STOP Coalition
Stop Tenaska's Overpriced Power
www.stopcoalition.com

- Illinois Chamber of Commerce
- Chicagoland Chamber of Commerce
- Illinois Manufacturers' Association
- Illinois Retail Merchants Association
- Building Owners and Managers Association
- Chemical Industry Council of Illinois
- Metropolitan Water Reclamation District (MWRD)
- Exxon Mobil
- Illinois Competitive Energy Association
- MidAmerican Energy Company's Unregulated Retail Services Division
- Illinois Industrial Energy Consumers
- Retail Energy Supply Association
- Illinois Petroleum Council
- Illinois Business Roundtable
- iBio
- Nucor Steel Kankakee

Stop Tenaska's Overpriced Power

Indiana Case Study Shows Why Illinois Should Reject
The Taylorville Energy Center (TEC)

A coal-gasification plant in Edwardsport, Indiana -- similar to what Tenaska Energy wants to build in Taylorville, Illinois -- has been in construction since 2008. The plant is **$1 billion over budget** and **still not complete**. Indiana's experience offers a powerful case study on why Illinois should reject the Taylorville Energy Center (TEC),

- The owners of the Edwardsport plant originally estimated the cost would be about $1.98 billion. But the project has suffered **numerous construction and engineering setbacks resulting in huge cost overruns.** The project's scope and complexity have driven costs up to a currently estimated **$2.98 billion.**[1] This includes an October 2011 filing that upped the costs an **additional $220 million.**

- As a result of being $1 billion over budget, the Edwardsport plant is one of the **most expensive projects** of any kind in the state's history.

- Predictably, the plant's owners are **passing most of the costs onto consumers**. The company has won approval to pass along at least **$2.35 billion** of its costs to customers. And they may pay even more[2].

- The company estimates that average retail electrical rates could rise as high as **19.2 percent in 2014**[3]**,** in part as a result of these extreme cost overruns. This will drive up costs for business, hampering job creation efforts and stifling economic development throughout Indiana. It will also hurt Indiana families at a time when many are already struggling to make ends meet.

- Guaranteed cost recovery through long-term contracts is nothing but a handout that disincents Tenaska from keeping costs down and **only hurts a state's competitiveness and economic productivity**.

Taylorville Energy Center = Increased Electricity Costs + Loss of Jobs + Unproven Technology

For more information please visit www.stopcoalition.com

1 "Duke says Edwardsport project cost increases more than $200M," *Indianapolis Star*, October 20, 2011
2 "Duke to Take $220 Million Charge on 'Clean Coal' Plant, " *Wall Street Journal*, October 20, 2011
3 Indiana Utility Regulatory Commission, Public's Exhibit No. IR Cause No. 43114 IGCC 4 SI, Phase I, July 14, 2011, page 11.

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INDY STAR .COM
THE INDIANAPOLIS STAR

Duke says Edwardsport project cost increases more than $200M

By John Russell
October 20, 2011

Duke Energy Corp. said today the price tag of its troubled Edwardsport plant will climb more than an additional $200 million, but the utility says it will pay for the latest overruns out of its own pocket, rather than seek to pass them along to customers in the form of higher electricity bills.

In a public filing today, Duke revised its project cost to $2.98 billion, up from $2.72 billion. Both figures exclude financing costs, which are sure to add millions more to the final cost.

Duke said the revised cost "reflects additional cost pressures resulting from unfavorable labor productivity trends and incremental material quantity and scope changes."

The company said it will recognize a pre-tax impairment charge of approximately $220 million for the quarter ending Sept. 30.

Altogether, Duke said it has incurred approximately $2.9 billion on the project. The company has won approval to pass along $2.35 billion of that to customers.

But Duke faces growing opposition from customers and consumer groups. In July, the Indiana Utility Consumer Counsel's office accused Duke of gross mismanagement and of concealing vital information about the plant from regulators. It recommended that state regulators force Duke to swallow all of the cost overruns at the plant, totaling nearly $1 billion, and said ratepayers should be charged only for the original price tag of $1.98 billion.

Also opposing higher costs are a group of large industrial customers and several public action groups, including Citizen Action Coalition of Indiana.

The massive coal-gasification plant, one of the most expensive projects of any kind in Indiana history, has suffered numerous construction and engineering setbacks, resulting in several huge rounds of cost overruns that Duke has sought to pass along to customers. The plant also has been plagued with a growing ethics scandal involving widespread secret communications between the utility and the former chairman of the Indiana Utility Regulatory Commission

Duke, however, continues to defend the need for the plant, and will plead its case before regulators at a pair of public hearings later this month. The company has argued that it has managed the Edwardsport project prudently and should be allowed to pass the cost overruns to ratepayers. The coal-gasification plant, located in southwestern Indiana, is more than 90 percent built. It is set to open next year.

“It’s been 30 years since we last built a coal-fired power plant in Indiana, and constructing a plant today that meets environmental requirements and produces reliable power is expensive," said Doug Esamann, president of Duke's Indiana operations. "While this facility costs more than we anticipated, customers will not be asked to pay for this cost increase needed to complete the project. We’re in the home stretch of finishing a plant that positions us for ever-tightening environmental rules while still using a local and abundant energy source, coal.”

Citizens Action Coalition of Indiana, which has opposed the plant from the start, said Duke's announcement was no surprise.

"It's just further evidence that Duke has no handle on the costs of this plant, which we've suspected from the beginning," said Kerwin Olson, the group's interim director. "It just shows the company is mismanaging this whole project."

THE WALL STREET JOURNAL.

Duke to Take $220 Million Charge on 'Clean Coal' Plant

October 20, 2011
By Rebecca Smith

Duke Energy Corp. said Thursday that it will take a $220 million charge against earnings to cover some of the huge costs of building its marquee "clean coal" power plant in Indiana.

The disclosure, made in a regulatory filing, comes less than a week before Indiana regulators begin hearings to determine how much Duke's customers will have to pay to cover the costs of the Edwardsport facility. Duke now projects the plant's cost at $3 billion—$1 billion more than originally forecast.

Consumer groups and large industrial power users in the state argue that much of that cost should be absorbed by Duke and its shareholders.

The 600-megawatt plant will be one of the costliest nonnuclear power plants ever built in the U.S. The project had been intended to show how coal could be converted into a clean-burning gas and used to make affordable electricity, but its rising costs make that goal more challenging. The plant is expected to boost electricity rates in Indiana when it enters service next year.

Regardless of the plant's eventual price tag, state regulators have agreed to let Duke's Indiana utility charge customers for $2.35 billion of Edwardsport's cost. But the Charlotte, N.C., company and the Indiana Utility Regulatory Commission are wrangling over the remaining expense, which tops $700 million.

Duke spokeswoman Angeline Protogere said that rising labor and materials costs are responsible for much of the increase in the plant's costs. For example, the company has had trouble finding skilled welders, she said, and has had to deal with the complexities of building a one-of-a-kind complex.

But consumer groups and some of Duke's biggest customers take issue with Duke's story. "This is a project of massive magnitude that wasn't properly scoped, designed, engineered or estimated, and has been grossly mismanaged from the start," said Kerwin Olson, head of the consumer organization Citizens Action Coalition in Indianapolis.

The utility commission has come under fire for failing to oversee the project properly. Allegations last year that members of the panel were too cozy with Duke prompted the departure of the chairman of the utility commission and the president of Duke's Indiana utility.

Duke's plans for a charge caught many by surprise. Hugh Wynne, senior research analyst at Sanford C. Bernstein & Co. in New York, said the company hadn't signaled it would take another hit to earnings after the $44 million Edwardsport-related charge it took in last year's third quarter.

"I'd be cautious about expecting any cost recovery for Duke above the $2.35 billion it's got now," Mr. Wynne said. "It looks really bad."

Office of Consumer Counselor reverses stance on Duke Energy's Edwardsport plant

July 8, 2011
valleywatch.net
By John Blair

In a shocking reversal of position, the Indiana Office of Utility Consumer Counselor (OUCC) has reversed its support for the Duke Energy Edwardsport power plant fiasco.

Just last November 3, OUCC head, David Stippler gave the plant and ratepayer support for it his glowing endorsement during a "technical hearing" before the Indiana Utility Regulatory Commission (IURC). On July 1, his office reversed that endorsement and said that ratepayers should no longer be on the hook for the massive cost overruns the construction of the beleaguered plant which is now said by Duke to cost more than $3 billion, a figure that does not include carbon capture and sequestration.

Since the plant's inception in 2005, the OUCC has been a leading promoter of the plant, following the lead of Indiana governor, Mitch Daniels who has made the plant the centerpiece of what he calls "home grown energy," since it will presumably use Indiana coal to fuel its electrical generation. At that time Duke claimed the plant would cost $1.2 billion and would incorporate carbon capture and storage technology within that cost.

In fact, last September, the OUCC entered into a "settlement" regarding the plant along with Duke and a group of Duke's industrial customers that would have placed a cap on the costs that ratepayers would have been required to fund at nearly $2.9 billion. At that time, it was only the coalition of health, consumer and environmental advocates including Valley Watch, Save The Valley, Citizens Action Coalition and the Sierra Club that continued to stand in opposition to the plant.

But shortly after the settlement was announced it began to fall apart as a major scandal developed surrounding Duke's hiring of the Chief Administrative Law Judge for the IURC, Scott Storms. Storms had presided over numerous dockets regarding the Edwardsport plant and his employment by Duke set off a storm of protests and inquiries by private and public agencies, including the FBI, which led to the release of hundreds of emails which showed an extremely cozy relationship between Duke and the IURC and especially its chairman, David Lott Hardy, a former lawyer for Duke's predecessor, Cinergy and Public Service Company Indiana.

Hardy, it seemed enjoyed taking advantage of Duke executive's largess including not only expensive breakfasts at exclusive Indianapolis eateries with Duke CEO, Jim Rogers but also repeated social engagements with other Duke execs on their private yachts in Lake Michigan as revealed in publicly released emails.
After the cozy relationships become public knowledge, Hardy was fired by by Governor Daniels in an attempt at damage control since it has been clear that Daniels and Hardy were in lockstep concerning the Duke plant since it was first envisioned. In fact, the day after the public hearing on Edwardsport in late August 2007, Hardy and Daniels both appeared at what was billed as and "Energy Summit" in Evansville giving their enthusiastic endorsement of the Edwardsport facility, well before the IURC had vetted the evidence presented during the hearing or during the formal IURC proceeding.

It was not until November, 2007 that IURC gave Duke the go ahead to force their Indiana customers to assume the risk of building the plant which opponents had very precisely warned would cost far more than the $1.9 billion the IURC approved.

All during this time, the Office of Consumer Counselor was also in lockstep with the Governor and Hardy on their promotion of the plant and remained so until last week when they issued their explosive testimony telling IURC they should no longer require Duke's customers to pick up the cost of the massive overruns Duke had allowed to happen. In fact, in that testimony, they left open the possibility that Duke's mismanagement and concealment might lead them to ask for ratepayer exposure to be even less than the $2.35 billion already approved by the IURC in March 2009.

OUCC's position today is wondrously close to the position of the Joint Intervenors, the collection of consumer, health and environmental organizations that have warned of the exact scenario that has occurred with overruns and mismanagement since the very beginning of the Edwardsport fiasco. the main difference between the two positions at this time is that the Joint Interveners believe the plant is not needed now or in the future and that the 618 Megawatts of power the plant is to produce could be achieved less expensively and with less pollution through the adoption of strong demand side management techniques and efficiency measures instead of building baseline capacity.

In the past, the IURC has shown great deference to the position of the Office of Consumer Counselor. Time will tell if they decide to protect the interests of consumers over the interests of Duke Energy.

Among the testimony filed by the OUCC on the case on July 1 are the following quotes:

From Barbara Smith, OUCC Director of Resource Planning and Communications Division – See: http://www.in.gov/oucc/2625.htm

- **"First, he OUCC supported withdrawal of the Agreement (settlement) because it learned that DEI had improper ex parte communications with the then-chairman of the Commission during the negotiations. This fact raised the possibility that DEI had not negotiated the settlement in good faith."**
- **"Duke has not demonstrated any budgetary constraints on this project. There appears to be a lack of responsibility or accountability on the part of those causing these multi-million dollar cost overruns… The escalating costs have been borne solely by ratepayers, with the benefits going to the shareholders."**
- **"There is little incentive for Petitioner to be cost conscious since the risk of cost overruns is borne solely by the ratepayers… Consumers should not be required to support additional economic burdens due to unjustifiable project changes."**
- **"Rejection of Petitioner's request IS warranted because Duke has failed to demonstrate that the requested project cost increase from $2.35B to $2.88B is prudent. Duke should no longer have a direct and endless line of project funds supplied solely by the ratepayers. Duke shareholders should bear some of the risks."**
- **"Our recommendation that Duke be denied any cost recovery over $2.35B should not be interpreted to mean that the OUCC believes Duke is entitled to recover all costs up to $2.35B. Our testimony in this Phase only addressed cost recovery between $2.35B and $2.88B. The OUCC reserves the right to argue in Phase II, which addresses Duke's conduct since the inception of this project, that Duke is entitled to considerably less than $2.35B."**