.

I can remember not too long ago we were talking about Deepwater Horizon, and oil, and natural gas. Before that, it was the mining accidents, coal, and the impact to the environment. So none of -- you know, modern technology comes at a risk. And we're equipped to manage those risks.

I can tell you that nuclear represents the vast majority of emission-free base-load electricity. We do it well, at a very low cost. And if we are committed to the environment, nuclear has to be part of the equation. And we have to accept that we need to manage the risks, and let's put our energies into how do we make it even better, as opposed to put barriers in its way.

COMMISSIONER FLEMING: Could I just interrupt you right there. You say it's at low cost, but other people are saying it's a very expensive way to produce energy at today's level, to build the plants and all. So are you saying over the extended life of the plant?

DHIAA M. JAMIL [DUKE ENERGY CORP/DUKE ENERGY CAROLINAS]: Yes, Commissioner. So, you know, I always ask myself -- and Jim actually asks his staff that question, and that is, these things that we're

looking at today, in the way of capital cost, high capital cost, initial capital cost of nuclear, did the last generation not face that, as well? And if they did, how did they overcome that, and what was the outcome of that? I'm going to tell you, our rates being 25 percent, plus, lower than the national average is, in large, due to the wisdom of the last generation that decided to overcome the hurdle of capital cost, and we are all enjoying the benefits of that. So, indeed, the way you answered it is the right way, and that is, there's no doubt the initial cost is very high, but the operating cost of a facility is very low. So with that, maybe Jim can amplify.

JAMES E. ROGERS [DUKE ENERGY CORP]: I'll do the closing argument. I think the important thing is, look at the history. Look at the history of this industry. And we've operated for 40 years, and even with Three Mile Island, we have not -- no one -- we've had no fatalities. Compare that to coal and the mining accidents we've had in this country. Compare that to oil. Compare that to natural gas. I mean, there's no other industry that's got that kind of safety record when it comes to human lives.

I think the other important point I would make

is, is that not only have we been safe for this 40-year period, but as you look to the future, you have to continue to look at the past to make sure you have a clear view of the future. So one of the things that we did as a company -- and Dhiaa and his team did -- is we went back and looked at '67 to '87 as to what happened at Duke and the build-out, and the Three Mile Island happened in the middle of it. And what you really saw is, some plants were delayed three and four years; some plants were $1 billion over what they were estimated -- and that was when $1 billion was a lot, back in the '70s and the '80s. And even through all that, the regulators, the legislature, and the customers, and companies all stood firm, worked their way through that, and we today -- as Dhiaa said -- are reaping the benefits. I mean, our rates are 25 to 30 percent lower than any other -- the average in the US. I think we might be -- I know we're the lowest in North Carolina, and we might be the lowest here. Or close.

CATHERINE E. HEIGEL [DUKE ENERGY SC]: [Nodding head.]

JAMES E. ROGERS [DUKE ENERGY CORP]: I'm looking for confirmation.

CATHERINE E. HEIGEL [DUKE ENERGY SC]: I'm trying not to agitate my peers, so --

JAMES E. ROGERS [DUKE ENERGY CORP]: I'm unafraid of that.

[Laughter]

COMMISSIONER FLEMING: That question was answered in the last rate case, remember?

JAMES E. ROGERS [DUKE ENERGY CORP]: And so, I mean, I think the important thing is, is not to forget that history, because that generation of leadership, we're benefiting from it today. It's a stark contrast to what we're seeing in Washington where we're leaving future generations with a huge national debt and deficit. So in a sense, we're now starting back through the building period.

But look to the future. When you look to the future, one of the things that people are concerned with -- [indicating] excuse me, I'm having your same sinus and allergy problem. One of the problems is, is the concept of energy sprawl, and let me just give you some statistics that I think are meaningful. If you put a nuclear plant on one-third of a square mile and produce 1,000 megawatts, to get the equivalent from solar, you have to build out over 40 square miles. To get the equivalent

from wind, you have to build out over 200 square miles. So it is physics that when you have that kind of density, that's important.

The other way to think about it -- a lot of people attack our industry because of the spent fuel and we haven't resolved it. The truth of the matter is there's been a failure of the Government to live up to their responsibility to take our fuel, our spent fuel. They have failed. And so, as an industry, we're looking at ways to proactively address it. But let's put that in perspective. If you take all the spent fuel from every nuclear plant in the United States, you could put it on one football field about 15 feet high. You think about all the waste on the back end of coal plants where there's scrubber sludge, or ash, et cetera, I mean, it is -- covers hundreds and thousands of miles with 50 percent of our generation coming from coal in this country.

So you think about energy sprawl, you think about dealing with the waste product of providing the fuel, if you think about the affordability -- I mean, you have to look at affordability over 40, 50, 60 years, not just the capital costs today. And one statistic that helps bear that point out,

if you look back over 50 years, the real price of electricity today is the same in the United States as it was in 1960, but during that period of building coal and nuclear in the '70s and '80s the real price went up, but has depreciated, our rates came down, and so the reality is the real price today with that significant build-out of nuclear and coal base is flat. And you can't really think of any other product that has that -- can make that kind of representation.

So I think in summary I would say that we've learned a lot from history, where the industry has focused on safety, where the industry is demonstrating continuous learning after every event -- Three Mile Island; Chernobyl; we're going to demonstrate it after this Japanese incident is fully understood and the lessons learned -- and I actually think it's the right answer for America. And the technology that's developed is a job creator, I mean, and it's critical to the tax base. Think about the upstate area where our plants are, and what that means to the schools.

And so if you think about it as a tax base, if you think about it as jobs, that combination is -- and actually, we need the nuclear renaissance going

on in this country, because you'd get jobs, you'd get tax base, and help our economy get its Mojo back. So that's what I'd tell them.

COMMISSIONER FLEMING: Thank you. That was very helpful. We'll see how successful we are. And I did want to go back -- if you -- if -- is it all right to ask another question? A different way? A different avenue? You talked about two-way communication for the smart grid. There's a lot of debate now on who's going to control that communication. Where do you all see that going?

JAMES E. ROGERS [DUKE ENERGY CORP]: Well, I think smart grid has been overhyped in the short term. A.C. Clarke once said all change is overestimated in the short term and underestimated in the long term. I think that's true about smart grid. But there's a definitional problem. There's two aspects to smart grid: One is two-way communication in our distribution network. That is really critical. That actually helps us reduce voltage, which could reduce line loss, and that's a savings. It can allow us to operate with greater reliability. It might allow us to do predictive maintenance, which is really critical in terms of maintaining the reliability of the system. So I

personally believe that part of it, clearly, we will do and must do, and the technology is there; we just need to implement it.

The other part of smart grid is the meter and having two-way communications there. And I actually think -- and I'll share with you a project that we've done in south Charlotte: We've taken a group of 100 homes, and what we've done is, working with them and with their permission, we put some sensing devices in their homes, because the average today is 25 appliances, electrical appliances, in every home. So we took the refrigerator, we took the HVAC, we took the dishwasher, different ones, and we put these sensing devices that communicated with each other. And in this experiment, what we were able to do, we were able to reduce usage on the peak 20 percent, and the customers see no change in the quality of service. How did it work? And the simplest example is, we basically -- when you turned on your dishwasher, it didn't come on automatically; it delayed about 30 seconds to 45 seconds to a minute, and then the refrigerator cycled down, and then it kicked in. And then when it shut off, then the refrigerator went back up. It happened automatically, using technology.

Our company is uniquely -- and our industry -- is uniquely positioned to make those investments in the home, and optimize the usage in the home, optimize usage in a neighborhood, optimize usage between different customer classes, and at the end of the day optimize it against the grid.

I think we'll be a seller of kilowatt-hours, but I think -- our mission, we'll also be an optimizer. So I see the boundaries of our business being extended not just from the generation to the meter, but all the way to the device. And actually, the device will be our customer, and the owner will be the one that pays us.

So I believe you'll see a redefinition of the boundary of our business as we move through this century.

COMMISSIONER FLEMING: So you feel like the utility will own the communication -- will be the one in charge of the communication system?

JAMES E. ROGERS [DUKE ENERGY CORP]: I do, because we're responsible for the reliability of our grid. We're in a unique position to provide -- and help our customers. I mean, you know, in different states there's been different receptivity to deployment, two-way communication in distribution

and in the meter, as we've seen across this country. And in one of our states, in Ohio, they have basically really encouraged us to do it, so much so that they gave us a rider for making investments in two-way communication on our distribution, to encourage us to accelerate the deployment of that. They also gave us a rider to replace our meters, so that we automatically got recovery of those capital investments, because they wanted those new meters in so we can accelerate our energy efficiency programs. I like to refer to them as trying to achieve productivity gains. So I think at the end of the day, our industry will have productivity gains in generation.

And what I left out in my answer that you should think about in your nuclear answer is, I don't think there will just be AP1000s in the future, the big plants; I think small, modular reactors are on the horizon. There are five different companies that are really advancing their technology. So when you think of generation, it's not going to be just central station; it can be distributed.

I mean, we have a project in North Carolina where the Commission allowed us to use solar on the

rooftop. We put ten megawatts on the rooftop of our customers. We invested in it, we own it, we rolled it into the cost of our other fuels, and that's just -- that redefines the boundaries of our business. And I think, ultimately, the boundary will be redefined beyond the meter, to the device in the home.

And I don't think anybody else has a lower cost of capital than we do. I don't think anybody else has a relationship with the customer, as we do, and is trusted, and I think at the end of the day, we are going to be able to create more value with them. And I actually believe -- and I think you've heard me say this, maybe, before -- I think what we do for productivity gains and energy efficiency today, five to ten years from now when we've deploy these technologies we will look back, and what we're doing today will look very primitive to what will be done in the future.

COMMISSIONER FLEMING: And one last question. You talk about the bureaucracy of rate cases. Could you give a little bit more insight into where you're coming from with that comment?

JAMES E. ROGERS [DUKE ENERGY CORP]: Sure. I also believe -- I really appreciate this question,

because Catherine wouldn't let me go there in my presentation.

[Laughter]

COMMISSIONER FLEMING: Well, he did. He opened it up.

CATHERINE E. HEIGEL [DUKE ENERGY SC]: That's right. I'm here to step in at any point.

JAMES E. ROGERS [DUKE ENERGY CORP]: Yeah. Protect me from myself.

But I think formula rates are the future, for a couple of different reasons. One is that we are going to be in a period -- we remember the last 50 years the real price of electricity is flat. As we retire and replace our plants, as we modernize our entire system with these new technologies, the real price of electricity is going to go up. So I think it's to the benefit of customers, as well as to the benefit of our investors to have formula rates.

What does that mean? Does that mean the regulatory commission has less authority? Absolutely not. What we would actually do, under formula rates, is we would file every year our actual costs, everything would get trued up. And actually, under that kind of scenario, that even put us in a stronger position to be an adviser to

our customers with respect to energy efficiency in their home. Because today if they have any question, they know we're in the business of selling, but they don't -- it's hard to calculate, "Well, if you're selling electricity, why do you want to help me use less?" Because that doesn't always kind of ring true to people. But formula rates would allow that to ring true, and more importantly, I think it's a benefit to our customers because they can plan.

And rather than -- if you're building like Cliffside or the Buck and Dan River Plant or we build the Lee Plant, rather than have bulky 10 percent, 15 percent type of rate increases, I'd much rather see the formula rates of 2 percent, 3 percent, 3 percent type increases that our industrial customers can predict, our residential customers can predict. And we're starting from a place where our residential customer, our bill is 1.9 percent of disposable income. It's incredibly low. That's why we have difficulty getting them interested in energy efficiency. I was giving a presentation yesterday and I asked people in the room -- you know, there was about 150 people -- I said, "If you know what your kilowatt-hour charge

is for electricity on your bill, raise your hand." Not a single person raised their hand, because nobody thinks of it that way because it's not a very expensive item.

COMMISSIONER FLEMING: Well, thank you. I think that's a discussion that may need to be continued -- a two-way discussion -- but not today.

COMMISSIONER MITCHELL: I have one.

CHAIRMAN HOWARD: Commissioner Mitchell.

COMMISSIONER MITCHELL: You wouldn't argue, though, that the system has worked pretty good in the past, for the last -- you know, we readily admit that the rates are some of the cheapest in the United States, or apparently the procedure that we've had in the past as far as bringing hearings has apparently kept the rates pretty low and efficient to the customers, as we've had it.

JAMES E. ROGERS [DUKE ENERGY CORP]: I would -- I think we've done -- as regulators in this country, as companies, and with environmental groups and consumer advocates, I think in a collaborative way we've done a remarkable job for consumers in this country. I mean, think about it: They get electricity 99.99 percent of the time, it's 1.9 percent of their disposable income, everybody has

got electricity in this country. So I think it's been a great success in the past. But I would just say, notwithstanding that great success, I'm always open to seeing if there's a better way at a different time. And so, I honor the past but I'm always looking for a better way in the future, and this may prove not to be a better way.

COMMISSIONER MITCHELL: Well, thank you. I just wanted to hear that other side, too, because we talk about the great efficient rates and the great efficiency that the company -- and we thank y'all for that. And that has been done by appearing before the Commission and presenting your case, just as we did in the past. So I at least wanted to get that point across. It worked pretty good in the past, hasn't it?

JAMES E. ROGERS [DUKE ENERGY CORP]: No, absolutely. And the answer is yes, underscore yes.

COMMISSIONER MITCHELL: Thank you.

CHAIRMAN HOWARD: Commissioner Wright.

VICE CHAIRMAN WRIGHT: I appreciate all that discussion there. I want to go back to Mr. Jamil real quick. And I want to give you some praise, not just for your presentation but for the way the industry is going about reacting to what has

happened in Japan. I've read some things, and you probably, I'm sure, have read the same articles, where they've been critical of -- and the opponents, especially, seizing on the opportunity of the moment -- and talking about the arrogance of the industry, you know, because you talk like engineers, you know, and people don't understand, okay?

[Laughter]

And they don't -- you know, laypeople don't know. I mean, people don't understand what a dose is, and the different -- you know, they hear "radiation" and they freak out. But as you, you know -- as we've heard in the media recently, some of the messages are starting to get through that it may be like getting a chest x-ray at some point, or half of a chest x-ray, and they list things. But I noticed that you all -- that you, in your presentation today, and others who have been before us, and what I'm seeing and hearing and reading now throughout the media, is that when the industry is talking, they're beginning -- and maybe it's an orchestrated, concerted effort. I would think there has to be some, I guess, communication among everybody about what needs to be said. But it

sounds like the message is starting to get out, that the education of the public on just those things that you've been trying to communicate to us today -- I think they're very important for two things: One, speaking to the delays, you know, that people's fears are allayed somewhat, and understand, and hopefully it doesn't get any worse over there than it is now. Obviously, we all hope that. But then I think it also gets them talking about other components, i.e., the waste issue. You know, I think you're going to start hearing some things and seeing some movement on that, as well. And I just wondered if maybe you thought the same thing.

DHIAA M. JAMIL [DUKE ENERGY CORP/DUKE ENERGY CAROLINAS]: Yeah, I agree with you, Commissioner. Early on -- particularly, early on, we, you know, took a very reserved approach, and that is, there was a barrage of information, and for us to remain credible, we need to make sure that we are talking facts, and there was not much in the way of facts that were known at that time. So as an industry, we -- maybe the first few days, we did not speak out. I think there has been a change over the past week. We are out with the media; just about every chief

nuclear officer in the country's been in front of the camera talking about what they know about the facts and how we, our systems, would respond to an event like that. And as you mentioned, we are now focusing on the dose issue: What does it mean to get so many millirems, in laymen's terms?

We at -- Duke is in that effort. We have two scientists, radiation protection scientists, sitting right now in Washington, and one in Atlanta, formulating those exact messages to try to kind of calm some of the phobia that we have as a country -- as a human race -- of radiation. I tell you, the only thing I would tell you is the professionals that work in nuclear plants, I don't think there are any other members of society that respect that technology more and respect that risk more than those professionals that work -- and it's time for us to step out and try to demonstrate that. I completely agree with you.

And I agree with your comments about the spent fuel issue. In fact, Mr. Rogers was exactly talking to me about that on the way here, what strategies as an industry we need to have. I know that you personally are very familiar with those issues, as well.

So as I look ahead in the future, I think that's where some of the changes in the battleground would be more so than probably the safety of the plants themselves.

CATHERINE E. HEIGEL [DUKE ENERGY SC]: If I could --

DHIAA M. JAMIL [DUKE ENERGY CORP/DUKE ENERGY CAROLINAS]: Please.

CATHERINE E. HEIGEL [DUKE ENERGY SC]: I was just going to add, in terms of getting out in front, you may have seen we had an event at Oconee Nuclear Station earlier this week with Senator Graham, and Dhiaa and I were privileged to be there for that. As he indicated in his press conference that he did, it is absolutely critical that we get out in front of some of the misinformation that's out there, and to emphasize the professionals that operate these plants, the safety records associated with these plants, and in his case, his comfort with living five miles from one of our plants. So we appreciated him and his presence, and will continue through Dhiaa's organization and his group to be part of those conversations.

JAMES E. ROGERS [DUKE ENERGY CORP]: Commissioner Wright, there's one other challenge that we have.

As I mentioned at the beginning, I'm on the board of the World Association of Nuclear Operators, and I think it's important to note that this facility in Japan had not been reviewed since 2002. And quite frankly, that might not be relevant, given how disastrous the situation was with the tsunami and the earthquake, but as you look around the world, we're the -- there are very few countries that have adopted such a rigorous review process as we have at INPO where we review every plant every two years, and then they rate the plants. And those exit interviews, I've learned, are -- even when you get a very good rating, you don't feel very good, because they always find more things that they want to talk to you about in terms of continuous improvement. They're always pushing, pushing, pushing.

But one of the challenges that we have at WANO is to get the Russians, to get the Chinese, to get the countries in the Middle East -- Abu Dhabi. All of them are building nuclear plants, and we want them to participate and go through our INPO process, but on a worldwide basis. And that is, as we discussed on Wednesday, one of our single biggest challenges, because if we have a problem in

China with a unit, or in India, or in Russia again, I mean, that has consequences for our industry here. So there's going to be a major effort to try to get the other countries to sign up for this same kind of rigorous review that we have here in the United States.

CHAIRMAN HOWARD: Commissioners?

[No response]

I have a few questions. Mr. Jamil, I'll start with you. I don't know if you heard the news this morning -- and correct me and give me some guidance, I guess, is first in my question. Apparently, there's a major problem with one of the units in Japan, and apparently it's threatening meltdown, as of the news this morning. And the unique thing to set this plant apart from the other plants is it used MOX as a fuel source. Can you explain to me in laymen's terms what the difference is, or why MOX would pose a problem, and why is it surfacing this late into the game?

DHIAA M. JAMIL [DUKE ENERGY CORP/DUKE ENERGY CAROLINAS]: Well, I will leap ahead and tell you that I do not believe the fact that that site has MOX -- I -- my understanding is the percentage of MOX fuel in that site is about 7 percent. I don't believe that

amount or the fact that it's MOX will be any consequence to the event itself. So having said that, I would tell you that the difference is, they start their cycle with a higher level -- very small but higher level -- of plutonium in that fuel assembly, the 7 percent of their fuel assemblies. Plutonium is naturally produced -- not naturally, but it is produced in the fission product inside of the reactor. But as a form of recycling some of that, they start out with pre-engineered fuel assemblies that has a higher level of plutonium rather than fissile uranium in their fuel assemblies. It's a very efficient way of using nuclear fuel, and I am highly confident that once the reviews are done, the fact that they use MOX is not a relevant aspect of the accident that's taking place there.

CHAIRMAN HOWARD: Thank you. Then my last question to you is -- and I guess listening to you, I'll have to rephrase my question. I was going to ask you about what magnitude earthquake was the design of your plants able to withstand, but I guess I'll phrase it, can your plants withstand a hurricane -- I mean, an earthquake of a magnitude of 9 on the Richter Scale?

DHIAA M. JAMIL **[DUKE ENERGY CORP/DUKE ENERGY CAROLINAS]**: That is a very difficult question to answer, because the design criteria I spoke about don't go by Richter Scale. It is based on peak ground acceleration that is assumed with a certain seismic event in mind. We design plants for the maximum predictable ground acceleration for the location of that plant. So naturally, if you're going to build a nuclear plant in Japan, your predictable -- maximum predictable ground acceleration, you need to assume a higher number than if you build it on rock in the Piedmont of the United States.

So having said that, designers of reactors have a set design that they want to replicate in different places, so they build their facilities to envelope as much as possible. So there's going to be a lot of similarities in the way they designed theirs, which is how we design ours. While I can't tell you whether the 9.0 on the Richter Scale would produce a ground acceleration equivalent with the type of soil we have, with the type of structure that we built our plants on, what I can comfort you on is that the analysis that we will do once the facts are known, we will break down, what does exactly -- what did they exactly see on-site in the

way of ground motion? And then I would be able to, with the help of a lot of analysis and a very talented team, extrapolate that to our own design, to see whether ours envelopes that.

I don't know, necessarily, if it's relevant because of the geology of this part of the world, but we will go through that exercise.

CHAIRMAN HOWARD: I have to add, I've convinced myself that the problem wasn't with the earthquake but with the tsunami at the end. So, you know, it's a redundant question, I guess.

DHIAA M. JAMIL [DUKE ENERGY CORP/DUKE ENERGY CAROLINAS]: Thank you, Mr. Chairman. I failed to say that, and that is really -- I think they could've handled the earthquake. It is the flooding that followed, that swept away some of their systems and damaged their systems, that really will prove to be the blow that did this accident.

CHAIRMAN HOWARD: Thank you. Mr. Rogers, I think Mr. Hamilton referenced an interview you did in Europe, and you used the phrase -- and I thought it was quite unique and I haven't heard it, so -- but you said after the merger, post-merger, that it would give you better insight, quote, "to see around the corner," I believe was your phrase. Can

you tell me why the merger would enhance your ability to see around the corner, as between before the merger, say, with you or Progress, how you could still see around the corner, or why that combination would make it better for you to see around the corner?

JAMES E. ROGERS [DUKE ENERGY CORP]: I think there's a couple of reasons. I think that our industry is in a period of great transition. I think technologies, advanced technologies in generation and advanced technologies for the grid, are being developed and we're going to have to deploy them. And the larger company will have a bigger balance sheet; by definition, we will have, over time, a lower cost of capital, if we maintain the balance sheet as we have today, and that will translate into lower rates.

But the ability to see around the corner is the ability, with such a large company, to experiment with new technologies, and test them, and do pilots. And that will give us the ability to see the impact of these new technologies before others might see it. Because at the end of the day, what we do is take different technologies and integrate them. We're an integrator of

technologies; we deploy technologies.

And when I was talking about seeing around the corner, I'm talking just not only about the ability to do pilots and have deep knowledge about coming technologies, but also I'm talking about the ability to kind of see what the right regulatory regime should be, as our industry evolves in the future. Because I think our mission in the 21st century is going to evolve, and we're going to have a little different mission than we had in the past. And I think that ability to see the future -- as I talked earlier about redesigning the regulatory paradigm, as I talked about formula rates, which I know are not uniquely popular -- I mean --

CHAIRMAN HOWARD: That's all right.

[Laughter]

JAMES E. ROGERS [DUKE ENERGY CORP]: -- openly embraced, but nonetheless, we need to explore these ideas because, you know, as Oliver Wendell Holmes said, the best test of truth is acceptance in the marketplace -- but if you're not testing the ideas, you're not getting the learnings. So a big company versus a very small company has a much better ability to experiment, to test, to look around the corner, to put resources against that, so we'll

start to get a clearer picture of the interplay of technology and regulation in the future.

CHAIRMAN HOWARD: Thank you. We talked some, and you mentioned it, and others have mentioned the implication of the Japan problem on the licensing process. My question is, what implication do you see of this on Wall Street? Will there be a reluctancy or some --

JAMES E. ROGERS [DUKE ENERGY CORP]: Moody's has already issued a report. I kind of skimmed it. I didn't read it that closely. But basically they said that this put -- that they were going to take a closer look at the entire industry, but this event, in and of itself, is not going to lead them to downgrade any specific company in this country with respect to their mix -- the amount of generation, nuclear generation, that they own, or whether they are building new plants or not. I mean, Moody's and S&P -- and this, again, gets back to being a company as big as we will be when we are combined -- they basically said that if you are going to build a nuclear plant, if your rating is here [indicating], they're going to downgrade you when you announce you're building a plant. So what that means is, if you want to keep this rating

[indicating], you need to make sure your balance sheet is stronger -- so you almost have to notch up, to hold your current level in terms of the metrics required with respect to this [indicating] level of credit quality.

So I think that -- I don't believe that Wall Street has reacted yet. I think the rating agencies, out of an abundance of caution, issued this report -- at least Moody's did. I mean, all of them have told us, as I mentioned, that they're going to notch you down the day you announce because of the significant expenditures over a long period of time. But I don't think that the investment community or the debt community has any concerns at the moment, that I've seen expressed.

CHAIRMAN HOWARD: Thank you. You also mentioned that, after this merger, there would be some other opportunities, or you're looking for other opportunities for merger. But you did -- you put a caveat in that the mergers you were looking at were regulated utilities. Why -- is that because of some experience you had in nonregulated utilities? Or why would you categorize or specify just regulated utilities you would look at in the future as possibilities?

JAMES E. ROGERS [DUKE ENERGY CORP]: Well, I think it's -- goes to our value proposition. Our value proposition to our investors is our dividend. And if you're in a vertically integrated, regulated business, your earnings are more predictable. Consequently, you're better able to support a dividend and the growth of the dividend. So that's our value proposition.

In the merchant business, if you look at what's going on in PJM where the prices were here [indicating] and then in '08, you know, the world kind of fell apart and prices dropped dramatically, so the demand went down dramatically and the price of natural gas went down dramatically, and as a consequence you had a deep drop in prices, and -- but there's a concern about the rebound in prices in these deregulated jurisdictions. And my judgment is that a lot of them, like Virginia, have reregulated, and I think in a lot of these jurisdictions they are looking at ways to re-bundle the service because there are no new power plants being built in any of these deregulated states. Take Ohio -- we do business in Ohio -- not a single plant is being built, yet we're building them in North Carolina and Indiana, and we'll be building

them in South Carolina, and so -- because we're only going to build plants in regulated jurisdictions, because we think, given our value proposition to customers, that's the type of business that we want to be in.

CHAIRMAN HOWARD: I admit it's difficult, in my mind, but how would you re-bundle? That's almost like putting, you know, smoke back in a candle. How would you go about re-bundling? Just a quick opinion of it.

JAMES E. ROGERS [DUKE ENERGY CORP]: Well, we're actually in negotiations in Ohio. I was just up there meeting with the commissioners in Ohio about a week ago. And here's what we're trying to do: We basically said -- what they did is they deregulated in 1999, and as a consequence of that, the legislature -- because they didn't want to be blamed, if rates flew up, they froze all the rates in the state. Almost every jurisdiction that deregulated did that, and that was to protect the legislature. And then what you did is, you had a couple of options in terms of you could negotiate, as we did in Ohio, what I call Regulatory Lite, where we basically had a fuel clause, we had a tracker for environmental expenditures, but it was

a three-year contract and then you had to come back in.

What we are really talking to them about is something very fundamental, and our team was there Tuesday testifying before the legislature about creating a re-bundling option in the state. If some of the companies want to be deregulated and continue to operate in the commodity market, they can, but companies like ours, if we want to take our existing generation and dedicate it to the customers -- because we have about 4,000 megawatts of low-cost, deeply depreciated coal plants -- and dedicate it for 20 years -- but we want a return on that, a regulated return on it as we do on our transmission and distribution business in the state. Plus, we've made the case to Ohio that we're not going to build any plants there, I don't think anybody else is going to build plants there, and they will become the California of the Midwest, importing power in the same way California does. And so again, it gets back to the creation of jobs and tax base and that they're losing that opportunity under the current regulatory regime. I know it's a little bit like putting toothpaste back in the tube; I get that point. But I do think it's

doable, and we're trying very hard to do it with the existing generation as a first step, and then with incremental generation we build, with the same kind of regulatory regime going forward.

I should say the most successful re-bundling was done -- they tried a little bit in Michigan but didn't do it quite as well as Virginia. And when they re-bundled, they re-bundled in a way that makes a lot of sense.

CHAIRMAN HOWARD: One last question. It's a double question, and I will give Mr. Ellerbe a warning; if I'm going outside the areas of this hearing, please correct me. I won't be -- you won't hurt my feelings. Talking about coal, you mentioned coal a couple of times, and you were sort of negative on it, or I perceived that. You mind telling me about your experience with your coal gasification plan in your system, both pro and con?

JAMES E. ROGERS [DUKE ENERGY CORP]: Sure, I'd be delighted to do that. There are pros and cons. We're building -- let me put it in context. We're building two plants right now. We're building, in North Carolina, a supercritical pulverized coal plant. And that plant, it was a reference plant. In other words, a design, and all we're doing is

building to that design. And we're on plan, under budget -- or, on budget. And so we will complete that plant as scheduled in '12. And that is, again, where you had a reference plant.

In Indiana what we're doing -- and that's an advanced technology, supercritical. In Indiana, we're scaling up a technology, coal gasification, been around for a long time, but it's never been scaled up to a 630 megawatt size plant. What we don't have in Indiana is a reference plant, so it's not easy to predict when you're scaling. And so the challenge that we've really had is, we have Bechtel and GE -- I mean, Bechtel is one of the best contractors in the country; GE is a great equipment manufacturer -- and along with our own people, we did an estimate that it would cost $1.9 billion to do this project. Then, as we got into the project, we thought that -- I mean, we went in with the notion that we would have the ability to be under the Bevel Amendment, which means that we would be able to discharge the water by drilling wells deep in the ground and putting it in below the aquifers. Well, the EPA rejected it. So that meant we had to spend over $100 million building a water treatment facility. I mean, this is a 150-

acre site. So then we build a $150 million water treatment facility. And as we got into building the gasifier, what we really found is that, to make sure that it worked, the original design really needed to be redesigned. And this is the problem of not having a reference plant. So as a consequence, we did the redesign; the cost went up.

So coupled with that, there in Indiana, we have a tracking provision that allows us to get QWIP on coal plants. Well, what happened is, is because we had an increase -- the commission approved the 2.35 tied, in part, to some of these reasons -- they got out of sync, and so our AFUDC started to rise, because if you're not getting QWIP, you're accruing the AFUDC. So that's driving up the cost of the plant, and that was about -- so we had an additional 530 and about $150 million of that was AFUDC which we had no control over, was totally in the hands of the commission.

So the bottom line is, is that plant we have -- are projecting that the cost will be roughly 2.88, and if we take the QWIP out, it's 2.71. And what we have done in our litigation position recently filed is cap the price, and so anything over that, we will eat it -- or the investors will

pay for it -- and what we've done is we have structured the depreciation and the incentive, because in Indiana they gave us an incentive to build this advanced technology on our return on equity, so we turn that down, so this $530 million increase that you've read about was going to have a 3 percent increase for consumers, at the end of the day with the modifications that we've made, it will have a zero impact on consumers when it goes into service.

But, the lessons that we've learned from that are pretty significant. And I think the lessons are really going to help us when it comes to building nuclear plants, because I don't want to be the first person building an AP1000, to be blunt with you. I mean, I know that only because the guy in charge over here [indicating] kind of looked at me and said -- because I always like to be first, and he said this is an area you don't want to be first. He said you're lots smarter to be number two, and learn from what others are doing. And we are learning today. I mean, we're learning from the Chinese, who are building a couple of AP1000s, and we're monitoring -- you know, we are following, as SCANA is, and Southern, in terms of what they

are doing.

So our view is, the experience of coal gasification just reinforced in our mind, if you don't have a real good reference plant that's been built before, you don't know what those costs are going to be, because things happen on the way to completing the plant. And if you go back to the early days in the nuclear industry, as I talked about earlier -- you go back when we were scaling up coal plants from 70 megawatts to 100 to 300 to 600 to 800, we always, during those periods had -- the costs always tended to be higher than we expected, because we never had a reference plant. So, I mean, the lesson I'm taking out of this in Indiana -- and it's been a painful experience for a variety of different reasons, in addition to just the whole process of trying to build it; we're about 80 percent complete now -- the lesson is, don't build a plant unless someone has already built that plant and you can use it as a reference basis to make your estimates. And again, that is really important to maintaining your credibility with a commission, because when you come in with a billion dollars over, nobody enjoys that day when you share that with them, and so -- and that's just

the reality that we've had to face in Indiana.

CHAIRMAN HOWARD: Well, now you'll have the reference point, in another 20 percent, and you can build another one using it, since you have a reference point.

JAMES E. ROGERS [DUKE ENERGY CORP]: Well, you know, I'm in a -- I've kind of evolved on this. I grew up in Kentucky -- notwithstanding my family living in the Carolinas for a long time, but I grew up in Kentucky where there's only three things you can do -- and I know the former chairman's heard me say this -- you can only do three things: coal mine, moonshine, or get on down the line.

[Laughter]

And so I'm very familiar with the coal industry, and the implications of mining and mountaintop mining, and all the various environmental implications. I also know that 50 percent of our electricity comes from coal in this country.

But I have become -- since the merger with Duke, I've become a true believer in the role that nuclear can play, and I actually think that if we are sitting here in 2050, nuclear will trump coal, solar will trump wind, in terms of its ability to

produce affordable electricity, reliable electricity, and clean electricity for our customers.

CHAIRMAN HOWARD: I said I had one more question, and that's true, because my question is related to coal and you just made reference to it. I believe it was here, but someplace -- and I'm giving you the credit. If you didn't say it, then I apologize. But there was some concept that you or someone had about having a two-piece pricing of coal, one of the coal that came off the mountaintop, and one of coal that was mined. Was that you?

JAMES E. ROGERS [DUKE ENERGY CORP]: No. I mean, what we did -- and maybe this is what you've read -- is that we have been under attack from different environmental groups, because a lot of our coal in our plants, in North Carolina, comes from Central App., and much of that area's mountaintop mining. So what we did is go out and get bids from our various coal suppliers and say, "Tell me what it would cost from a mountaintop mine versus from other mines, and let us see what the price differential is." And so we're in the process of getting those prices in, and there is a Delta. And

we forecast that the price of coal from mountaintop mining will probably be less than from other sources further away, and so it's really one of those classic trade-offs between affordability and clean, and -- or environmental impact.

And so, no, we have asked the question -- and there's two different pricings, because, you know, we are the third largest consumer of coal in the country, so we know the coal markets reasonably well. And so, and most of the -- all our plants in the Midwest, we don't burn coal from mountaintop mining; we mainly burn Illinois Basin coal, and that is cheaper as a general rule. But by the time you transport it down here, the transport cost is significant.

CHAIRMAN HOWARD: Thank you. I understand Commissioner Fleming has another question.

COMMISSIONER FLEMING: Oh, yes, I did want -- if you will -- and this goes to, I guess, Mr. Jamil. First of all, I just really appreciate the information you've given us today -- and as you heard, Mr. Byrne was here this week, as well -- and how much -- I just have great respect for the work you all are doing. And one of the benefits, I think -- I don't know whether you'd call it a

benefit. One of the outcomes of the Japanese incident is that we, as a general public, are learning the extent of what you all do, and the safety measures that are in place. And I agree with Mr. Rogers that I feel very comfortable with what is happening in the United States. I do worry about the international community, as well.

But my question, though, is back -- this came up at a conference I was at recently, about another company that had decided not to build nuclear, that because, in case if an accident did occur, how they would absorb the cost of that. My question, though, is what type of insurance is available for nuclear plants? Now, I did learn there that the Federal Government takes care of any societal issues that may occur outside the plant, if something were to happen. But how about with the plant itself?

DHIAA M. JAMIL [DUKE ENERGY CORP/DUKE ENERGY CAROLINAS]: Nuclear plants have two forms of insurance. One is the property insurance we have through NEIL -- is the insurer -- and we also have, I call it, self-insured as a nuclear community, where in case of an accident, the liability portion of the cost is covered through the second insurance that is

somewhat self-insured. There is a deductible that is pretty large. I believe that number is about $300 million. Once that is exceeded, then the recovery would come from the nuclear community on a per-reactor basis, so the entire industry would essentially be covering the liability portion of the insurance.

COMMISSIONER FLEMING: So you think that when you do your risk assessments, that the insurance plays a substantial part of -- that if something like that were to occur, you would feel comfortable with the insurance coverage?

DHIAA M. JAMIL [DUKE ENERGY CORP/DUKE ENERGY CAROLINAS]: The answer has got to be yes. I think the bigger issue that we take a look at is, you know, from a risk assessment point of view, is the investment itself. So there is a significant amount of investment that we are operating, and the risk assessments that we do for the activities has clearly that in mind. I think the answer you will get from any nuclear operator is, the health and safety of the public will trump anything.

COMMISSIONER FLEMING: Right, I understand that.

DHIAA M. JAMIL [DUKE ENERGY CORP/DUKE ENERGY CAROLINAS]:

But beyond that, it's the size of the investment that we try to protect. We're backed up, from a -- so if I don't generate for example, or I've got to replace a significant piece of equipment, the NEIL insurance would cover that.

COMMISSIONER FLEMING: Well, that's -- I mean, I'm thinking -- the health and safety aside, I was just thinking from the financial point of view.

DHIAA M. JAMIL [DUKE ENERGY CORP/DUKE ENERGY CAROLINAS]: So we do have an insurance policy that covers that, and some utilities have exercised that, if they were out for an extended period of time. And then separately, there's the liability portion that we all, essentially, would share.

COMMISSIONER FLEMING: Okay.

JAMES E. ROGERS [DUKE ENERGY CORP]: May I make a footnote to that, that's really important? That is why we created a self-regulating group called INPO, so that we -- because we -- because of that joint liability.

COMMISSIONER FLEMING: Just in this country.

JAMES E. ROGERS [DUKE ENERGY CORP]: In this country. Because of that, that's why we have these rigorous reviews every two years. And oftentimes, I think almost in every event, someone from another

company is part of the INPO team, so they're constantly -- we hold ourselves to high standards and we hold each other to high standards, because we know we're all in this together.

COMMISSIONER FLEMING: And you all have a vested interest, if something happens. I understand -- I mean, if I understood that correctly.

JAMES E. ROGERS [DUKE ENERGY CORP]: No, if there's a plant that's kind of a -- has a low rating, and we rate them, and sitting on the board of INPO over the last five years, I've seen every plant in the country, and they review it with us, and I mean, at this level -- we don't know as much as chief nuclear officers.

COMMISSIONER FLEMING: Uh-huh.

JAMES E. ROGERS [DUKE ENERGY CORP]: -- but we go through and see what the weaknesses are, and the strengths, of every plant in the country, after each review. And if your plant, you know, is rated lower, and it's your plant that's been downgraded a level, you sit there in front of your peers and you explain to them what happened. And that's not a good day for any of us in the industry to have to explain that to our peers.

So I think that that whole process of INPO -- and that's why I mentioned if we could only do that for all the plants in the world, I think that would improve the confidence. But this INPO process, I mean -- and Dhiaa, you should add to this, because you're deeply involved in it -- I think the INPO process protects the public. It is -- NRC is really important, and it protects the public, but this self-regulation, we're in this together, being tough on each other, and knowledgeable about the business in a deep way, I think is even greater protection to the public.

DHIAA M. JAMIL [DUKE ENERGY CORP/DUKE ENERGY CAROLINAS]: I agree with that, Jim. The NRC, of course, has standards of compliance to the regulation, which is very predictable and it's constant. INPO and the self-regulation is standards of excellence, which are always moving. You never really get there, and we continually drive each other to -- and Jim made mention of it, you know: You get a very high rating during those things, but you walk away feeling really bad, because they always are highlighting areas that you can improve.

COMMISSIONER FLEMING: Thank you. I didn't -- that's new information. I really appreciate having

that information. Do you think you'll get the -- you'll be successful at getting certain standards worldwide?

JAMES E. ROGERS [DUKE ENERGY CORP]: I think it's a long but. What I mean is, we tried before, but we're going to use the Japanese incident to really accelerate our efforts in doing it. And if that happens, I think that will be good for the planet, and it will be good for the future of nuclear -- all over the world, but in the US especially.

COMMISSIONER FLEMING: Thank you.

CHAIRMAN HOWARD: Thank you, very much. I really appreciate it. Before I go further, I'd like to ask Ms. Edwards, does ORS have any questions or any comments?

MS. EDWARDS: No, thank you, Mr. Chairman.

CHAIRMAN HOWARD: Thank you. Again, I'd like to thank you. I'd like to thank Mr. Ellerbe for his interest in putting this together. Ms. Heigel, congratulations on your first anniversary --

CATHERINE E. HEIGEL [DUKE ENERGY SC]: Thank you.

CHAIRMAN HOWARD: -- and we look forward to many more.

CATHERINE E. HEIGEL [DUKE ENERGY SC]: Thank you.

CHAIRMAN HOWARD: And with that, the hearing

is adjourned. Thank you, very much.

JAMES E. ROGERS [DUKE ENERGY CORP]: Thank you.

[WHEREUPON, at 12:40 p.m., the proceedings in the above-entitled matter were 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 27th day of March, 2011.

Jo Elizabeth M. Wheat, CVR-CM-GNSC

ATTEST:

Jocelyn G. Boyd,

CHIEF CLERK/ADMINISTRATOR