

LAW OFFICE OF  
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**OFFICIAL COPY**

October 25, 2006

**FILED**

**OCT 25 2006**

Clerk's Office  
N.C. Utilities Commission

Ms. Renne Vance  
Chief Clerk  
North Carolina Utilities Commission  
430 North Salisbury Street  
Raleigh, North Carolina 27603

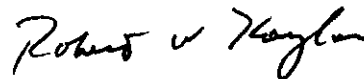
Re: Docket No. E-7, Sub 790

Dear Ms. Vance:

Enclosed for filing are the original and twenty-five (25) copies of Duke Energy Carolinas' Notice of Updated Cost Information (Public Version) in the above-mentioned docket. I also enclose under seal a version which contains confidential information.

Parties that have signed a confidentiality agreement will receive the "Confidential" version of the Notice of Updated Cost Information via electronic mail.

Sincerely,



Robert W. Kaylor

cc: All Parties

Clerk<sup>mb</sup>  
AG  
2 Comm.  
Bennink  
Kirby  
Watson  
Hoover  
Sessions  
Kite  
Erickson  
Gruber  
3 Legal  
3 Acctg.  
2 En/Res.  
3 Elec.

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

**FILED**  
**OCT 25 2006**

Docket No. E-7, Sub 790

Clerk's Office  
N.C. Utilities Commission

In the Matter of )  
)  
Application of Duke Energy Carolinas, LLC ) **DUKE ENERGY CAROLINAS'**  
for Approval for An Electric Generation ) **NOTICE OF**  
Certificate of Public Convenience and Necessity ) **UPDATED COST INFORMATION**  
to Construct Two 800 MW State of the Art Coal )  
Units for Cliffside Project )

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Duke Energy Carolinas, LLC ("Duke Energy Carolinas" or "Company") hereby provides notice of new cost information on the Cliffside Project.

BACKGROUND

On May 11, 2005, Duke Energy Carolinas filed preliminary information pursuant to Rule R8-61(a) for a Certificate of Public Convenience and Necessity ("CPCN") to construct two new state of the art 800 MW coal-fired electric generation units at its existing Cliffside Steam Station site along the Broad River in Cleveland and Rutherford Counties. At the time of the Company's preliminary CPCN information filing, the estimated cost of the Cliffside Project was [CONFIDENTIAL]. On June 2, 2006, Duke Energy Carolinas filed its CPCN Application pursuant to N.C. Gen. Stat. §62-110.1 and Rule R8-61(b) and filed supporting testimony from James E. Rogers, President and CEO of Duke Energy Corporation; Ellen T. Ruff, President of Duke Energy Carolinas; Janice D. Hager, Vice President, Rates and Regulatory Affairs for Duke Energy Carolinas; William R. McCollum, Jr., Group Vice President of Regulated Fossil/Hydro Generation for Duke Energy Corporation; and Mark R. Griffith, Vice President with the consulting firm of Global Energy Advisors. The Cliffside Project cost estimate had increased to [CONFIDENTIAL] by the time of the CPCN Application filing. Duke Energy

Carolinas developed its cost estimate for the Cliffside Project by using industry standard Electric Power Research Institute "EPRI" TAG© data, indicative pricing from engineering, procurement and construction (EPC) firms, and the Company's own experience. The case came on for hearing as ordered on September 12, 2006, and continued through September 14, 2006. Pursuant to Commission order, the parties filed proposed orders and/or briefs on October 13, 2006.

Based upon new information received by Duke Energy Carolinas, the Company submits the following:

1. As Duke Energy Carolinas noted in its Testimony in this proceeding, various market factors are in flux that will likely impact utility generation construction projects across the United States, including the Cliffside Project. Recently published indicative pricing of power plant equipment, published upward trends of commodity prices and deliveries, and area labor market survey updates indicate that market competition is creating a trend of fewer bidders, higher prices, earlier payment schedules and longer delivery times.

2. Subsequent to the evidentiary hearing in this matter, the Company received competitive proposals for two major scopes of power plant equipment for the Cliffside Project. Duke Energy Carolinas has now received competitive proposals for the boiler, steam turbine generator, and air quality control system, which suggest that the capital costs for these major components could now be as much as **[CONFIDENTIAL]** higher than the cost estimates in effect when Duke Energy Carolinas filed its 2006 Annual Plan on September 1, 2006. These three major components represent approximately twenty percent of the Cliffside Project's total cost.

3. Based on this recent information, if the overall project costs for the Cliffside Project increase in the same proportion as the twenty percent of the project for which the Company has now received proposals, the revised total cost estimate for the Cliffside Project would be approximately [CONFIDENTIAL]. Due to the market pressures noted above, Duke Energy Carolinas believes prices and schedules for competing technologies (combustion turbine combined cycle and Integrated Gasification Combined Cycle (“IGCC”)) would also be higher than previously estimated.

4. As presented in its Testimony at the hearing, Duke Energy Carolinas will not receive final bids for the entire Cliffside Project until the first quarter of 2007 and will make revisions to the cost estimate at that time. The Company is mindful of the annual progress report requirement of N.C. Gen. Stat. §62-110.1(f), which anticipates that cost estimates will be revised during the course of such a construction project; however, given the magnitude of the potential revisions to the cost estimate, Duke Energy Carolinas wanted to insure that the Commission and the parties had the latest information available.

5. Duke Energy Carolinas will continue to monitor and evaluate the estimated cost of the Cliffside Project and will file a detailed report within thirty days of the cost finalization in the first quarter of 2007. Duke Energy Carolinas will evaluate options to meet the substantial capacity needs demonstrated in the 2006 Annual Plan, and prepare and file an updated Annual Plan with the Commission in accordance with a schedule developed pursuant to the expedited scheduling conference requested below.

6. As presented in the Company’s Testimony, Duke Energy Carolinas has planned for construction of the Cliffside Project to begin by April 2007 in order to have the opportunity to have the first new Cliffside unit commercially available by the

Summer Peak of 2011. The Company further expects to incur significant expenses and obligations for the Cliffside Project prior to April 2007 in order to maintain the construction schedule and avoid additional increases in costs. A delay in the issuance of the CPCN will likely delay the start of construction, and cause the Cliffside Project to be unavailable to meet the Summer Peak of 2011. If the first 800 MW unit is not available to meet the Summer Peak of 2011, Duke Energy Carolinas will need to secure significant alternative capacity at a price that cannot be determined at this time, but that could be much greater. In addition, given the expected rise in prices due to market pressure, a delay in construction is expected to result in further increases in costs for the Cliffside Project.

7. Duke Energy Carolinas believes that continuing to develop the Cliffside Project is the best option for its customers' needs at this time.

WHEREFORE, the Company urges that, in order to avoid the negative impact of delay, the Commission issue a CPCN on its current schedule for the Cliffside Project pursuant to N.C. Gen. Stat. §62-82, and condition its approval on the updated cost estimate to be filed in the first quarter of 2007. However, Duke Energy Carolinas recognizes that this new information could lead the Commission to order a hearing to receive evidence on this information, and therefore the Company respectfully requests that the Commission:

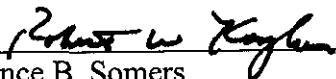
(1) Hold an expedited scheduling conference pursuant to Rule R1-20 to establish a schedule for receiving additional evidence;

(2) Convene a hearing on or before December 1, 2006, for the limited purpose of receiving evidence as to the new cost information set forth herein;

(3) Conclude such a limited hearing as expeditiously as possible to enable issuance of a CPCN for the Cliffside Project that would allow commencement of construction on or before April 1, 2007; and

(4) Grant such further relief as the Commission deems just and proper.

This the 25<sup>th</sup> day of October, 2006.

  
\_\_\_\_\_  
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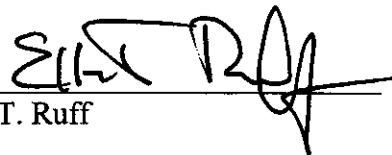
*Counsel for Duke Energy Carolinas, LLC*

STATE OF NORTH CAROLINA )  
 )  
COUNTY OF MECKLENBURG )

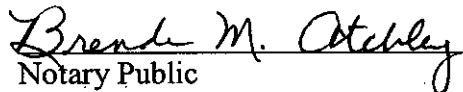
VERIFICATION

Ellen T. Ruff, being first duly sworn, deposes and says:

That she is President of Duke Energy Carolinas, LLC; that she has read the foregoing Duke Energy Carolinas' Notice of Updated Cost Information and knows the contents thereof; that the same is true except as to the matters stated therein on information and belief; and as to those matters, she believes them to be true.

  
\_\_\_\_\_  
Ellen T. Ruff

Sworn to and subscribed before me  
this 24<sup>th</sup> day of October, 2006.

  
\_\_\_\_\_  
Notary Public

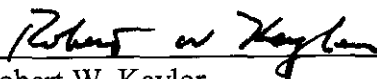
My Commission expires: 12-4-09

CERTIFICATE OF SERVICE

I certify that a copy Duke Energy Carolinas' Notice of Updated Cost Information in Docket No. E-7, Sub 790, 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 25<sup>th</sup> day of October, 2006.

Law Office of Robert W. Kaylor, P.A.

BY:   
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