



**TESTIMONY OF JAMES E. ROGERS
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BEFORE

HOUSE ENERGY AND COMMERCE COMMITTEE

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Good morning Chairman Waxman, Ranking Member Barton and distinguished members of the Committee. My name is Jim Rogers and I am the Chairman, President and CEO of Duke Energy. We serve a combined population of more than 11 million people in five states in the Midwest and Southeast. On their behalf and mine, thank you for holding this hearing today to discuss USCAP's *Blueprint for Legislative Action*.

For several years now, I have been talking about the need to regulate greenhouse gas emissions. In my judgment, the science, as expressed by the Intergovernmental Panel on Climate Change and the National Academy of Science, is persuasive, and the call to action is compelling. This call to action led Duke Energy to join nearly two dozen other leading companies and environmental organizations to form the United States Climate Action Partnership (USCAP).

We went into this endeavor knowing full well that trying to find consensus on an effective climate change policy would not be an easy task for such a diverse group. And trust me when I say this, it wasn't easy. But, we also knew we had a responsibility to step up and effectively address climate change on a larger scale and the opportunity to be part of a group that could look at this issue from different perspectives and provide Congress with recommendations on how to address various regional and industry

concerns was too great to pass up. USCAP's cross-sectional and diverse membership, which many thought would be its Achilles heel, has turned out to be its greatest asset.

A popular song when I was younger included the line "you can't always get what you want, but if you try sometimes you just might find you get what you need." This quote was on the wall throughout the USCAP discussions and is a fitting description of the Blueprint. The Blueprint itself is the product of countless revisions and heated debates over several years and thousands of hours – similar to what has been, and will be, happening in Congress on this very subject. No one got everything they wanted, but we all got what we feel is needed to ensure a sound climate change policy is created.

What we have produced is a consensus document of recommendations - *The Blueprint for Legislative Action* - that all USCAP members feel is a pragmatic path forward for Congress to enact a sustainable climate policy. The foundation of this Blueprint is based on three equal tenants – protecting our environment, protecting our economy and protecting consumers.

Enacting a policy that equally protects these three areas will not be easy because the issue of climate change is so complex and impacts so many different parts of our society. The tendency of wanting to protect one area more than the others or at the expense of the others must be avoided. USCAP believes the best way to avoid this and provide a fair and balanced policy is to implement an economy-wide cap-and-trade program that includes appropriate cost-containment mechanisms - including offsets and allowances - and supports the development, demonstration and deployment of new low and zero-emission technologies.

While the environmental aspects of climate change policy are very important and are most often seen as the primary policy driver, Congress cannot forget that both cost containment and technology development are critical components of a sustainable climate change program.

The Blueprint reaffirms that an effective policy has to be a combination of various elements working together as one program. Provisions of legislation will not be effective if developed in a vacuum for implementation without consideration of how each piece works when combined with other parts of a bill. Therefore USCAP urges that the recommendations contained in the Blueprint be viewed as a whole and not have each recommendation viewed in isolation.

Why Congress Should Act Immediately

Many people ask me if I still believe, given the current economic situation, that Congress should address climate change immediately. My answer is simply yes. While it may seem counterintuitive, the current economic downturn actually provides Congress with its best opportunity to pass meaningful and sustainable climate legislation.

Protecting Consumers and the Economy

The need to protect our economy and consumers by ensuring the proper safeguards are included as our nation transitions to a new low-carbon environment will be essential, especially in this time of economic uncertainty, in order for Congress to pass, and the President to sign, climate legislation.

As the members of this Committee well know, coal is our nation's most abundant energy resource, and decisions made at both the federal and state level have led us to power half of our country with this natural resource. Congress must recognize that the infrastructure to support this choice of fuel has been built up over the last half century and cannot be replaced overnight. While we must transition to a less carbon-intensive economy as fast as possible, the physical and economic reality of dealing with very large numbers is that the transition will seem gradual. At the same time, consumers in regions of the country that depend heavily on fossil fuels for electric generation should not be punished for decisions made according to the rules of the day when this legacy infrastructure was developed.

Therefore, it is essential that Congress put forward a clear trajectory that allows companies time to invest and build. That means companies must be able to change out their current fleets in a time frame that does not stretch capital expenditures to a point where Wall Street reacts by increasing capital costs and downgrading companies. In addition, customers must have time to absorb those huge capital expenditures. Even though utilities build power plants and depreciate them over a 30-year period, the massive transformation that climate change legislation will require will mean an impact on electric rates in the near and long-term.

As an example, we are now building an Integrated Gasification Combined Cycle (IGCC) plant in Indiana, which we hope to become one of the first large-scale demonstrations of carbon capture and sequestration (CCS) technology. This single plant will increase electricity prices for our Indiana customers by 18 percent, even before we fit it with CCS. Hundreds of these plants will need to be built by the middle of the century to replace the existing coal fleet if we are to have any hope of meeting the targets Congress and the incoming Administration are now discussing. Consumers and businesses can't be expected to pay for these, nor is it physically possible to build them all, within the first 20 years of the program. But if we fail to begin now, we will miss an opportunity at being successful over the long-term.

Much of the climate debate, especially recently, has centered on how allowances to emit carbon dioxide will be distributed. Some have taken the position that allowances should be allocated to the electric sector at no cost to help dampen the additional costs consumers will be faced with in the early years of the program - similar to how allowances were distributed under the 1990 Clean Air Act Amendments. Others have taken the position that all allowances should be auctioned from day-1 of the program and the revenue used to fund federal programs – some climate related, some not.

Duke Energy believes that allocation of no-cost allowances should be viewed as a transitional measure. It is simply a bridge to the point in time at which we can decarbonize our economy in an efficient and cost-effective manner. As I just mentioned,

our current electric power infrastructure has taken decades to build – and we won't revamp it over night. But over time, developing and deploying advanced new technologies will be the key to virtually de-carbonizing our country's electricity system. As we approach that point, the granting of allowances can be phased out.

A full auction starting on day-1 of the program, implemented as some have suggested, takes away the transitional bridge to a low-carbon economy and creates nothing more than a cap-and-tax program, which will increase the cost of the program to electricity consumers. It would disproportionately and unfairly burden those regions of our country that are most dependent on fossil fuels, such as coal, for their electricity supply. Forcing citizens in these areas of the country to bear the cost of buying allowances, while at the same time bearing the cost of replacing the existing carbon intense generation with lower carbon alternatives, would result in a double hit to those customers. A full auction at the start of the program serves no environmental purpose because the environmental integrity of the program is ensured by the cap, not whether allowances are auctioned or allocated at no cost.

Using my company as an example may help to clarify the issue. Duke Energy's customers depend on coal-fired generation for most of their electricity. Those plants were built decades ago, long before anyone raised carbon concerns. A carbon cap that becomes more stringent over time will require us to reduce the amount of carbon our plants emit. That will require us to build new, low- and non-emitting plants, and install carbon capture and sequestration technologies. Our customers will bear the burden of the cost to de-carbonize our generation fleet. And, because our current fleet is more carbon-intensive than those found in some other regions of the country, the costs to build and install this equipment will be proportionately higher than in areas that are less dependent on coal, as noted in my earlier Indiana example. Until new technology becomes available and new plants can be built, we still have to run our existing coal plants to meet the needs of our customers and keep the lights on. To run those plants, we will need allowances. Again, requiring our customers to pay disproportionately higher fleet modernization

costs, and at the same time pay the cost of purchasing auctioned allowances until the fleet can be de-carbonized, is an unfair double punch.

This debate isn't just about the electric industry. Energy intensive heavy manufacturing is centered in the states with affordable energy prices – that tends to be the industrial Midwest. A too-rapid increase in energy prices will hit these already stressed industries at a time they can least afford it. Worse, hitting these industries too hard with significant electricity price increases will cause them to shut down, moving production and emissions overseas to countries without a carbon cap, where emissions are even higher per unit of production. Perversely, our effort to lower emissions in the U.S. could increase them globally. Easing electricity consumers into a low-carbon environment not only helps households, but industries that can be unfairly disadvantaged until or unless we have a true international climate policy.

Providing the Price Signal Needed to Stimulate Large-Scale Private Investment

Bold investment in new low and zero-emitting technologies and the infrastructure needed for a low-carbon economy, are effective ways to generate the jobs and economic growth needed to address the current economic crisis while also positioning the U.S. to succeed in the low-carbon global economy of the 21st century. National climate legislation anchored by an economy-wide cap-and-trade program will create the market price signals needed to stimulate large-scale private investment. This can spark the creation of new jobs quickly while also ensuring long-term opportunity for American workers.

For example, a long-term, stable commitment to provide funding for RD&D for new energy technologies, such as CCS, renewables, and advanced nuclear technologies, would provide high quality, good-paying jobs up and down the chain from research to deployment. EPRI has said such an investment can reduce the present value cost of decarbonizing the electricity sector from approximately \$1.5 trillion to \$900 billion, provided the industry is permitted to build new plants.

There is also a growing view that significant capital injection in infrastructure will be necessary to pull the U.S. out of recession. It has been reported that Congress will soon start discussing a stimulus package of more than \$700 billion. Climate legislation with an economy-wide cap-and-trade program that includes policies for transportation, energy efficiency, and advancing new technologies provides an opportunity to simultaneously focus both private investment and public stimulus spending toward a productive, low-carbon U.S. economy. A price for carbon will provide the market signal necessary to stimulate private investment at the large scale the economy needs. In addition to enabling a more competitive U.S. economy, this market signal and resulting investment will position the U.S. to benefit as the central engine of the global energy technology revolution – not only as the innovator, but also as the leading exporter.

Public investment is also vital for economic recovery and improved U.S. competitiveness. A comprehensive national climate change policy will stimulate economic development thereby generating new revenue at the state and local level. States, in partnership with utilities, can use these public funds, coupled with private investment, to accelerate energy efficiency and the research, development, demonstration, and deployment of new emission reduction technologies. In addition, national climate legislation is the best way to ensure that public spending for economic recovery finances the types of infrastructure that will be productive and economically competitive as the global marketplace increasingly factors in the cost of carbon.

Environmental Clarity

As the leader of an electric utility, my first obligation is to make sure that the lights come on when our customers flip a switch. And I don't mean to sound glib with that statement. Electric production and delivery require a complex network of power generation, transmission and distribution capability. Until we develop advanced storage technology we must generate electricity the instant it is required – constantly and simultaneously matching supply with demand.

We are facing significant capital decisions based on increased electricity demand, along with rising prices, environmental challenges and a national yearning for energy independence. There is no “silver bullet” that will address all of those concerns. It is our responsibility as an electric utility to balance four criteria in meeting our customers’ needs – to provide them with electricity that is available, affordable, reliable and increasingly clean.

In striking that balance, it is critical that we understand the environmental expectations of those who regulate us. In short, Congress needs to replace uncertainty with clarity, and carefully consider the needs of the environment, the economy and changing customer demand in crafting climate change policy. In the electricity sector, where capital investments are large and long-lived, clear signals on the approach to climate change are critical.

With the Supreme Court decision on the EPA’s ability to regulate greenhouse gas emissions, which makes the future of U.S. climate regulation even murkier, the need for certainty through Congressional action is more critical than ever before. And I believe that providing that clarity, particularly in recognition of the immense capital costs associated with changing out our current fleet of power plants to become a less carbon-intense society, is one of the most important tasks that Congress will face in the coming months and years.

Conclusion

Congress has a monumental, but very important task ahead of it – enactment of a sound climate change policy. Consistent with principles articulated two years ago, USCAP has refined its policy recommendations and believes that if combined into a legislative package the *Blueprint for Legislative Action* can provide a path forward for Congress (1) to reduce greenhouse gas emissions through an economy-wide, market-based cap-and-trade program that includes appropriate cost containment mechanisms, (2) to support the development, demonstration and deployment of new technologies that will enable us to reduce greenhouse gas emissions over the long term, and (3) to remove barriers to the

deployment of low and zero-emission technologies through the use of complementary measures.

I believe it is imperative for Congress to act on this issue immediately. The current economic downturn provides Congress with its best opportunity to pass meaningful and sustainable climate legislation that will equally protect our environment, our economy and consumers. Additionally, and because of the economic situation we are currently in, immediate action on climate change can stimulate private investment in the new technologies that will be needed in a low-carbon economy by providing a price signal for carbon and also provide the regulatory clarity industries need in order to move forward.

I want to again thank you Chairman Waxman and Ranking Member Barton and the rest of the members of the Committee for holding this hearing and I look forward to working with you and your colleagues in the House and Senate, as well as the Administration on implementing a well crafted climate change policy.