



Duke Energy Electric Price Outlook for Indiana 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 provide quarterly projections for Duke Energy Indiana's electric rate rider adjustments.

Price Projection

The primary drivers impacting total rider costs continue to be fuel, environmental compliance, and construction of our Edwardsport Integrated Gasification Combined Cycle (IGCC) plant. **For LLF customers the total rider cost per kilowatt-hour (kWh) is \$0.0258 for 2011 and is projected to be \$0.0347 for 2012. Depending on your total average cost per kWh, we project an increase of 9 to 14 percent in 2012 compared to 2011. Fuel and the IGCC plant are the largest drivers of these increases.**

The rider projections in this outlook are higher compared to last quarter because of several factors, including:

- Increased coal costs as of Jan. 1, 2012, due to the expiration of a long-term coal contract and market-price adjustments to another contract. These two contracts have provided value to customers over the past several years through below-market pricing. We continually work to keep fuel prices down, including diversifying our supplier base and working with fuel and transportation companies to increase their operating flexibility in return for price reductions.
- We are also starting to see the impact of emerging environmental regulations on fuel costs. For our Wabash River Station, we have sourced higher-cost, lower-sulfur fuel for 2012 due to the Cross State Air Pollution Rule. If other key rules are finalized as proposed, it is likely we will retire the units we own at that station in 2014. Our new IGCC plant will help fill the gap of needed power. Market prices for emission allowances have also been extremely volatile because of the Cross State Air Pollution Rule and are likely to remain so for the near future.
- We saw higher purchased-power costs due to last summer's extreme hot weather and did not anticipate all of those costs in our projections. Normally we would recover through our riders the additional costs in one quarter. However, to lessen the rate impact, we've proposed to spread the difference between projected and actual costs over a six-month period rather than the standard three months.

Fuel Costs

Fuel remains the largest component, at 54 percent of total LLF customer rider costs for 2011. On average, the Fuel Charge Rider is projected to be \$0.004 higher per kWh in 2012 than 2011. Continued, increasing demand for the Illinois Basin coal we use affects prices. Production of eastern U.S. coal has declined due to environmental permitting and safety issues. As a result, increasingly larger supplies of coal produced in the Illinois Basin are going to locations outside the Indiana, Illinois and Kentucky region. Strong global interest is also driving demand for the supplies. Adding to coal market volatility is uncertainty around the export market, currently low natural gas prices, and new environmental regulations. We expect all of these factors to affect coal prices over the next several years.

IGCC Plant Update

Construction on our advanced-technology, cleaner coal power plant we in southwest Indiana is nearly complete, and an extensive start-up and testing process is underway. The plant is scheduled for commercial operation by the fall of 2012. The fuel projections in this outlook are more moderate in late 2012--about 2 percent lower--because the plant is expected to be in service then and replacing less-efficient generation and market power purchases.

On average, Duke Energy's coal-fired plants are 47 years old; our company hasn't built a major new power plant on our Indiana system in three decades. The new plant is an important part of modernizing our electric system to comply with a host of new environmental regulations while still using a local resource, coal. It will be the largest plant in the world to use advanced technology to gasify coal, strip out many of the pollutants, and then burn that cleaner gas to produce power. The plant will produce 10 times the amount of power of the facility it replaces, but it will have significantly fewer environmental emissions.

The new generation of power plants is environmentally cleaner, but also more costly to build. In November 2009, we alerted the Indiana Utility Regulatory Commission (IURC) that we were seeing cost pressures as the project's engineering progressed. On April 16, 2010, we filed testimony with the commission increasing the plant's cost estimate but capping the costs at \$2.72 billion, excluding financing costs on that amount. We've also proposed rate-related adjustments that will lower the overall customer rate increase related to the project. While this facility costs more than we anticipated, we have proposed significant steps to mitigate the customer rate impact. Our IGCC rider projections reflect those proposed adjustments.

Hearings on the cost increase are underway in Indianapolis. Some of the parties to the case have made allegations of fraud, concealment and mismanagement related to the project, and we have provided extensive testimony refuting those claims. The commission is also conducting hearings on those issues.

Environmental Costs

On July 6, 2011, the Environmental Protection Agency (EPA) issued a final rule related to cross-state air pollution. The rule will require significant reductions in power plant emissions and the market prices associated with the emission allowances are likely to be more volatile than seen in recent years.

Additional final new rules regulating mercury and other air emissions are also expected yet this year. We are taking a comprehensive look at these regulations, as well as others expected in the future, and developing a compliance plan which we expect to file with the IURC early next year. We're looking at a variety of options, including new pollution controls and unit retirements. Our new IGCC plant will help position us to comply with the new regulations.

While we continue to review the potential impact of the new regulations, our rider projections do not yet reflect the impact on rates from new pollution control infrastructure to comply with the rules. The additional infrastructure costs would probably not affect riders until mid-2013. Continued impacts on fuel, emission allowance and purchased-power costs are possible in 2012, but depend, in part, on how the regulations affect the markets. As our compliance plan is finalized, we will keep you updated.

Gallagher Gas Conversion Project

We had been exploring converting two of the four coal-burning units at our Gallagher power plant in southern Indiana to natural gas, as part of a legal settlement agreement with the EPA and others to reduce the plant's air emissions. The project would involve building a 19-mile pipeline to deliver gas to the station.

Meanwhile, we have an opportunity to acquire an interest in Vermillion Generating Station, a gas-fired electric power plant co-owned by the Wabash Valley Power Association and a subsidiary of Duke Energy Ohio. The Vermillion transaction gives us the same or slightly more power generation at a lower cost per kilowatt than converting two of Gallagher's units to gas. Therefore, we are pursuing this alternative.

We are, however, preserving the option to convert the Gallagher units to gas until the IURC approves the Vermillion transaction. (The Federal Energy Regulatory Commission approved the acquisition on Aug. 12.) If, for some reason, we do not receive state regulatory approval under terms acceptable to us, we may pursue the Gallagher gas conversion. We filed testimony with the IURC on these plans May 26. State regulatory commission hearings occurred in late September. We hope to receive state approval for the Vermillion transaction by year-end.

If we receive approval, we plan to retire two of Gallagher's coal units. The remaining two units, about half of the station's generating capacity, would not be affected by this transaction and would continue to operate. As part of the EPA settlement agreement, we installed additional pollution controls and switched to lower-sulfur coal on the power plant's two remaining units. Those systems are operational and better position us to comply with future federal rules anticipated to further limit power plant emissions.

At this time, our rate projections do not reflect the estimated \$68 million for the purchase of the Vermillion plant, because we have requested to defer the costs for future recovery in a base-rate proceeding. As part of the EPA settlement, Duke Energy is also surrendering sulfur dioxide emission allowances. The near-term impacts of the emission allowance surrender and the installation of additional pollution controls on the station's other two units are factored into 2012 rider projections.

Energy Efficiency and Smart Grid Update

The IURC issued an order on energy efficiency on Dec. 9, 2009, requiring the state's major utilities to meet energy savings goals beginning in 2010. On Sept. 28, 2010, Duke Energy filed a petition that meets the requirements of the IURC's order – proposing a three-year plan with new programs designed to complement the programs in the commission's order and achieve commission-mandated energy savings levels. We filed testimony on Nov. 10, 2010, including details on the additional programs and our request for cost recovery and incentives to carry out the programs.

Indiana utility regulators must review and approve our filing before we can include costs in electric rates. The IURC held hearings on our proposal July 14 and 15. State regulatory approval is pending.

We have proposed an Energy Efficiency Rider and it is reflected in our rider projections. The rider and its impacts, though, are dependent on what is approved by the IURC and are, therefore, subject to change.

In April 2010, we filed plans with the IURC to introduce smart grid technology to our Indiana customers. We proposed a limited project to allow us to explore the technology and its benefits with approximately 40,000 customers before expanding it throughout our Indiana service area. On Oct. 19, 2011, the IURC denied the proposal, in part due to concerns that the information presented was out-of-date because regulatory hearings occurred in July 2010. The commission did not rule on the merits of the proposal, however, so we are evaluating next steps. We continue to believe modernizing today's analog power grid is essential to give customers more control over their energy usage, increase energy efficiency, and improve power reliability.

Duke Energy Rider Projections

In Indiana, Duke Energy has several rate adjustment riders that impact billings beyond the base rate. The attached table reflects Rate LLF adjustment riders for previous months, as well as changes filed with and pending before the IURC, which are highlighted and marked "filed." Changes marked "projected" have not been filed with the IURC and reflect our projections of future filings. **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 commission proceedings.

Duke Energy Indiana Rider Projections

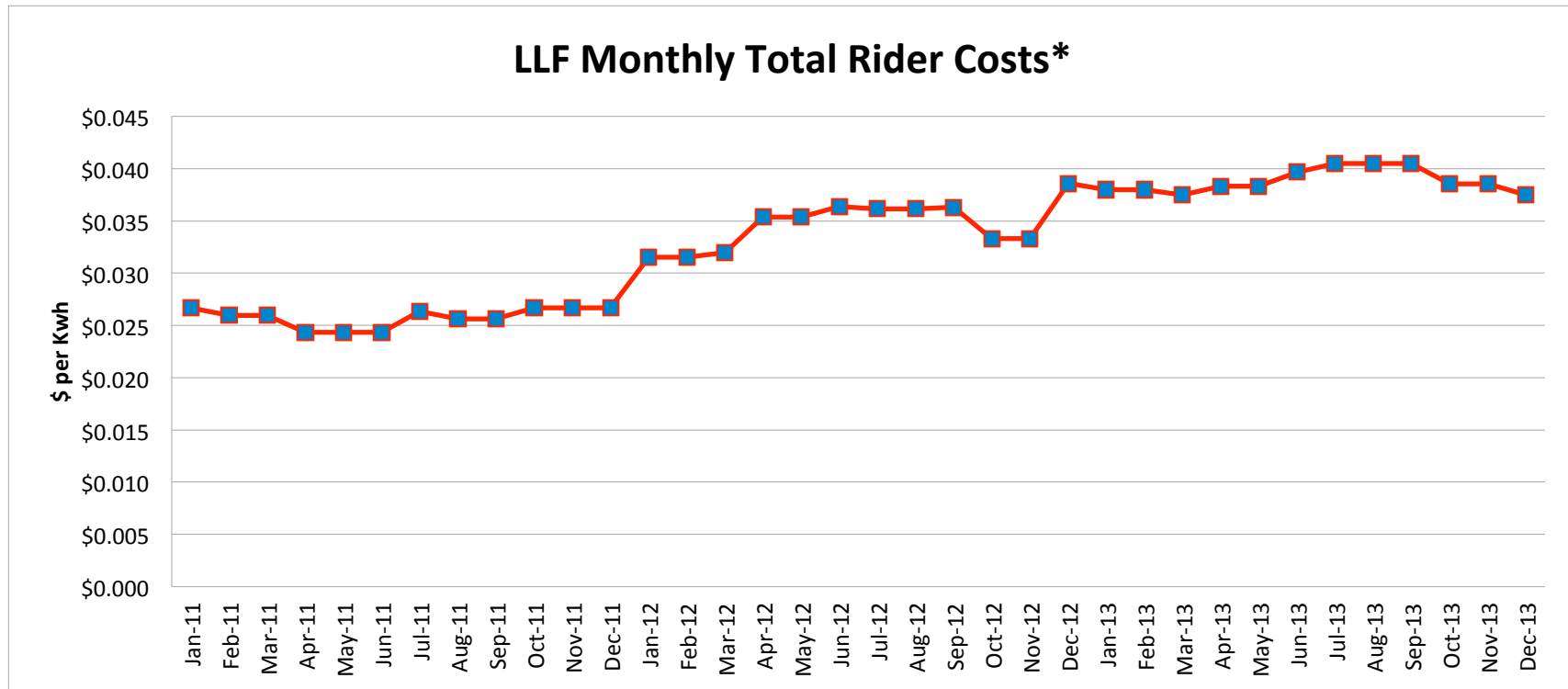
Color Code **Approved** **Filed** **Projected**

Rate LLF Rider Projections as of November 18, 2011

Quarterly	Biannually	Biannually	Biannually	Annually	Annually	Quarterly	Annually	Biannually		
FCR (Fuel Charge) Rider 60	IGCC Rider 61 Note (2)	Qualified Pollution Control (CWIP) Rider 62	Emission Allowance Charge Rider 63	Energy Efficiency Rider 66-A	Merger Amortization Credit Rider 67	MISO Rider 68	Reliability Rider 70	Clean Coal Rider 71	Total Rider Cost	
Month										
Actual 2010 Average									\$0.022609	
Jan-11	\$0.013881	\$0.003693	\$0.003830	\$0.000866		(\$0.000371)	\$0.000631	\$0.000301	\$0.003852	\$0.026683
Feb-11	\$0.013881	\$0.003693	\$0.003707	\$0.000323		(\$0.000371)	\$0.000631	\$0.000301	\$0.003770	\$0.025935
Mar-11	\$0.013881	\$0.003693	\$0.003707	\$0.000323		(\$0.000371)	\$0.000631	\$0.000301	\$0.003770	\$0.025935
Apr-11	\$0.012517	\$0.003693	\$0.003707	\$0.000323		(\$0.000371)	\$0.000371	\$0.000301	\$0.003770	\$0.024311
May-11	\$0.012517	\$0.003693	\$0.003707	\$0.000323		(\$0.000371)	\$0.000371	\$0.000301	\$0.003770	\$0.024311
Jun-11	\$0.012517	\$0.003693	\$0.003707	\$0.000323		(\$0.000341)	\$0.000371	\$0.000301	\$0.003770	\$0.024341
Jul-11	\$0.014207	\$0.003693	\$0.003707	\$0.000323		(\$0.000341)	\$0.000688	\$0.000304	\$0.003770	\$0.026351
Aug-11	\$0.014207	\$0.003693	\$0.003494	\$0.000303		(\$0.000341)	\$0.000688	\$0.000304	\$0.003283	\$0.025631
Sep-11	\$0.014207	\$0.003693	\$0.003494	\$0.000303		(\$0.000341)	\$0.000688	\$0.000304	\$0.003283	\$0.025631
Oct-11	\$0.015216	\$0.003693	\$0.003494	\$0.000303		(\$0.000341)	\$0.000739	\$0.000304	\$0.003283	\$0.026691
Nov-11	\$0.015216	\$0.003693	\$0.003494	\$0.000303		(\$0.000341)	\$0.000739	\$0.000304	\$0.003283	\$0.026691
Dec-11	\$0.015216	\$0.003693	\$0.003494	\$0.000303		(\$0.000341)	\$0.000739	\$0.000304	\$0.003283	\$0.026691
Projected 2011 Average									\$0.025767	
Jan-12	\$0.018375	\$0.003693	\$0.003494	\$0.000303	\$0.001747	(\$0.000341)	\$0.000672	\$0.000304	\$0.003283	\$0.031530
Feb-12	\$0.018375	\$0.003693	\$0.003494	\$0.000303	\$0.001747	(\$0.000341)	\$0.000672	\$0.000304	\$0.003283	\$0.031530
Mar-12	\$0.018375	\$0.003693	\$0.003503	\$0.000125	\$0.001747	(\$0.000341)	\$0.000672	\$0.000304	\$0.003872	\$0.031950
Apr-12	\$0.018570	\$0.006823	\$0.003503	\$0.000125	\$0.001747	(\$0.000341)	\$0.000762	\$0.000304	\$0.003872	\$0.035365
May-12	\$0.018570	\$0.006823	\$0.003503	\$0.000125	\$0.001747	(\$0.000341)	\$0.000762	\$0.000304	\$0.003872	\$0.035365
Jun-12	\$0.018570	\$0.007852	\$0.003503	\$0.000125	\$0.001747	(\$0.000341)	\$0.000762	\$0.000304	\$0.003872	\$0.036394
Jul-12	\$0.018226	\$0.007852	\$0.003503	\$0.000125	\$0.001747	(\$0.000341)	\$0.000847	\$0.000304	\$0.003872	\$0.036135
Aug-12	\$0.018226	\$0.007852	\$0.003503	\$0.000125	\$0.001747	(\$0.000341)	\$0.000847	\$0.000304	\$0.003872	\$0.036135
Sep-12	\$0.018226	\$0.007852	\$0.002969	\$0.000467	\$0.001747	(\$0.000341)	\$0.000847	\$0.000304	\$0.004243	\$0.036314
Oct-12	\$0.014867	\$0.007852	\$0.002969	\$0.000467	\$0.001747	(\$0.000341)	\$0.001184	\$0.000304	\$0.004243	\$0.033292
Nov-12	\$0.014867	\$0.007852	\$0.002969	\$0.000467	\$0.001747	(\$0.000341)	\$0.001184	\$0.000304	\$0.004243	\$0.033292
Dec-12	\$0.014867	\$0.013159	\$0.002969	\$0.000467	\$0.001747	(\$0.000341)	\$0.001184	\$0.000304	\$0.004243	\$0.038599
Projected 2012 Average									\$0.034658	
Jan-13	\$0.013608	\$0.013159	\$0.002969	\$0.000467	\$0.002445	(\$0.000341)	\$0.001122	\$0.000304	\$0.004243	\$0.037976
Feb-13	\$0.013608	\$0.013159	\$0.002969	\$0.000467	\$0.002445	(\$0.000341)	\$0.001122	\$0.000304	\$0.004243	\$0.037976
Mar-13	\$0.013608	\$0.013159	\$0.002844	\$0.000074	\$0.002445	(\$0.000341)	\$0.001122	\$0.000304	\$0.004251	\$0.037466
Apr-13	\$0.014387	\$0.013159	\$0.002844	\$0.000074	\$0.002445	(\$0.000341)	\$0.001200	\$0.000304	\$0.004251	\$0.038323
May-13	\$0.014387	\$0.013159	\$0.002844	\$0.000074	\$0.002445	(\$0.000341)	\$0.001200	\$0.000304	\$0.004251	\$0.038323
Jun-13	\$0.014387	\$0.014472	\$0.002844	\$0.000074	\$0.002445	(\$0.000341)	\$0.001200	\$0.000304	\$0.004251	\$0.039636
Jul-13	\$0.015390	\$0.014472	\$0.002844	\$0.000074	\$0.002445	(\$0.000341)	\$0.001046	\$0.000304	\$0.004251	\$0.040485
Aug-13	\$0.015390	\$0.014472	\$0.002844	\$0.000074	\$0.002445	(\$0.000341)	\$0.001046	\$0.000304	\$0.004251	\$0.040485
Sep-13	\$0.015390	\$0.014472	\$0.002720	\$0.000092	\$0.002445	(\$0.000341)	\$0.001046	\$0.000304	\$0.004355	\$0.040483
Oct-13	\$0.013307	\$0.014472	\$0.002720	\$0.000092	\$0.002445	(\$0.000341)	\$0.001208	\$0.000304	\$0.004355	\$0.038562
Nov-13	\$0.013307	\$0.014472	\$0.002720	\$0.000092	\$0.002445	(\$0.000341)	\$0.001208	\$0.000304	\$0.004355	\$0.038562
Dec-13	\$0.013307	\$0.013411	\$0.002720	\$0.000092	\$0.002445	(\$0.000341)	\$0.001208	\$0.000304	\$0.004355	\$0.037501
Projected 2013 Average									\$0.038815	

Note (1): Customers under 500 kilowatts are also impacted by the current Rider 66 - Demand Side Management Adjustment which is \$.000216 from December 2010 through December 2011.

Actual and projected total rider costs are represented graphically below.



*Does not include base rates

LLF Annual Rider Impact Estimates

Overview:

The following chart shows estimates of the impacts of rate adjustment riders for the LLF Rate. The percent increase estimates comprise actual adjustments, filed adjustments and/or projections of future filings of the LLF rate adjustment riders. Remember that the percent increase estimates are not approved and may not be approved as filed; they are only projections. As previously stated, these projections are subject to change, depending on the outcome of pending and future IURC proceedings and the usage patterns of individual customers.

Instructions:

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

Actual Cost per kWh Increase

Step One: The left side of the chart shows actual cost per kWh increases from one budget or projection period to the next. Three year-to-year comparisons are provided.

Step Two: Estimate your billed kWh usage for the period for which cost projections are needed, and apply the appropriate cost per kWh increases. Multiply the kWh by the projected increase, and add to your current actuals to determine the estimated cost or budget increase.

Percent Increase in Total Average Cost per kWh

Step One: Determine your average cost per kWh from your electric bill, by dividing "Total Current Electric Charges" by "Billed kWh Usage."

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

Results:

The percent increases represent our best projections for the coming months and years. Please understand that they are only projections and that actual costs will vary. Depending on your forecasted usage, budgeting process and planning requirements, you may need to adjust your final figures up or down to accommodate anticipated events, unforeseen situations or the inherent differences in any forecasting or budgeting process.

Annual Rider Impacts Estimates Based on Average kWh Cost

Annual Impacts		Customer Specific Average Price/kWh	2011 vs 2010	2012 vs 2011	2013 vs 2012
Description	\$/kWh				
Projected 2011 Rider Average:	\$0.025767	\$0.0650	5.7%	13.7%	6.4%
Actual 2010 Rider Average:	\$0.022069	\$0.0675	5.5%	13.2%	6.2%
Projected 2011 Annual Rider Increase per kWh	\$0.003698	\$0.0700	5.3%	12.7%	5.9%
		\$0.0725	5.1%	12.3%	5.7%
Projected 2012 Rider Average:	\$0.034658	\$0.0750	4.9%	11.9%	5.5%
		\$0.0775	4.8%	11.5%	5.4%
Projected 2011 Rider Average:	\$0.025767	\$0.0800	4.6%	11.1%	5.2%
		\$0.0825	4.5%	10.8%	5.0%
Projected 2012 Annual Rider Increase per kWh	\$0.008891	\$0.0850	4.4%	10.5%	4.9%
		\$0.0875	4.2%	10.2%	4.8%
Projected 2013 Rider Average:	\$0.038815	\$0.0900	4.1%	9.9%	4.6%
		\$0.0925	4.0%	9.6%	4.5%
Projected 2012 Rider Average:	\$0.034658	\$0.0950	3.9%	9.4%	4.4%
		\$0.0975	3.8%	9.1%	4.3%
Projected 2012 Rider Increase per kWh	\$0.004157	\$0.1000	3.7%	8.9%	4.2%
		\$0.1025	3.6%	8.7%	4.1%
		\$0.1050	3.5%	8.5%	4.0%