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

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

Price Projection

As communicated in our May 2008 electric price outlook, the two primary drivers impacting prices continue to be fuel and environmental compliance costs. Since our last communication, we have updated our projections for the remainder of 2008 and significantly revised our forecasts for 2009. The forecast for 2009 results in overall higher rider costs, mostly due to cost revisions for the Fuel Charge Rider. **The total rider cost per kilowatt-hour (kwh) is projected to be about $0.0183 for 2008 and $0.0258 for 2009 for LLF customers. Depending on a customer's total average cost per kwh, we project that an LLF customer will have an increase of 11 percent to 19 percent in 2009 relative to 2008 average cost per kwh.**

Fuel Costs

While we continually work to mitigate fuel costs, our projections reflect a trend of expected increases:

- We have revised our fuel and purchased power forecast which affects the Fuel Charge Rider. The attached projections are based on current market data. Our new forecast reflects the reality that commodity market prices, namely coal, natural gas, and purchased power, have increased significantly in the last three months.
- The upward trend in coal prices is largely due to a surge in coal exports from the United States to meet growing global demand.
- Coal supply is tight across the region, and coal transportation costs are also increasing due to fuel surcharges, which are based on published fuel price indices. Mine closures and additional safety restrictions on mining companies also are driving up coal prices. To help manage fuel costs, we are involved in multiple "mine opening" negotiations with regional producers to encourage new supplies in the region.
- For your information, the attached NYMEX Central Appalachian Coal Curve reflects the market trend for coal as of April 21, 2008, and July 7, 2008, the same dates used to develop the forecasts for our May 2008 and August 2008 electric price outlooks. The chart illustrates the relative increase that has occurred in the broader coal market.
- Fuel costs will continue to rise as we roll-over a portion of our lower-cost coal purchase agreements into the higher-cost coal market. Although about 90 percent of the coal we use during 2008 is under long-term contracts of a year or more, not all of the price risk can be eliminated because many of the long-term contracts have provisions for periodic price reopeners and other types of price escalation mechanisms. We continue to negotiate and secure coal contracts for our Indiana plants for future years.
- Although coal prices have risen sharply, the increases to our customers are not as high as the market price increases due to long-term contracts that manage price risk for our customers. The cost of spot and short-term coal purchases over the last year averaged about 24 percent higher than our long-term contracts.

Environmental Costs

- Environmental expenditures will continue to increase as additional investments are made to reduce environmental emissions. During 2008, environmental equipment or upgrades have or will be placed in service at Cayuga Units 1 and 2, Gallagher Units 3 and 4, and

Gibson Unit 5. The rising environmental costs are reflected in our Qualified Pollution Control and Clean Coal Riders.

- In February of 2008, the U.S. Court of Appeals for the District of Columbia rejected the U.S. EPA rule known at the Clean Air Mercury Rule. The rules would have been the first regulations in any country to regulate mercury from power plants. The court's rejection of the rule is a setback to the EPA's plans to use a more flexible cap-and-trade program to regulate mercury emissions from power plants. The ruling directed the EPA to go back to the drawing board and regulate hazardous air pollutants under stricter and more expensive maximum achievable controls technology rules.
- In July of 2008, the D.C. Circuit Court of Appeals vacated the EPA's Clean Air Interstate Rule (CAIR), which requires reductions in various pollutants. Even though the CAIR rule has been vacated, additional future pollutant restrictions are expected. At this time, it is impossible to foresee what successor rules or requirements might replace CAIR. However, we expect to operate our environmental equipment much as it would have before the court's recent decision. Accordingly, the attached rider forecast reflects previously anticipated implications of CAIR.

Integrated Gasification Combined Cycle (IGCC) Rider Update

As reported in our February 2008 electric price outlook, we received approval from the Indiana Utility Regulatory Commission (IURC) to construct a technologically advanced, clean coal gasification or IGCC plant. We also received approval to recover the related construction, operation and maintenance, and depreciation costs through the IGCC Rider. On May 1, 2008, we filed a progress update with the IURC on the IGCC plant. The update included a revised cost estimate of $2.35 billion from the previous estimate of approximately $2 billion. Global competition for materials and increased labor costs to build power plants are driving the increased costs for the IGCC project. During the last few months, Duke Energy has taken significant steps to firm-up pricing, including finalizing contracts for some long lead-time equipment purchases. Domestic inflation also contributed to the increased cost estimate. This project is the first major new coal-fired power plant to be constructed in Indiana in more than 20 years, and once built, will be one of the cleanest, most efficient coal-fired plants in the world.

The IURC will need to approve any cost increase for the plant. If approved, the cost increase would result in approximately an additional 2 percent rate impact between 2008 and 2013 from the previous estimate of 16 percent, for a total rate impact of 18 percent for our retail power customers. The total impact will not occur until after the first full year following the plant's in service date, which is scheduled for 2012. Billing impacts to customers may begin by the latter part of 2008, as reflected in our now filed, IGCC Rider. Our IGCC Rider reflects the most recent projections and timing of expenditures based on engineering estimates and project schedules. Hearings before the IURC have been scheduled for late August 2008.

Energy Efficiency Filing Update

As reported in our previous electric price outlook, Duke Energy Indiana filed a petition with the IURC for its energy efficiency plan, referred to in its petition as Duke Energy's save a watt program. This proposed energy efficiency model will help meet growing customer demand in a manner that saves watts instead of relying exclusively on building new power plants. It is intended to change how energy efficiency is delivered to our customers and to serve as an opportunity for customers to lower their bills, particularly when faced with rising energy costs. Under the proposed plan, customers would pay for energy efficiency programs through an energy efficiency rider that would be included in their power bill and adjusted annually. A settlement in principle has been reached with the Indiana Office of Utility Consumer Counselor; Duke Energy will file the settlement with the IURC by mid-August. In the meantime, hearings before the IURC have been postponed and a revised procedural schedule will be determined in the future. We will share details on the estimated rate impact as more information becomes publicly available.

Duke Energy's Commitment to You

We are committed to helping your business stay profitable and successful by providing reliable service while continuing to manage our rate structure during this period of rising energy costs. Please know that Duke Energy Indiana will continue to manage costs by regularly assessing our fuel mix and generating fleet, by efficiently operating our power plants and other assets, by reducing emissions to decrease future compliance costs, and by the future deployment of energy efficiency programs.

Duke Energy Indiana Rider Projections

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 15, 2008

Updated:	Quarterly	Biannually	Biannually	Biannually	Annually	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 Savings Rider 64	Merger Amortization Credit Rider 67	MISO Rider 68	Summer Reliability Rider 70	Clean Coal Rider 71	Total Rider Cost (See Note 1)
								Actual 2006 Average		**$0.012038**
Jan-07	$0.004520		$0.002022	($0.004251)	($0.001664)		$0.002165	$0.000386	$0.000809	$0.003987
Feb-07	$0.004520		$0.002022	($0.004251)	($0.001664)		$0.002165	$0.000386	$0.000809	$0.003987
Mar-07	$0.004520		$0.002022	($0.004251)	($0.001664)		$0.002165	$0.000386	$0.000809	$0.003987
Apr-07	$0.004720		$0.002022	$0.001161	($0.001664)		$0.001569	$0.000386	$0.000809	$0.009003
May-07	$0.004720		$0.002022	$0.001161			$0.001569	$0.000386	$0.000809	$0.010667
Jun-07	$0.004720		$0.002022	$0.001161			$0.001569	$0.000386	$0.000809	$0.010667
Jul-07	$0.007006		$0.002385	$0.001756			$0.001772	$0.000125	$0.001387	$0.014431
Aug-07	$0.007006		$0.002385	$0.001756			$0.001772	$0.000125	$0.001387	$0.014431
Sep-07	$0.007006		$0.002385	$0.001756			$0.001772	$0.000125	$0.001387	$0.014431
Oct-07	$0.003354		$0.002385	$0.001050			$0.001474	$0.000125	$0.001387	$0.009775
Nov-07	$0.003354		$0.002385	$0.001050			$0.001474	$0.000125	$0.001387	$0.009775
Dec-07	$0.003354		$0.002385	$0.001050			$0.001474	$0.000125	$0.001387	$0.009775
								Actual 2007 Average		**$0.009576**
Jan-08	$0.006656		$0.002385	$0.001050			$0.001819	$0.000125	$0.001387	$0.013422
Feb-08	$0.006656		$0.003067	$0.000389			$0.001819	$0.000125	$0.002756	$0.014812
Mar-08	$0.006656		$0.003067	$0.000389			$0.001819	$0.000125	$0.002756	$0.014812
Apr-08	$0.006717		$0.003067	$0.000389			$0.001825	$0.000125	$0.002756	$0.014879
May-08	$0.006717		$0.003067	$0.000389			$0.001825	$0.000125	$0.002756	$0.014879
Jun-08	$0.006717		$0.003067	$0.000389		$(0.000397)	$0.001825	$0.000125	$0.002756	$0.014482
Jul-08	$0.013520		$0.003067	$0.000389		$(0.000397)	$0.001536	$0.000125	$0.002756	$0.020996
Aug-08	$0.013520		$0.003905	$0.000194		$(0.000397)	$0.001536	$0.000125	$0.002978	$0.021861
Sep-08	$0.013520	$0.000612	$0.003905	$0.000194		$(0.000397)	$0.001536	$0.000125	$0.002978	$0.022473
Oct-08	$0.013944	$0.000612	$0.003905	$0.000194		$(0.000397)	$0.000908	$0.000125	$0.002978	$0.022269
Nov-08	$0.013944	$0.000612	$0.003905	$0.000194		$(0.000397)	$0.000908	$0.000125	$0.002978	$0.022269
Dec-08	$0.013944	$0.000612	$0.003905	$0.000194		$(0.000397)	$0.000908	$0.000125	$0.002978	$0.022269
								Projected 2008 Average		**$0.018285**
Jan-09	$0.012210	$0.000612	$0.004225	$0.000840		$(0.000397)	$0.001758	$0.000125	$0.003115	$0.022488
Feb-09	$0.012210	$0.000612	$0.004225	$0.000840		$(0.000397)	$0.001758	$0.000125	$0.003115	$0.022488
Mar-09	$0.012210	$0.001021	$0.004225	$0.000840		$(0.000397)	$0.001758	$0.000125	$0.003115	$0.022897
Apr-09	$0.015146	$0.001021	$0.004225	$0.000840		$(0.000397)	$0.001845	$0.000125	$0.003115	$0.025920
May-09	$0.015146	$0.001021	$0.004225	$0.000840		$(0.000397)	$0.001845	$0.000125	$0.003115	$0.025920
Jun-09	$0.015146	$0.001021	$0.004225	$0.000840		$(0.000397)	$0.001845	$0.000125	$0.003115	$0.025920
Jul-09	$0.017421	$0.001021	$0.004374	$0.000807		$(0.000397)	$0.001646	$0.000216	$0.004178	$0.029266
Aug-09	$0.017421	$0.001021	$0.004374	$0.000807		$(0.000397)	$0.001646	$0.000216	$0.004178	$0.029266
Sep-09	$0.017421	$0.001726	$0.004374	$0.000807		$(0.000397)	$0.001646	$0.000216	$0.004178	$0.029971
Oct-09	$0.012373	$0.001726	$0.004374	$0.000807		$(0.000397)	$0.001833	$0.000216	$0.004178	$0.025110
Nov-09	$0.012373	$0.001726	$0.004374	$0.000807		$(0.000397)	$0.001833	$0.000216	$0.004178	$0.025110
Dec-09	$0.012373	$0.001726	$0.004374	$0.000807		$(0.000397)	$0.001833	$0.000216	$0.004178	$0.025110
								Projected 2009 Average		**$0.025789**
Jan-10	$0.015234	$0.001726	$0.004383	$0.000441		$(0.000397)	$0.001885	$0.000216	$0.004186	$0.027674
Feb-10	$0.015234	$0.001726	$0.004383	$0.000441		$(0.000397)	$0.001885	$0.000216	$0.004186	$0.027674
Mar-10	$0.015234	$0.003480	$0.004383	$0.000441		$(0.000397)	$0.001885	$0.000216	$0.004186	$0.029428
Apr-10	$0.017679	$0.003480	$0.004383	$0.000441		$(0.000397)	$0.001979	$0.000216	$0.004186	$0.031967
May-10	$0.017679	$0.003480	$0.004383	$0.000441		$(0.000397)	$0.001979	$0.000216	$0.004186	$0.031967
Jun-10	$0.017679	$0.003480	$0.004383	$0.000441		$(0.000397)	$0.001979	$0.000216	$0.004186	$0.031967
								Projected 2010 Average		**$0.030113**

Note (1): Customers under 500 kilowatts are also impacted by Rider 66 - Demand Side Management Adjustment. Beginning with September 2008, this is projected to be a charge of $0.000034.

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. Four separate annual comparisons are given for your use.

Step Two: Estimate what your billed kwh usage will be for the period 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.

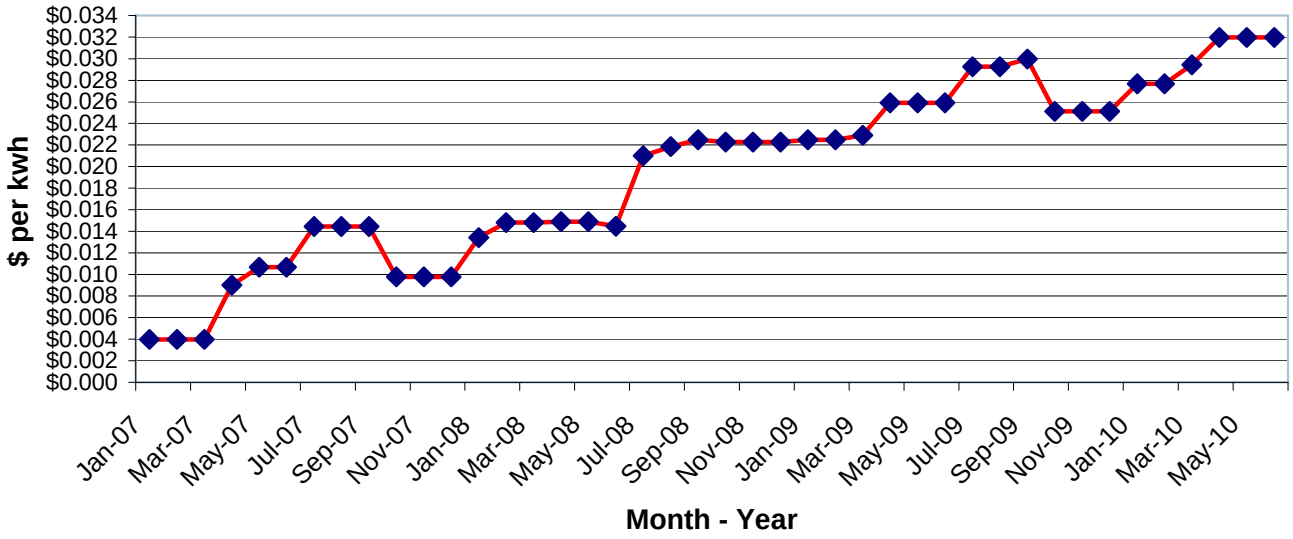
Projections:

Annual Rider Impacts Estimates Based on Average kwh Cost

Annual Impacts		Customer Specific Average Price/kwh				
Description	$/kwh		2008 vs 2006	2008 vs 2007	2009 vs 2008	2010 vs 2009
		$0.0400	15.6%	21.8%	18.8%	10.8%
Actual 2007 Rider Average:	$0.009576	$0.0425	14.7%	20.5%	17.7%	10.2%
Actual 2006 Rider Average:	$0.012038	$0.0450	13.9%	19.4%	16.7%	9.6%
Actual 2007 Annual Rider Increase per kwh	**($0.002462)**	$0.0475	13.2%	18.3%	15.8%	9.1%
		$0.0500	12.5%	17.4%	15.0%	8.6%
Projected 2008 Rider Average:	$0.018285	$0.0525	11.9%	16.6%	14.3%	8.2%
Actual 2007 Rider Average:	$0.009576	$0.0550	11.4%	15.8%	13.6%	7.9%
Projected 2008 Annual Rider Increase per kwh	**$0.008709**	$0.0575	10.9%	15.1%	13.0%	7.5%
		$0.0600	10.4%	14.5%	12.5%	7.2%
Projected 2009 Rider Average:	$0.025789	$0.0625	10.0%	13.9%	12.0%	6.9%
Projected 2008 Rider Average:	$0.018285	$0.0650	9.6%	13.4%	11.5%	6.7%
Projected 2009 Annual Rider Increase per kwh	**$0.007504**	$0.0675	9.3%	12.9%	11.1%	6.4%
		$0.0700	8.9%	12.4%	10.7%	6.2%
Projected 2010 Rider Average (See Note 1):	$0.030113					
Projected 2009 Rider Average:	$0.025789					
Projected 2010 Rider Increase per kwh	**$0.004324**					

Note 1: Projected 2010 rider average is based on the first six months of 2010.

LLF Monthly Total Rider Costs*



*Does not include base rates

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