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February 7, 2011

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Clerk's Office
N.C. Utilities Commission

Ms. Renné C. Vance, Chief Clerk
North Carolina Utilities Commission
4325 Mail Service Center
Raleigh, North Carolina 27699-4325

RE: Docket No. E-7, Sub 819

OFFICIAL COPY

Dear Ms. Vance:

Enclosed for filing are the original and thirty (30) copies of Duke Energy Carolinas, LLC's Supplemental Direct Testimony of James E. Rogers in the above referenced docket.

Sincerely,



Robert W. Kaylor

Encls.

cc: Parties of Record

4M
AG

7comm

Bennin

vacant

Watson

Hoover

Wite

Hilburn

Sessoms

Chicson

Jones

Hodge

Gruber

3 Pselect

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1 **Q. PLEASE STATE YOUR NAME, ADDRESS AND POSITION WITH DUKE**
2 **ENERGY CORPORATION.**

3 **A. My name is James E. Rogers, and my business address is 526 South Church Street,**
4 **Charlotte, North Carolina. I am Chairman, President, and Chief Executive Officer**
5 **(“CEO”) of Duke Energy Corporation (“Duke Energy”). Duke Energy Carolinas, LLC**
6 **(“Duke Energy Carolinas” or the “Company”) is a subsidiary of Duke Energy.**

7 **Q. HAVE YOU PREVIOUSLY FILED DIRECT TESTIMONY SUPPORTING THE**
8 **AMENDED APPLICATION IN THIS DOCKET?**

9 **A. Yes.**

10 **Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY?**

11 **A. *The purpose of my supplemental testimony is to update the North Carolina Utilities***
12 ***Commission (“the Commission”) on the status of partnership opportunities for Duke***
13 ***Energy Carolinas relating to the William States Lee Nuclear Station (“Lee Nuclear” or***
14 ***“the Project”). On February 1, 2011, the Company entered into an option agreement***
15 ***(“Agreement”) with JEA, a municipally-owned electrical utility serving the City of***
16 ***Jacksonville, Florida, that grants JEA the option to purchase a portion of the Lee Nuclear***
17 ***project at a future point in time. In exchange for the option, JEA has agreed to pay Duke***
18 ***Energy Carolinas \$7.5 million. The execution of this Agreement is yet another step***
19 ***forward in the development of the Project and provides further evidence of Duke Energy***
20 ***Carolinas’ commitment to regional nuclear generation and its commitment to prudently***
21 ***manage the risk profile of this important and necessary project for its customers.***

1 **Q. PLEASE DESCRIBE THE OPTION AGREEMENT WITH JEA.**

2 **A.** Under the Agreement, Duke Energy Carolinas has granted JEA an option to purchase an
3 undivided ownership interest in, at JEA's discretion, at least five percent (5%) and no
4 more than twenty percent (20%) of the Project. JEA may exercise that option during a
5 specified period of time after Duke Energy Carolinas (1) negotiates and executes an
6 Engineering, Procurement and Construction ("EPC") Agreement; (2) negotiates and
7 executes the Ownership and Development Agreement; (3) negotiates and executes the
8 Operating and Maintenance Agreement; and (4) receives the Combined Operating and
9 Construction License ("COL") from the U.S. Nuclear Regulatory Commission ("NRC")
10 for the Project. At such time, Duke Energy Carolinas will notify JEA that it is moving
11 forward with the Project and plans to make all the necessary remaining regulatory filings
12 to support the construction of the Project. JEA will have ninety (90) days from receipt of
13 the above notice from the Company to exercise its option to participate in Lee Nuclear.
14 If JEA exercises its option, it will join in the Company's filing of the application for a
15 Certificate of Environmental Compatibility and Public Convenience and Necessity
16 ("CPCN") and Base Load Review Order ("BLRO") with the Public Service Commission
17 of South Carolina ("PSCSC").

18 **Q. IS JEA NOW AN EQUITY PARTNER IN THE LEE NUCLEAR PROJECT?**

19 **A.** No. JEA does not own any interest in the Project. Under the Agreement, JEA only holds
20 an option to participate in the Lee Nuclear project, which JEA may or may not choose to
21 exercise in its discretion at the appropriate time. Duke Energy Carolinas firmly believes
22 that this approach provides necessary flexibility for both parties and advances regional
23 participation in this important Project.

1 **Q. HOW IS THIS OPTION AGREEMENT BENEFICIAL TO THE CONTINUED**
2 **DEVELOPMENT OF THE PROJECT?**

3 **A. As I stated above, Duke Energy Carolinas views the sale of this option to JEA as a very**
4 **positive development and strong step forward for Lee Nuclear Station. The Company has**
5 **been, and will continue to be, a strong supporter of the regional generation concept for**
6 **new nuclear development. We believe this is an excellent first step to bring in partners**
7 **and make regional generation a reality. The Company is pursuing partners to share in the**
8 **construction, project management, and operational risks of constructing Lee Nuclear**
9 **Station, and, in turn, to share in the long-term benefits of this Project.**

10 The Company believes that the option provides a mechanism for JEA to remain
11 engaged in the project and increases its likelihood of participating in the project after the
12 Company's receipt of the COL. In addition to the benefits of risk sharing, additional
13 partners on the Project will increase the financial flexibility the Company needs to meet
14 customer demands in the face of tremendous uncertainty relating to future environmental
15 constraints that will impact its current fleet. As less of the Company's capital will be tied
16 up in a single project, the Company will be better-positioned to respond effectively as the
17 evolving environmental requirements become more certain. For these reasons, Duke
18 Energy Carolinas firmly believes that bringing in partners on the Project is in the best
19 interest of our customers.

1 **Q. DOES DUKE ENERGY CAROLINAS' EXECUTION OF THIS OPTION**
2 **AGREEMENT WITH JEA MEAN THAT THE COMPANY DOES NOT NEED**
3 **ALL OF THE CAPACITY FROM THE PROJECT IN 2021?**

4 **A.** No. Duke Energy Carolinas' 2010 Integrated Resource Plan ("IRP") clearly
5 demonstrates that the future capacity and energy needs of the Company exceed the full
6 output of 100% of the Project. To the extent that the Company will receive less than
7 100% of the output of the Project due to JEA's exercise of its option, Duke Energy
8 Carolinas will seek to procure the capacity and energy necessary to meet its needs
9 through the procurement of substitute resources at least cost to its customers, including
10 possible participation in other regional nuclear projects. As I have stated previously,
11 Duke Energy Carolinas believes that joint ownership and regional development of new
12 nuclear facilities is the best path forward to meet the needs of its customers for the future,
13 and in this context that means multiple owners in Lee and Duke's possible participation
14 in other regional nuclear projects.

15 Duke Energy Carolinas recognizes that new nuclear development represents a
16 significant investment that will impact customers and the Company. As such, the
17 Company believes that we must consider all opportunities that will yield potential
18 benefits for our customers and reduce the risks related to its investment in the Project.
19 However, I must clearly re-iterate that the Company is well-positioned to move forward
20 on this project independently and can support the need for its full capacity.

1 **Q. WILL DUKE ENERGY CAROLINAS CONTINUE TO PURSUE ADDITIONAL**
2 **PARTNERS TO PARTICIPATE IN THE PROJECT?**

3 **A.** Yes. As I described in my direct testimony, Duke Energy Carolinas continues to assess
4 opportunities for joint ownership or financial arrangements that could be beneficial to its
5 customers. This option agreement with JEA represents a sound and strong first step
6 towards achieving its regional nuclear generation plan whereby multiple companies in the
7 region will partner to share risk and smooth out the rate impact to customers resulting
8 from these capital-intensive projects. Duke Energy Carolinas will continue to update the
9 Commission if there are any additional developments regarding joint ownership decisions
10 for the Lee Nuclear Station.

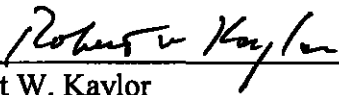
11 **Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL TESTIMONY?**

12 **A.** Yes.

CERTIFICATE OF SERVICE

I certify that a copy of Duke Energy Carolinas, LLC's Supplemental Direct Testimony of James E. Rogers in Docket No. E-7, Sub 819 has been served by electronic mail (e-mail), hand delivery or by depositing a copy in the United States Mail, first class postage prepaid, properly addressed to parties of record.

This the 7th day of February, 2011.



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