

March 12, 2014

Mr. Pat McCrory
Governor of the State of North Carolina
NC State Capitol
1 East Edenton Street
Raleigh, NC 27601

Mr. John Skvarla
Secretary, Department of Environment and Natural Resources
NC State Capitol
1 East Edenton Street
Raleigh, NC 27601

Dear Governor McCrory and Secretary Skvarla:

This letter provides an update to my February 28 letter and delivers recommendations for near-term and longer-term actions at our ash basins in North Carolina. Taken together, these near-term and longer-term actions comprise our comprehensive ash basin plan. Our recommendations have been developed around guiding principles designed to prevent future events and to identify opportunities to improve ash pond management activities.

We are committed to working with the State of North Carolina, the North Carolina General Assembly, the North Carolina Utilities Commission (NCUC) and all of our regulators as we develop an updated, comprehensive plan that protects the environment and provides safe, reliable and cost-effective electricity to North Carolinians. As we progress through implementation, we will continue to refine and expand these recommendations, including the design, engineering and cost estimates. We will also be working on these matters with our regulators in other states we serve.

We have accepted responsibility for the Dan River ash discharge and have taken a number of immediate actions following the event:

- We installed a permanent plug on the 48-inch stormwater pipe on February 8, and permanently plugged the 36-inch pipe on February 21.
- Crews have removed coal ash in an area of the riverbed below the broken stormwater pipe's discharge point. We will continue to work with state and federal agencies as we determine next steps needed for the river.

- Company representatives presented information about the Dan River ash release to the North Carolina General Assembly's Environmental Review Commission on February 17 and to the NCUC on February 24.
- We have worked with the North Carolina Division of Water Resources to redirect stormwater around the basins in a manner compliant with our National Pollution Discharge Elimination System (NPDES) permit, until a permanent solution is devised.
- We, along with various agencies, have continually tested the water in the Dan River. The drinking water has remained safe.

We will continue to work with you, your staffs and all appropriate regulatory agencies to finalize our work at Dan River.

For more than a century, our company has provided reliable and affordable electricity to our customers. Coal-fired power plants produced a good portion of that electricity. Throughout the past few decades, we have dedicated significant resources to the management and monitoring of our ash basins. We continue to place the safe operations of these ash basins as one of our highest priorities.

We have formed a team dedicated to strengthening our comprehensive strategy for managing all of our ash basins. John Elnitsky, most recently the company's vice president of project management and construction, is leading this effort. This team will focus on implementing our recommendations listed below as well as identifying and addressing ongoing improvement opportunities. This work will provide an opportunity for us to assess our ongoing storage techniques and will influence the ash basin closure strategies for our retired facilities, recognizing that any storage technique embodies cost and risk-reduction tradeoffs. We want to make certain that we, our regulators and other stakeholders can have a high degree of confidence in the integrity of our ash basins.

As stated above, our comprehensive plan is comprised of both near-term and longer-term actions. Our near-term actions set forth below address three specific retired plants, specific actions related to three active operating units (Cliffside 5 and both Asheville units), and an approach to reduce risk on remaining ponds at all retired plants. These actions are first steps in a more comprehensive plan that will address all retired sites (21 ponds/7 sites) and pond management at active sites (12 ponds/7 sites). Of course, implementing our near-term recommendations and longer-term plans depends on state and federal agreement that these are prudent, cost-effective and environmentally sound options. They are as follows, with associated time frames:

- Permanently close the Dan River ash ponds and move ash away from the river to a lined structural fill solution or a lined landfill. This work will be started immediately upon securing the appropriate fill solution or landfill location and any necessary permits, with an expected completion thereafter of 24-30 months.
- Accelerate planning and closure of the Sutton ash ponds to include evaluation of possible lined structural fill solutions and other options. A conceptual closure plan will be submitted to the North Carolina Department of Environment and

Natural Resources (NCDENR) within six months, and removing the water from the ash basins will be completed in the next 18-24 months.

- Move all ash from Riverbend away from the river to a lined structural fill solution or a lined landfill. Work will begin immediately upon securing the appropriate fill solution or landfill location and any necessary permits, with an expected completion thereafter within 48-54 months.
- Continue moving ash from the Asheville plant to a lined structural fill solution. We continue to look for ash reuse opportunities where such uses remain permissible under the upcoming coal ash regulations.
- Convert the three remaining North Carolina units to dry fly ash (Cliffside 5 and both Asheville units) or retire the units. Conversion work, if selected, will be completed within 30-36 months of receiving permits.
- Minimize the potential risk of a discharge similar to Dan River by accelerating the removal of water from the ash ponds at all retired coal plants. Upon receipt of permits, dewatering will be completed within 24-36 months.

In addition, we have taken immediate action to initiate a near-term comprehensive engineering review of all of our ash basins to identify and address potential risks. This review consists of a risk-informed approach to confirm the structural integrity of the ash basins and associated structures, as well as the characterization and evaluation of all stormwater discharges near ash basins. We expect this engineering review to continue over the next six-to-eight months.

We are also developing a comprehensive longer-term ash basin strategy for all ash ponds in North Carolina and throughout our service territory. This strategy will include a review of active ponds, inactive ponds and closure strategies for the remaining retired plants, will be informed by outside experts, and will include a risk-informed, tiered approach. The work will include a review of the effectiveness of ash storage management programs and practices to confirm that longer-term solutions are sustainable and lessons learned are captured for company-wide application. This comprehensive strategy will evaluate options up to and including complete conversion to all dry handling. This work will be completed by year-end.

We want to get the near-term and longer-term strategies right and implemented in a timely way. That will require close coordination with NCDENR and/or the United States Environmental Protection Agency (EPA) on permitting, as well as consideration of many factors including environmental and transportation issues for each community where coal ash is stored. We look forward to working with and incorporating the input of those agencies, as well as your offices and the General Assembly, to accomplish these objectives.

As our plans progress, it will be important to align our steps with upcoming federal regulations. The EPA issued a proposed rule on June 21, 2010, regarding federal regulation of coal ash. A final rule is expected by December 19, 2014. In addition, the EPA issued a proposed rule June 7, 2013, for Steam Electric Effluent Guidelines that

regulates wastewater streams from power plants. The final rule is expected no sooner than May 2014. Our longer-term solutions must satisfy these rules.

As we continue to refine our recommendations, we would like to meet to discuss the near-term items and our comprehensive strategy. Such a meeting should include technical expertise from the company and your agencies to listen to and challenge assumptions. Cost estimates to implement these recommendations are very dependent upon the actual disposal methods that are approved (e.g., cap in place versus structural fill or lined landfills), and we will work with the state to make estimates available as we narrow the range of options at each particular site.

Low-cost power generation has fueled the development of our state over the last century. As scientific knowledge and technology have advanced, we have worked constructively with the policymakers and regulators of our state to develop cost-effective ways to continue providing reliable, low-cost energy to our citizens while protecting public health and the environment.

We look forward to continuing this work as we develop and implement these recommendations for both immediate and longer-term solutions to coal ash storage and disposal.

Sincerely,

A handwritten signature in black ink, appearing to read "Lynn J. Good". The signature is fluid and cursive, with the first name "Lynn" and last name "Good" clearly distinguishable.

Lynn J. Good
President and Chief Executive Officer