

From: Turner, Jim
To: Rogers, Jim; Bowman, Roberta B
BCC: bt.toney@duke-energy.com
Sent: 3/1/2010 8:07:29 AM
Subject: possible language for board letter

Here is suggested language for the board letter:

At last week's board meeting we briefed you on the significant cost challenges we are facing at our Edwardsport IGCC project. The day after our board meeting, Jim Turner and I met with Indiana Governor Mitch Daniels to brief him on the situation. The Governor has been a strong supporter of this project from the beginning, and we wanted to make sure he was fully informed of the ongoing cost pressures.

The meeting went remarkably well. Governor Daniels talked thoughtfully through our issues and even observed at one point that "well, green is not cheap." We explained to the Governor that even though we are frustrated with GE and Bechtel because of the obvious differences between the 2007 FEED study and the current design of the plant, our focus at this point will be on working with these two vendors to complete the construction of the plant in as timely and cost effective manner as possible. We did suggest to the Governor that we would be facilitate a meeting between Duke Energy (Rogers), GE (Immelt), and Bechtel (Riley Bechtel) so that the Governor could convey to everyone his concern about the ongoing cost pressures and his desire that we complete this project in the best interests of Indiana consumers and stakeholders. We also committed to working aggressively in Washington to secure any federal money that might be available for clean coal technology given that this plant — because of its size and O2 capture/storage potential — is truly *the* premier clean coal facility in the world.



Again, it is only one meeting, but it appears at this point that Governor Daniels continues to believe strongly in the merits of the Edwardsport IGCC project, even at an increased price.

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To: Duke Energy Board of Directors
From: Jim Rogers
Subject: February, 2010 Board Letter
Date: March 5, 2010

Edwardsport

At our February meeting, we briefed you on the significant cost challenges we are facing at Edwardsport. The day after our Board meeting, Jim Turner and I met with Indiana Gov. Mitch Daniels to brief him on the situation. The Governor has been a strong supporter of Edwardsport from the beginning, and we wanted to make sure he was fully informed of the ongoing cost pressures.

The meeting went remarkably well. Gov. Daniels talked thoughtfully through our issues and even observed at one point that "well, green is not cheap." We explained that even though we are frustrated with GE and Bechtel because of the obvious differences between the 2007 FEED study and the current design of the plant, our top priority is to work cooperatively to finish the plant in as timely and cost effective manner as possible. We offered to facilitate a meeting among the principals -- Duke Energy (Rogers), GE (Immelt), and Bechtel (Riley Bechtel) -- so that the Governor could convey his concern about the cost pressures and his desire for us to complete this project in the best interests of Indiana consumers and stakeholders.

We also reminded the Governor that [REDACTED]

You'll recall that we've already had Ernst & Young review our re-estimate work. [REDACTED]

[REDACTED]

[REDACTED]

Finally, we committed to Gov. Daniels to work aggressively in Washington to secure any federal funds that might be available for clean coal technology. That update follows.

Washington Update

I was in Washington for a couple of days this week to advance two important -- but difficult -- policy initiatives: 1) Seeking federal support for Edwardsport under the FutureGen program; and 2) Proposing favorable tax treatment for repatriating our foreign income.

As you may recall, the Bush Administration originally conceived of FutureGen as a public-private partnership to build a zero-emission coal-fired power plant. The basic plan was to add carbon capture and sequestration technology to an IGCC plant. The initiative has floundered due to a lack of private financing, although the Obama Administration has pledged \$1 billion to the project. We have long held the view that Edwardsport represents "FutureGen 1.0", so we should have access to some of the federal support.

On the repatriation issue, given the need for job creation and the US deficits, we thought that there might be a political opening to allow energy companies to repatriate foreign income without facing a huge tax penalty, as long as the funds were immediately invested in clean energy, smart grid or other job-creating priorities. There have been past experiments with short windows for repatriation with mixed results, at least in the eyes of some of the key Congressional and Administration players. We are seeing if a very narrow approach that is designed to fuel investment in clean energy and create private sector jobs could be supported by some of the current doubters.

Bill Tyndall (who heads our Washington office) and I had a series of meetings this week to explore both issues. I had lunch with Energy Secretary Chu and several of his key deputies, followed by a meeting with DOE Under Secretary Kristina Johnson, who heads the FutureGen project. We also had dinner with Secretary of Commerce Gary Locke and his Director of Policy and Strategic Planning, Travis Sullivan, who are enthusiastic supporters of repatriation. From these and other meetings that Bill has had, we believe there is traction for both initiatives. Bill will be following up with the staff at DOE and Commerce, and Jim Turner and I will also be involved in pushing these initiatives forward.

I called the issues "difficult" because of the climate in DC and the partisanship that blocks getting anything done right now. But, success with either effort would be a huge win for our shareholders and customers.

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