

Portal Home > Our Company > Open Forum > Archives

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'Can Do' – Rogers Says Duke is Making it Happen

From earnings to new generation, CEO says company is moving forward

CEO Jim Rogers says he's impressed with the company's "can do" attitude on a number of fronts as he addressed employees at a recent Open Forum in Charlotte.

"Can do" seems to sum up the company's earnings thus far in 2009. With a sluggish economy and mild weather, Rogers said the company is tracking slightly ahead of its internal plan and remains on track to meet its employee incentive goal of \$1.20 per adjusted diluted earnings per share.

"Our industrial sales are starting to make a comeback," he said. "That tells me that things are starting to bottom out and we may be on the way to a recovery. We still have a ways to go to get back to where we were before the recession."

Rogers was pleased employees have come through with cost-cutting in 2009 – giving the company a chance to meet the \$1.20 target.



"I'd like to thank all employees for the work they have done this year," he said. "We've gotten zero help from the weather and we're in one of the toughest economies in decades." [Check out Rogers' full video clip.](#)

On the generation front, Rogers echoed the "can do" attitude when he touched on the fact that Duke is building two coal-fired plants, has two nuclear plants on the drawing board, two gas-fired plants on the slate – and continues to modernize its generation fleet.

"No company is doing more than us on this front," he said.

However, Rogers admitted that the future does not look good for coal-fired plants that have not been retrofitted with scrubbers for certain pollutants.

"There are tougher regulations coming. More regulation is coming on ash ponds and water discharge," he said. "All of that puts us into a place where we are going to have to retire and replace those plants."

Rogers said he looks at these changes as positives since it will help spur the modernization of the company's generation fleet.

Another "can do" topic was smart grid development. Rogers said he was pleased with the \$200 million stimulus being offered by the federal government to help roll out smart grid. But he added that stimulus money can come with strings attached.

"This would be great if it comes through. But we need to look at what this implies – taking the government money," said Rogers. "I think the auto and banking industry have found out that government money comes with strings attached."

Despite plenty of financial and generation news, Rogers explained some of the good news/bad news when it came to safety. During 2009, the company has suffered three contractor fatalities. But the company's total incident case rate (TICR), an indicator of overall safety, was trending right on target for the year.

Still, he added the number of contractor fatalities was troubling, and indicated that the company needed to do a better job working with contractor companies on safety.

In other topics:

- Concerning an e-mail in October, Rogers said that a voluntary separation program may happen in early 2010 – but he said there were a lot of details to work out.
- Rogers expressed thanks to employees who worked to craft a proposed rate settlement in North Carolina. He said he was hopeful that a similar settlement could happen soon in South Carolina.

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October 30, 2009 Open Forum Q&A

Floor Q&A

Answers by Jim Rogers; unless noted

Water dispute in the Carolinas

Q: Where do you see the case going with the [water dispute in South Carolina](#)? What is the worst-case scenario and best-case scenario?

A: We are very involved in the case. I believe that water is going to be the next major environmental issue we face in the United States. It's going to be the next oil. And our industry uses a tremendous amount of water. I don't remember the number, but it's something like four trillion gallons of water are processed through our plants, with 98 percent returned and 2 percent of it evaporated, which means it will come back eventually. I don't know the details of how it is playing out with respect to North and South Carolina.

A: Garry Rice - (Duke's lawyer handling the case) First of all, we are trying to intervene in this case along with the City of Charlotte and the Catawba River Water Supply Project. That issue was argued before the Supreme Court, and we expect a decision maybe in the first quarter of 2010. We don't really know. But I would say that these cases, these original jurisdiction cases, take a long time. And this case has been split into two phases. The first requires South Carolina to prove that they have been harmed in some way. And if South Carolina succeeds on that, then the Supreme Court will consider the merits of the case and come up with some sort of allocation. We're talking years down the road.

We are trying to protect the comprehensive relicensing agreement that we have entered into with 89 other parties as part of the Catawba River relicensing and that goes to FERC (Federal Energy Regulatory Commission). What FERC will end up doing is almost a de facto allocation of water. We would like to see that move ahead. We think that is a very good allocation of water because all these parties in both states have agreed to it. Not the South Carolina attorney general, but most of the other folks.

We've built 11 reservoirs on the Catawba River, and I think the attorney general really wants to allocate the water in our reservoirs — not the water in the river. And that's a big difference. The way we managed those reservoirs is what allowed us to get through the drought. So we're very much concerned about that outcome.

Contractor fatalities

Q: Hearing that the third contractor for Duke lost his life is really troubling. What high-level focus is being placed on safety as a result of the recent fatalities?

A: It is really unacceptable to have fatalities. We shouldn't. Our goal line should be zero injuries on the job. And clearly we should work hard to avoid fatalities. So, I think we have to redouble our efforts. We have to keep a focus on it. We have to remind people of how important this is. We need to make sure our contractors have gone through the type of training that is necessary to work at our sites. The three fatalities we have had have all been contractors. It might imply that we need to do more training with our contractors. I think it does. So, again, I think there will be action taken on a way to avoid this in the future. Safety has to be our highest priority for our people and our contractors who work on our sites.

Partnering with China

Q: We have heard a lot about the benefits of cooperating working with the Chinese. What are the risks of working with them? The second question is this: How is Duke doing things differently from our peer companies that have made agreements with China recently? Do you think that we will be able to maintain our leadership in this area?

A: I think any time you do business in a partnership with anybody in the United States or any place in the world, there are risks. And I think it is very important to understand those risks. And when you do business internationally, it is more complicated, because you have to make sure that you are in compliance with the Foreign Corrupt Practices Act. What we've done is gone through a process of retraining all of our people — who have been trained already — with a refresher course in terms of the dos and don'ts of doing business internationally. That is the first approach to managing the risks.

But I don't think the risks of doing business with the Chinese are any different than doing business with the French, or doing business with the English, or doing business with the Canadians.

The other part of this that's different from what other companies are doing is that we're not going to China to exploit the Chinese market. What we're really doing is inviting the Chinese to join with us to invest in South America so that we can expand our footprint there and to join with us in investing in assets in the United States — markets that we really know. So, in many senses of the word, our approach to our partnerships is different than other companies. Take Southern, for instance. Southern is trying to sell a technology into China, so they're trying to make money in China. What we're trying to do is bring Chinese innovation, can-do attitude and a little money to the United States to invest, so it benefits them and benefits us. This is a way to scale up and accelerate.

The other point that I think is really critical with the Chinese — and the reason I personally like to do business with them — is that they have a real can-do attitude, which is really what America's been built on. And I think our company is a can-do company. Not just in what we're building and doing, but also with respect to the positions that we take on public policy.

We lead, we don't follow. We try to make things happen; we don't try to resist. I don't know another company in the industry that has that can-do attitude and that openness to new and different ideas.

Replacing after coal plants close

Q: You talked about the likely retirement of the smaller coal plants in the near term. Do you anticipate that generation being replaced with clean-coal technology like IGCC (integrated gasification combined cycle), or would you expect that generation to be replaced with green technology or nuclear?

A: That is actually a very difficult question for a variety of reasons. One is that every technology we use today to generate electricity needs significant advancement to be an equal contributor in a low-carbon world. Take wind. Wind is intermittent. Solar is intermittent power, again, same story.

Coal is a great abundant resource that we have in this country. We lead the way with our coal gasification facility, and we are exploring underground coal gasification. We are exploring not just sequestration and storage, but one of the reasons we are doing the deal with ENN in China is that they are doing a tremendous amount of work of taking carbon out of the flue gas and using it to grow algae faster, harvest the algae, and create a biofuel. So we are exploring lots of different ways to continue to use the coal in this country in a low-carbon world, but it needs advances in technology.

I think that you cannot be serious about addressing the carbon issue or climate change without being serious about nuclear. Nuclear is actually the only technology we have today that provides power 24/7 with zero greenhouse gases. But we have got issues, and one of the issues is spent fuel. I think that is an issue that needs to be solved by Congress, but I also think that recycling is the answer. We punted on recycling in the 1970s for a variety of reasons. It has worked well for the French, and the Japanese are opening a new recycling facility. I think recycling is the answer in this country with respect to spent fuel.

I am of the view that every one of these technologies needs advances. The question is what will the mix be? Carbon capture sequestration, they say, is 10 to 15 years off. Well, if we have to shut down 4,500 megawatts prior to when that technology is

available, how do we fill the gap? Certainly, you can fill it with gas, but gas has been very volatile in price. Our customers do not like that volatility. We do have the ability to take on more gas without being unduly reliant on gas, so it will play some interim role. In the ideal world, what you would like to do is bring a nuclear unit on as you shut down these old coal plants, because we know that it produces zero greenhouse gases.

But nuclear takes a while to build. In Cherokee County, at best, we're primarily looking at 2020-21, and in the Midwest at our Piketon site, probably a little later. That is not a perfect match with what I believe will be the timing of the shutting down of these plants. In all likelihood, we will probably meet the load with some combination of renewables and gas in the short-term, but moving toward advanced coal and nuclear — and only to advanced coal, if we are able to capture the carbon.

Climate-change legislation

Q: Will you give us your best guess on what will happen with [climate legislation](#) on Capitol Hill this year?

A: It will be 2010, and quite frankly, if they do not address it in the first half of 2010, it is an election year and they will probably punt it to 2011. It really depends on how bruised and bloodied the moderate Democrats are after the health care debate. To explain, I like to say that, in an interesting sense, we have three parties in Congress. We have Democrats (the more liberal Democrats) we have the moderate blue-dog Democrats, and then we have the Republicans.

And the debate has really been between the moderate Democrats and the liberal Democrats because the Republicans seem to be avoiding issue. They basically are sitting on the sidelines and not engaging, and that is unfortunate for the American people, because every major piece of important legislation, whether it is health care, energy, or environment, has been overwhelmingly bipartisan and in the center of the road. Our country does best, business does best and consumers do best when we keep it in the center of the road — not too little regulation, not too much regulation.

To answer your question, when they address it depends on how bruised they are over health care. I think addressing climate change during a recession is better, because economics will trump theology, and we will get a bill that smoothes out the cost impact on our consumers and a better transition plan when times are tough. If times were good, theology would trump economics, and that would not be a pretty day for those who are so dependent on coal.

Future of nuclear power

Q: Is there a way we can persuade Congress to think more about nuclear as something on the table? Obviously, it is in Europe, and a lot of other countries are going ahead with it. Yet, we seem stuck. Is there a way that we can push through and get them to really think about this as being one of the great options that we have on the table?

A: I really take a lot of comfort and hope in the op-ed that was written by Sen. Lindsey Graham and Sen. John Kerry. You could not imagine a more conservative Republican (than Graham), I certainly could not imagine a more liberal Democrat than John Kerry. But the two of them came together and wrote an op-ed that was in the New York Times. John Kerry said nuclear is a key part going forward. I think this op-ed really shows that they are thinking about it and are coming together around it.

But we have got a tough process in front of us. Just the fact that the AP1000 (nuclear reactor) design has been held up is a challenge. Is it a political holdup, or is it really about the technology? I do not know the answer to that. The fact that the waste competence issue has not been addressed and the fact that Sen. Harry Reid is basically saying "no" to Yucca Mountain are issues.

I think climate legislation gives us the ability to address these issues and facilitate the advancement of nuclear in a way like it has not been able to be advanced for 30 years. We need to seize this moment. We need to get every type of support we can get, because there is no other technology today that allows us to provide power 24/7 with zero greenhouse gas emissions.

Portal Q&As

Working with China

Q: Why has Duke taken a special interest in working with China on several large projects? In an economy where Americans are losing jobs, is there no company in the U.S. that could offer the same technology and expertise?

A: China leads the United States in wind turbine production, solar production, and in a number of clean coal technologies. By forging relationships with leading Chinese state-owned and private energy and technology companies, U.S. companies will benefit.

For example, China's ability to move much more quickly than the United States in commercializing new technologies, plus the huge scale they bring to the table, provide opportunities for us to bring new technologies into play more quickly, at lower cost, and at lower risk than we could working only domestically.

Also, over time, our technology-development projects with China can be expected to create jobs in both countries.

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