



A. J. SMITH, III
Vice President
Asset Operations
Fossil-Hydro Generation

Duke Power
EC11P / 526 South Church Street
Charlotte, NC 28202-1802

704 382 5371

704 382 9840 fax

asmith1@duke-energy.com

March 2, 2006

Mr. Ed Martin
NC Division of Air Quality
Permits Section
2728 Capital Boulevard
Raleigh, NC 27604

Subject: Cliffside Steam Station – PSD Permit Application for New Generation Project
Additional Information on Revised New Source Performance Standards
Application No. 8100028.05B

Dear Mr. Martin:

Duke Energy submitted a complete PSD permit application for the construction of two new generating units at our Cliffside Station on December 16, 2005. The application included an analysis of all regulations applicable at the time. As you are aware, the US EPA has recently issued final revisions to the NSPS Subpart Da requirements for fossil-fuel fired electric generating units and Subpart Db requirements for industrial boilers (February 27, 2006 Federal Register). These revisions will be applicable to any unit constructed after February 28, 2005. This letter will provide our analysis of the revised NSPS and how those requirements are addressed in our application. Based on our review, the revised NSPS will have no material affect on our permit application and the proposed air pollution controls and emission limits.

Duke Energy's permit application for these new units was prepared in anticipation of the revised Subpart Da NSPS based on the provisions in the proposed rules. This issue is addressed in Section 4.3 of our PSD Permit Application. A comparison of the proposed and final requirements in the revised Subpart Da (for electric generating units) is summarized in Table 1 below along with the emission limits proposed in our permit application. The controls proposed in the permit application assure compliance with each of the emission standards in Table 1. The only significant difference in emission standards between the proposed NSPS and the final NSPS is the form of the SO₂ standard. The final rule establishes an SO₂ standard in terms of either a maximum output-based emission rate or minimum control equipment SO₂ removal efficiency. This approach was specifically adopted to assure that the NSPS did not interfere with the flexibility to burn a wide range of fuel including higher sulfur coals.

Table 1 - Comparison of Proposed and Final NSPS and Proposed Limits for the Cliffside New Generation Project

Pollutant	EPA Proposed NSPS	EPA Final NSPS	Cliffside New Generation Units 6 and 7
Particulate (Filterable PM)	0.015 lb/MMBtu	0.015 lb/MMBtu	0.015 lb/MMBtu
Sulfur Dioxide	2.0 lb/MWH (0.21 lb/MMBtu)	1.4 lb/MWH (0.15 lb/MMBtu) or 95% Control Efficiency	0.2 lb/MMBtu (1.9 lb/MWH) (96 % control of 5.0 lb/MMBtu coal)
Nitrogen Oxides	1.0 lb/MWH (0.11 lb/MMBtu)	1.0 lb/MWH (0.11 lb/MMBtu)	0.08 lb/MMBtu

Note: The SO₂ and NO_x NSPS emission standards are in terms of lb/MWH. The Cliffside permit application is in terms of lb/MMBtu. Conversion to lb/MMBtu and lb/KWH is based on a heat rate of 9345 Btu/KWH.

As noted in our permit application Form C8 for the Unit 6 and Unit 7 wet scrubbers, Duke Power intends to burn fuel which will generate uncontrolled emissions of up to 39,250 lb/hr, or equivalent to 5 lb/MMBtu at the design heat input of 7850 MMBtu/hr. The scrubber is designed for a removal efficiency of at least 96%. This design level of performance exceeds the requirement of the final NSPS which requires 95% control based on a 30-day rolling average. Based on the proposed control equipment and the anticipated range of fuel quality, we expect that following review of our application a permit would be issued which specifies compliance with the NSPS requirement based on either 95% control on a 30-day rolling average or 1.4 lb/MWH on a 30-day rolling average.

The only other significant issue related to the final revision to the Subpart Da NSPS is the monitoring provision for compliance with the particulate emission standard. The NSPS will require use of opacity monitoring data and precipitator power data as an indicator of particulate emissions. If operational data fall outside of the specified limits, the NSPS will require a reference method stack test to verify compliance. The facility can avoid this requirement if it elects to install a continuous particulate monitoring system (PMCEMS). These new provisions of the NSPS do not affect our permit application. We understand that the Department of Air Quality will specify monitoring and compliance provisions in the construction permit and operating permit based on NSPS and any other applicable state and federal requirements for demonstrating compliance.

The final 40 CFR 60 Subpart Db NSPS requirements for auxiliary boilers have no affect on the Cliffside new generation project permit application. The proposed BACT emission limits are well below the final NSPS for particulate and sulfur dioxide, and there was no revision to the emission standard for nitrogen oxides. The final NSPS sets a

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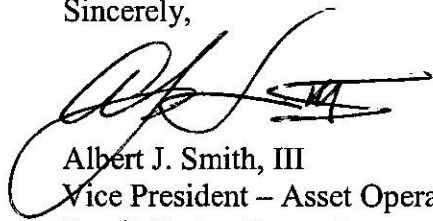
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limit of 0.03 lb/MMBtu for particulate (filterable only) and 0.20 lb/MMBtu for sulfur dioxide. No monitoring or compliance testing is required for either particulate or sulfur dioxide for a source that burns oil with less than 0.3% sulfur content. Duke Energy is proposing to use low sulfur diesel with less than 0.05% sulfur.

In conclusion, Duke Energy believes the design of the new generation sources and auxiliary boilers in our PSD Permit Application submitted on December 16, 2005 assure that these sources will comply with the final 40 CFR 60 Subparts Da and Db NSPS requirements published on February 27, 2006. We look forward to your continued efforts to review our permit application and develop the construction permit for this important project.

Based on information and belief formed after reasonable inquiry, the statements and information in this letter are true, accurate, and complete. If you have any questions about this information, please call Kris Knudsen at 980-373-3225.

Sincerely,

A handwritten signature in black ink, appearing to read 'AJ Smith', with a stylized flourish at the end.

Albert J. Smith, III
Vice President – Asset Operations
Fossil-Hydro Generation

cc: Keith Overcash, Director DAQ
Paul Muller, DAQ Asheville Regional Office

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Kris Knudsen

bc: Rick Roper
Clarence Ray
George Everett
Chris Hallman
Sam Alexander
Harry Lancaster
Bill Campbell - ENSR

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