Duke Energy Indiana Electric Price Outlook for Low Load Factor (LLF) Customers

We realize it's important for you to know about changes that may impact your business and your bottom line. To help you plan and manage your energy budget, we're providing quarterly projections for Duke Energy Indiana's electric rate rider adjustments.

Price Projection

Three primary drivers impacting prices continue to be fuel, environmental compliance costs, and costs associated with construction of our Integrated Gasification Combined Cycle (IGCC) plant. **The total rider cost per kilowatt-hour (kWh) is projected to be $0.0224 for 2010 and $0.0285 for 2011 for LLF customers. Depending on your total average cost per kWh, we project a slight decrease of approximately .2 percent in 2010 relative to the 2009 average cost per kWh. We project an increase of 6 to 10 percent in 2011 compared to the 2010 average. The IGCC plant is the largest driver of the projected increase in 2011.**

Fuel Costs

Fuel remains the largest component--43 percent of total projected rider costs for 2010. On average, we're still expecting the Fuel Charge Rider to be $0.002 lower per kWh in 2010 than 2009 and $0.003 higher per kWh in 2011 than 2010.

Prices are lower in 2010 because coal sales and prices were down due to lower electric demand in a recessionary economy. There is a general expectation that there will be greater demand for coal as the economy begins to recover in 2010 and continuing into 2011. Market price forecasts still indicate coal prices will rise during 2010 and will continue to increase into 2011 and 2012 primarily due to increased demand. To combat these increases we have worked with fuel and transportation suppliers to increase their operating flexibility in return for price reductions.

IGCC Plant Update

The advanced-technology coal gasification power plant we are building in southwest Indiana was 68 percent complete (factoring in aspects such as engineering and procurement as well as construction) as of the end of July. The project will be one of the cleanest, most efficient coal-fired plants in the world when it's online in 2012. It is the first major new power plant to be built in Indiana in more than two decades, and it is key to modernizing our state's aging electric system. We will retire an existing plant on the site – with coal and oil units more than 60 years old – with the completion of the new facility.

In November 2009 we alerted the Indiana Utility Regulatory Commission that we were seeing significant upward pressure on costs as the project's engineering progressed. On April 16 we filed testimony and exhibits with the commission increasing the plant's cost estimate. The project's scale and complexity has added approximately $530 million to the previously approved $2.35 billion cost estimate. As the first plant of its kind constructed on this scale, the project's design has expanded significantly. The cost is now estimated to be $2.88 billion and is reflected in IGCC rider projections.

Indiana state utility regulators must review and approve our filing before any new costs can be phased into customer electric rates. We have asked regulators to review the revised cost estimate and regulatory hearings are scheduled for September 16 and 17.

If approved, the project's costs will result in a peak bill impact for LLF customers of about 18 percent by 2013. Costs began appearing in rates in 2009 and will be phased in approximately every six months to spread out the increases and lower financing costs. As you will see in the forecast, costs are projected to escalate early next year.

Energy Efficiency Filing Update

You'll notice we have removed rate projections for new Energy Efficiency riders (Riders 66-A and 66-B) in this price outlook. In June we asked the Indiana Utility Regulatory Commission to dismiss our energy efficiency filing. We plan to go back to the commission by Oct. 1, 2010, with an updated plan. We took this step because as we prepared for the regulatory hearing on energy efficiency, it became clear that

much of the information in our original filing had changed. Our original plan was based on data and incentives developed more than two years ago, long before the commission's general order for all utilities on energy efficiency. That order required Indiana utilities to offer certain energy efficiency programs to all customer classes through an independent third-party administrator and achieve target energy usage levels. We feel we need to revise our company-specific plans to complement the commission's general order affecting all utilities. In the meantime, our existing energy efficiency programs will continue.

Environmental Costs

The cost of reducing our environmental emissions is reflected in our Qualified Pollution Control and Clean Coal riders. We have installed environmental controls at our Indiana Cayuga, Gallagher, Gibson and Wabash River power plants to comply with federal and state regulations to control air quality. The attached rider forecast includes environmental compliance costs and reflects the impacts of changes to the federal Clean Air Interstate Rule, which took effect on Jan. 1, 2009, for nitrogen oxide emissions and on Jan. 1, 2010, for sulfur dioxide emissions. Due to litigation, the EPA has proposed a replacement rule. We are reviewing its potential impact, so our rate forecast still reflects current rules. The earliest the new rules would begin to phase in is January 1, 2012.

Smart Grid Filing

In April we filed revised plans with the Indiana Utility Regulatory Commission to introduce smart grid technology to our Indiana customers. We have proposed a smaller-scale, $22 million project involving about 40,000 customers. This will allow us to explore the technology and its customer benefits before expanding the smart grid throughout our Indiana service area. State regulatory approval is pending. Duke Energy signed an agreement with the U.S. Department of Energy to accept $200 million in funding for smart grid efforts across our five-state service territory, including Indiana.

Smart grid technology refers to an electric distribution system that allows information from a customer's meter to flow in two directions: inside the business or home to thermostats, heating/cooling systems, and other devices, and from the customer back to the utility. In addition to reducing the expense of on-site meter reading, the technology also gives customers a more detailed view of their electricity use and a digital gateway to a variety of energy efficiency programs. With smart grid technology we also will be able to determine more precisely the location of power outages and potentially lessen their frequency and duration. And the technology will enable us to optimize the flow of power on our system and reduce voltage losses, leading to energy savings.

On July 29, 2010, the Indiana Utility Regulatory Commission held an evidentiary hearing on our proposal. At this time, our rate projections do not reflect smart grid costs because we have requested to defer the smart grid costs for future recovery in a base rate proceeding. We will share details with you as the regulatory process progresses.

Duke Energy Indiana Rider Projections

Rate LLF (Low Load Factor)

Duke Energy Indiana has several rate adjustment riders that impact billings beyond the base rate. The following table provides Rate LLF adjustment riders for the previous months, as well as actual changes currently filed with and pending before the Indiana Utility Regulatory Commission (IURC), which are highlighted and marked "Filed." Those changes marked "Projected" have not been filed with the IURC and reflect our current projections of future filings to the IURC. These are not approved and may not be approved as filed. The information presented below is subject to change depending on the outcome of pending and future IURC proceedings and due to inherent differences between the actual and projected amounts. The most notable driver that may cause differences from the projection is the generation mix of coal-fired generation and gas-fired generation and impacted by: the demand on the system; generation availability; and coal, gas, and emission allowance commodity prices. Actual costs may vary.

Color Code **Approved** **Filed** **Projected**

Rate LLF Rider Projections as of August 13, 2010

	Quarterly	Biannually	Biannually	Biannually	Annually	Quarterly	Annually	Biannually	
Month	FCR (Fuel) Charge) Rider 60	IGCC Rider 61	Qualified Pollution Control (CWIP) Rider 62	Emission Allowance Charge Rider 63	Merger Amortization Credit Rider 67	MISO Rider 68	Reliability Rider 70	Clean Coal Rider 71	Total Rider Cost
Jul-09	$0.012904	$0.001331	$0.004357	($0.000174)	($0.000392)	$0.000853	$0.000214	$0.004258	$0.023351
Aug-09	$0.012904	$0.001331	$0.004481	$0.000974	($0.000392)	$0.000853	$0.000214	$0.004717	$0.025082
Sep-09	$0.012904	$0.001331	$0.004481	$0.000974	($0.000392)	$0.000853	$0.000214	$0.004717	$0.025082
Oct-09	$0.009136	$0.001331	$0.004481	$0.000974	($0.000392)	($0.000001)	$0.000214	$0.004717	$0.020460
Nov-09	$0.009136	$0.001331	$0.004481	$0.000974	($0.000392)	($0.000001)	$0.000214	$0.004717	$0.020460
Dec-09	$0.009136	$0.002156	$0.004481	$0.000974	($0.000392)	($0.000001)	$0.000214	$0.004717	$0.021285
							Actual 2009 Average		**$0.022555**
Jan-10	$0.009451	$0.002156	$0.004481	$0.000974	($0.000392)	$0.001040	$0.000214	$0.004717	$0.022641
Feb-10	$0.009451	$0.002156	$0.003837	$0.001041	($0.000392)	$0.001040	$0.000214	$0.004261	$0.021608
Mar-10	$0.009451	$0.002156	$0.003837	$0.001041	($0.000392)	$0.001040	$0.000214	$0.004261	$0.021608
Apr-10	$0.007737	$0.002156	$0.003837	$0.001041	($0.000392)	$0.000668	$0.000214	$0.004261	$0.019522
May-10	$0.007737	$0.002156	$0.003837	$0.001041	($0.000392)	$0.000668	$0.000214	$0.004261	$0.019522
Jun-10	$0.007737	$0.002156	$0.003837	$0.001041	($0.000371)	$0.000668	$0.000214	$0.004261	$0.019543
Jul-10	$0.010184	$0.002156	$0.003837	$0.001041	($0.000371)	$0.000576	$0.000301	$0.004261	$0.021985
Aug-10	$0.010184	$0.003693	$0.003830	$0.000866	($0.000371)	$0.000576	$0.000301	$0.003852	$0.022931
Sep-10	$0.010184	$0.003693	$0.003830	$0.000866	($0.000371)	$0.000576	$0.000301	$0.003852	$0.022931
Oct-10	$0.011246	$0.003693	$0.003830	$0.000866	($0.000371)	$0.000761	$0.000301	$0.003852	$0.024178
Nov-10	$0.011246	$0.005801	$0.003830	$0.000866	($0.000371)	$0.000761	$0.000301	$0.003852	$0.026286
Dec-10	$0.011246	$0.005801	$0.003830	$0.000866	($0.000371)	$0.000761	$0.000301	$0.003852	$0.026286
							Projected 2010 Average		**$0.022420**
Jan-11	$0.012206	$0.005801	$0.003710	$0.000625	($0.000371)	$0.000781	$0.000301	$0.003785	$0.026838
Feb-11	$0.012206	$0.005801	$0.003710	$0.000625	($0.000371)	$0.000781	$0.000301	$0.003785	$0.026838
Mar-11	$0.012206	$0.005801	$0.003710	$0.000625	($0.000371)	$0.000781	$0.000301	$0.003785	$0.026838
Apr-11	$0.011957	$0.005801	$0.003710	$0.000625	($0.000371)	$0.000842	$0.000301	$0.003785	$0.026650
May-11	$0.011957	$0.007408	$0.003710	$0.000625	($0.000371)	$0.000842	$0.000301	$0.003785	$0.028257
Jun-11	$0.011957	$0.007408	$0.003710	$0.000625	($0.000371)	$0.000842	$0.000301	$0.003785	$0.028257
Jul-11	$0.012906	$0.007408	$0.003623	$0.001037	($0.000371)	$0.000791	$0.000122	$0.004123	$0.029639
Aug-11	$0.012906	$0.007408	$0.003623	$0.001037	($0.000371)	$0.000791	$0.000122	$0.004123	$0.029639
Sep-11	$0.012906	$0.007408	$0.003623	$0.001037	($0.000371)	$0.000791	$0.000122	$0.004123	$0.029639
Oct-11	$0.011935	$0.007408	$0.003623	$0.001037	($0.000371)	$0.000825	$0.000122	$0.004123	$0.028702
Nov-11	$0.011935	$0.008886	$0.003623	$0.001037	($0.000371)	$0.000825	$0.000122	$0.004123	$0.030180
Dec-11	$0.011935	$0.008886	$0.003623	$0.001037	($0.000371)	$0.000825	$0.000122	$0.004123	$0.030180
							Projected 2011 Average		**$0.028471**
Jan-12	$0.014554	$0.008886	$0.003507	$0.000421	($0.000371)	$0.000805	$0.000122	$0.004130	$0.032054
Feb-12	$0.014554	$0.008886	$0.003507	$0.000421	($0.000371)	$0.000805	$0.000122	$0.004130	$0.032054
Mar-12	$0.014554	$0.008886	$0.003507	$0.000421	($0.000371)	$0.000805	$0.000122	$0.004130	$0.032054
Apr-12	$0.014697	$0.008886	$0.003507	$0.000421	($0.000371)	$0.000871	$0.000122	$0.004130	$0.032263
May-12	$0.014697	$0.009827	$0.003507	$0.000421	($0.000371)	$0.000871	$0.000122	$0.004130	$0.033204
Jun-12	$0.014697	$0.009827	$0.003507	$0.000421	($0.000371)	$0.000871	$0.000122	$0.004130	$0.033204
							Projected 2012 Average		**$0.032472**

Note (1): Customers under 500 kilowatts are also impacted by the current Rider 66 - Demand Side Management Adjustment. As of December 2009, this is a credit of $.000348 and is projected at $.000216 beginning in November 2010.

LLF Annual Projections

Overview:

Duke Energy Indiana has several rate adjustment riders that impact your electric bill beyond the base rates as found in the LLF (Low Load Factor) rate schedule. Shown below are estimates for rate adjustment riders which are applicable for the LLF Rate. The percent increase estimates are comprised of actual adjustments, filed adjustments and/or projections of future filings of the LLF rate adjustment riders. The percent increase estimates are not approved and may not be approved as filed; therefore, it should be understood that they are only projections. The information presented below is subject to change depending on the outcome of pending and future IURC proceedings and the usage patterns of each individual customer.

Instructions:

There are two ways to use the projection chart. One is based on using the projected increase in the cost per kilowatt-hour (kwh), and the second is to use percentage increases based on your total average cost per kwh.

Actual Cost per kwh Increase

Step One: The left side of the chart can be used in the event you prefer to use actual dollars and cost per kwh increases from one budget or projection period to the next. Three separate comparisons are given for your use.

Step Two: Estimate what your billed kwh usage will be for the period for which cost projections are needed. Use the appropriate cost per kwh increases for the correct periods from one year to the next. Multiply the kwh by the projected increase and add this total to your current actuals to determine cost or budget increase.

Percent Increase in Total Average Cost per kwh

Step One: Determine the average cost per kwh from your electric bill. This can be done by taking the "Total Current Electric Charges" and dividing by the "Billed kwh Usage."

Step Two: Find the number in the highlighted column called "Customer Specific Average Price/kwh" that is closest to your specific average cost per kwh (which is the number calculated in Step One). Then, use the respective column of the chart to determine the projected increase.

Results:

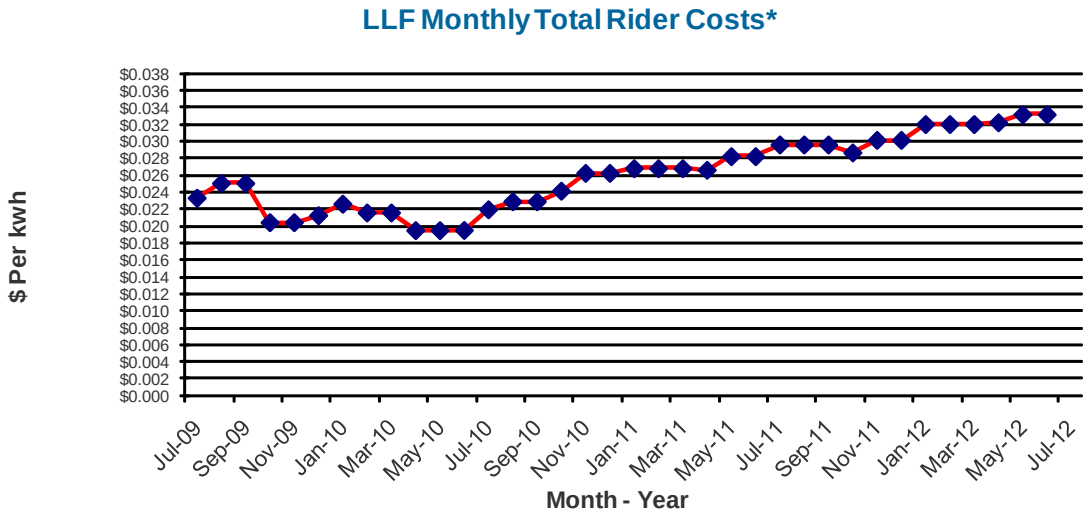
The percent increases given are Duke Energy Indiana's best projections for the coming months and years. Please understand that it is only a projection and that the actual costs will vary. Depending on your forecasted usage, budgeting process and planning requirements, you may wish to adjust your final figures either up or down to accommodate other anticipated events or unforeseen situations. You may also wish to adjust your figures slightly to accommodate the inherent differences in any forecasting or budgeting process.

Projections:

Annual Rider Impacts Estimates Based on Average kwh Cost

Annual Impacts						
Description		$/kwh	Customer Specific Average Price/kwh	2010 vs 2009	2011 vs 2010	2012 vs 2011
			$0.0600	-0.2%	10.1%	7.2%
Projected 2010 Rider Average:		$0.022420	$0.0625	-0.2%	9.7%	6.9%
Actual 2009 Rider Average:		$0.022555	$0.0650	-0.2%	9.3%	6.6%
Projected 2010 Annual Rider Increase	per kwh	**$ (0.000135)**	$0.0675	-0.2%	9.0%	6.4%
			$0.0700	-0.2%	8.6%	6.1%
Projected 2011 Rider Average:		$0.028471	$0.0725	-0.2%	8.3%	5.9%
Projected 2010 Rider Average:		$0.022420	$0.0750	-0.2%	8.1%	5.7%
Projected 2011 Rider Increase	per kwh	**$0.006051**	$0.0775	-0.2%	7.8%	5.5%
			$0.0800	-0.2%	7.6%	5.4%
Projected 2012 Rider Average (See Note 1):		$0.032472	$0.0825	-0.2%	7.3%	5.2%
Projected 2011 Rider Average:		$0.028471	$0.0850	-0.2%	7.1%	5.1%
Projected 2012 Rider Increase	per kwh	**$0.004299**	$0.0875	-0.2%	6.9%	4.9%
			$0.0900	-0.1%	6.7%	4.8%
			$0.0925	-0.1%	6.5%	4.6%
			$0.0950	-0.1%	6.4%	4.5%
			$0.0975	-0.1%	6.2%	4.4%
			$0.1000	-0.1%	6.1%	4.3%

Note 1: Projected 2012 rider average is based on the first six months of 2012.



*Does not include base rates

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