DUKE ENERGY INDIANA

Preparation for Summer 2007

Presentation to Indiana Utility Regulatory Commission

May 30, 2007

Overview of Presentation

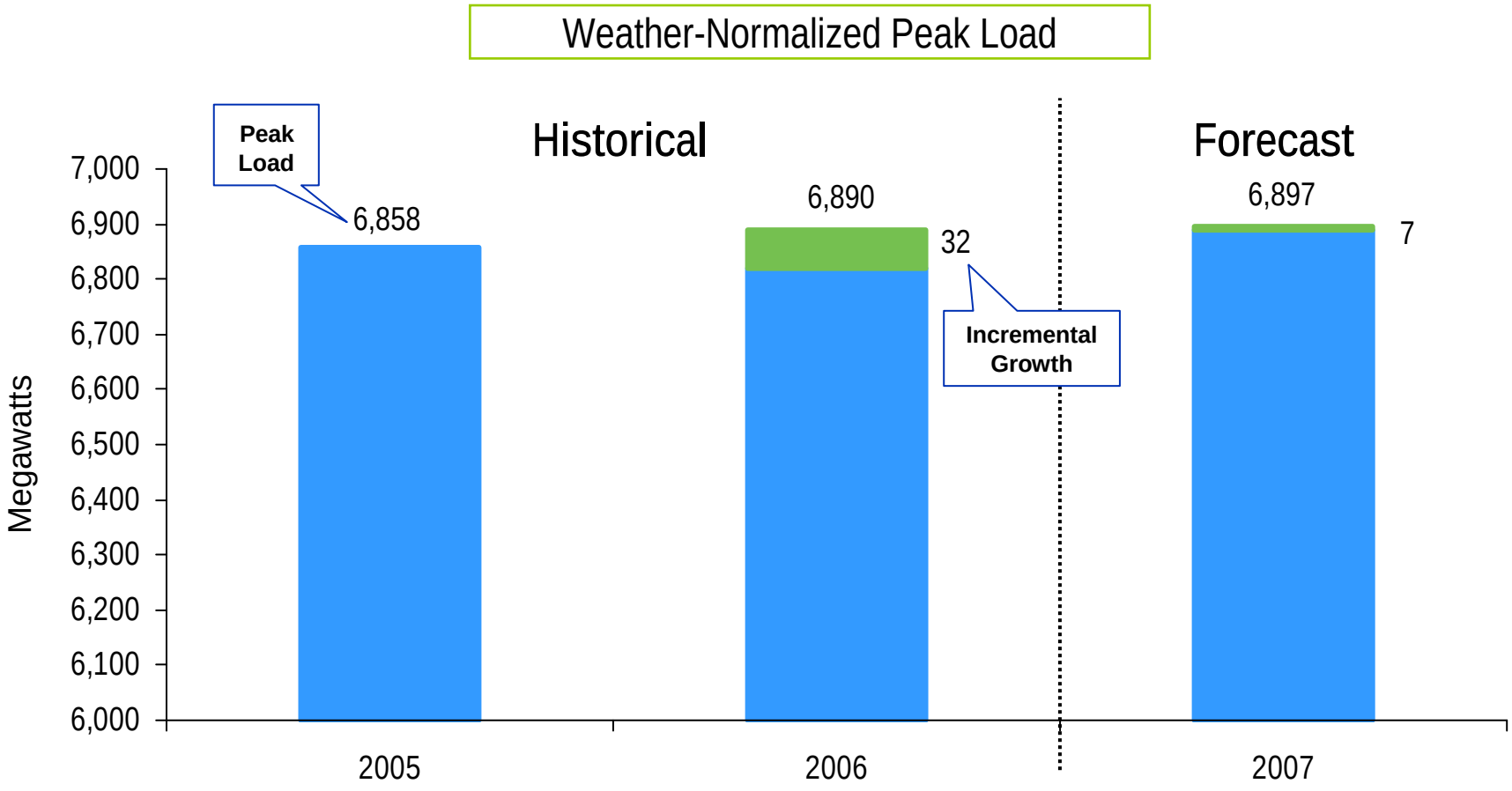
- 2006 Duke Energy Indiana accomplishments/challenges
- Summer 2007 capacity and energy needs
- Steps taken to prepare for summer 2007
- Challenges

2006 Duke Energy Indiana Accomplishments/Challenges

- Generation
  - Second-highest generation year out of last five years
  - Gibson Station: highest generation out of last five years
  - Eight of our coal units had continuous runs longer than 100 days
- Power Delivery
  - Recovery from April 2006 storms

Summer 2007 Capacity and Energy Needs –

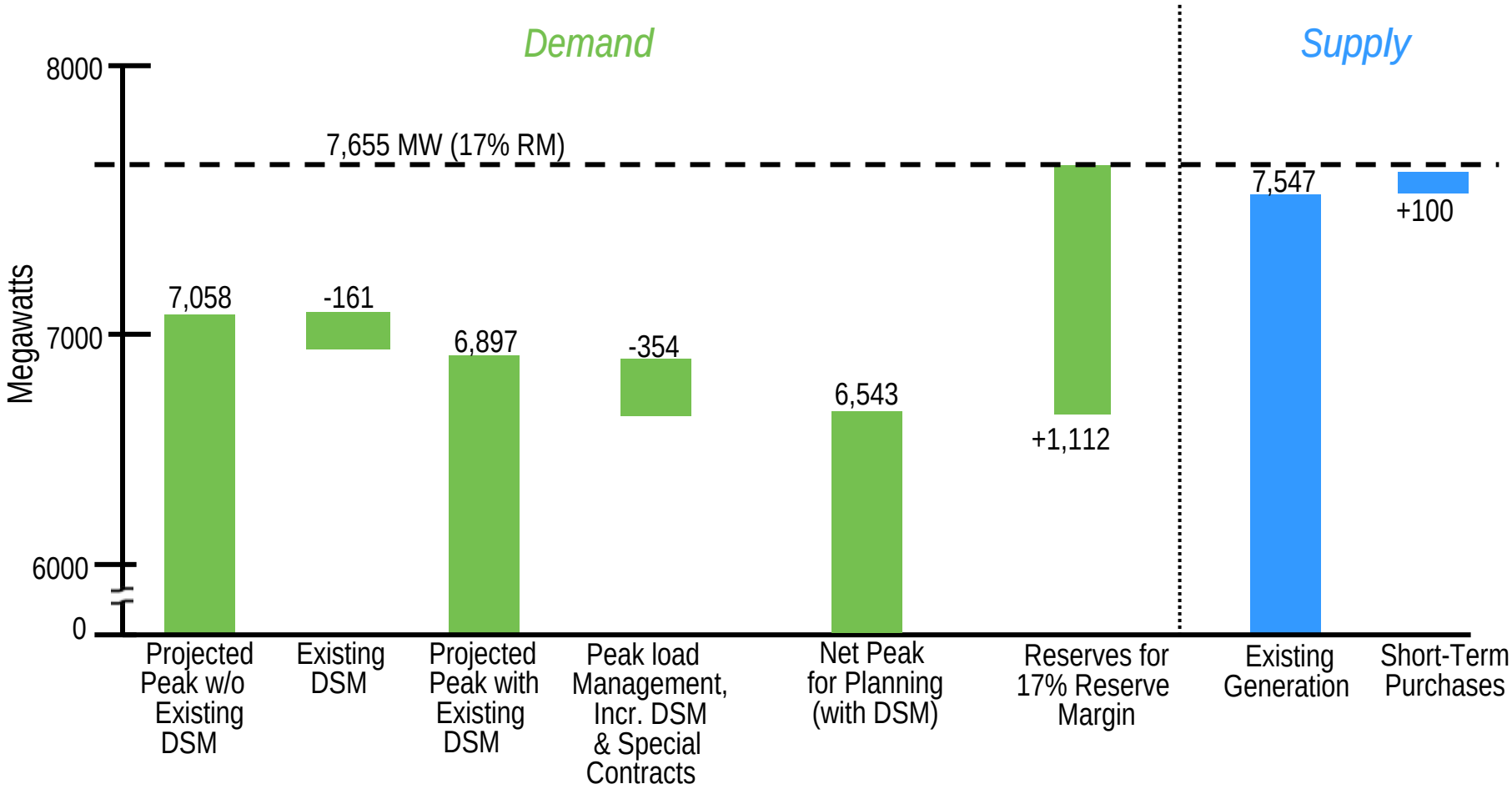
Duke Energy Indiana's Peak Demand Forecast



Percent Growth… 0.5 0.1

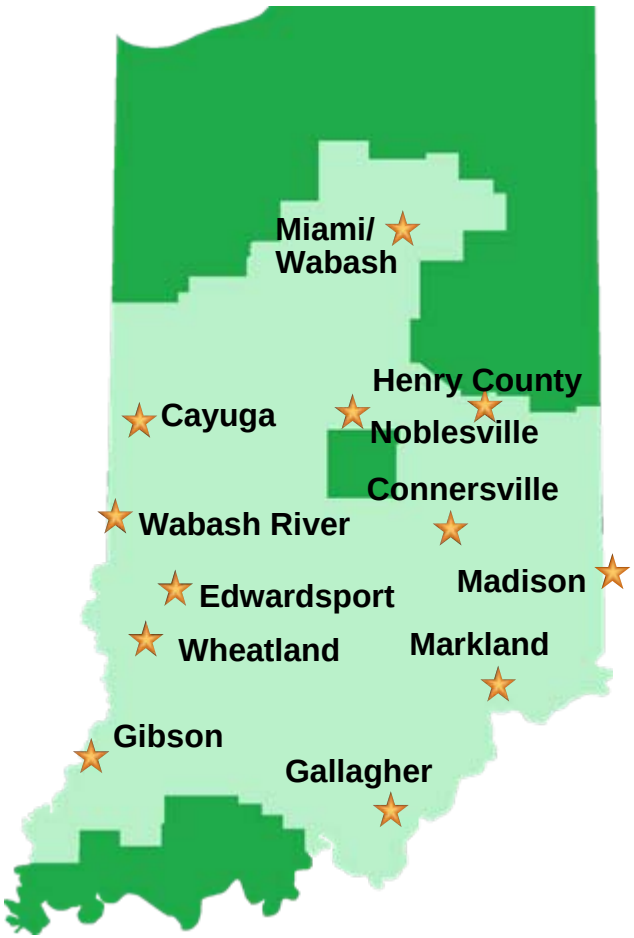
Summer 2007 Capacity and Energy Needs –

Duke Energy Indiana's Supply/Demand Balance For Summer 2007



Steps Taken for Summer 2007 –

Generation System



- All generating units are scheduled to be available June through late September 2007
  - Over 50 weeks of maintenance outages this past spring
  - 5 SCRs at Gibson will be operating this summer during NOx season
  - 4 of 5 units at Gibson will be operating scrubbers
    - Unit 3 scrubber went on-line 12/06
    - Unit 2 scrubber is scheduled to go on-line 6/07
- Duke Energy Indiana continues to focus on:
  - Peak availability (i.e., high availability during peak periods)
  - A program of “availability outages” aimed at addressing potential summer failure situations
  - System-wide and plant-wide contingency planning with the goal of reducing the length of any forced outages

Steps Taken for Summer 2007 –

Purchased Capacity and Energy

- Duke Energy Indiana's current on-system reserve margin is below 17%
- Duke Energy Indiana has completed purchases (100 MW) from physical capacity for July-August to achieve approximately a 16.9% installed reserve margin in order to ensure compliance with the day-ahead ~4% requirement
  - MISO requirements include a day-ahead ~4% capacity reserve requirement (after outages and derates) from physical capacity for ReliabilityFirst companies
- Duke Energy Indiana has also purchased 200 MW of peak and 100 MW of off-peak forward energy price hedges for the month of June
- Duke Energy Indiana may utilize financial swaps or financial options to hedge against wholesale market price volatility

Steps Taken for Summer 2007 –

Incremental Demand Side Management Programs

- Between 1991 and 2007, Duke Indiana DSM programs have created:
  - Over 161 MW of annual peak demand reductions
  - Over 661,000 MWh annual energy reductions
- Additional 2007 projected peak load management reductions:
  - Special contracts (e.g., interruptible): 209 MW
  - Special contract – hourly pricing: 47 MW
  - PowerShare®
    - Call (customer contractual commitment): 41 MW
    - Quote (voluntary, yet compensated): 69 MW
  - Power Manager – direct load control 49 MW

Steps Taken for Summer 2007 –

Transmission & Distribution System

Lafayette-Westwood transformer

- $150 million in long-term T&D investments for load growth and system enhancements
  - Lafayette-Westwood transformer
  - Hamilton County-Whitestown transformer
  - Kokomo-Highland Park transformer
  - Kokomo-New London-Webster St 230 kV line re-conductor –12 miles
  - $1.6 M for transmission capacitors to improve system voltage
  - $3 M for added distribution transformer capacity in Zionsville, Fishers and Shoals
- 230kV and 138kV transmission rehabilitation
  - In 2006, 118 miles of 138kV and 230kV transmission lines completed
  - Over 356 of 630 total miles completed since start of program in 2003
- Bulk System Emergency Operations Plans updated to reflect MISO plan changes

Challenges for Summer 2007 and Beyond – Overview

- Managing commodity price volatility
- Completion of CAIR/CAMR environmental projects
- Evolving future resource adequacy requirements
- Planning for tighter environmental constraints and energy efficiency

Challenge –

Managing Commodity Price Volatility

Commodity	2004	2005	2006	% Change 2006 vs. 2004
WTI Crude Oil Price ($/bl)	41.5	56.6	66.2	+60%
Natural Gas – Henry Hub ($/MMBtu)	5.90	8.50	6.74	+14%
Central Appalachia Compliance Coal ($/Ton)	57.0	64.8	54.9	-4%
Illinois Basin High Sulfur Coal ($/Ton)	31.7	37.5	32.9	+4%
Wyoming Powder River Basin High Btu Coal ($/Ton)	6.3	9.7	12.1	+92%
SO_2 Allowance ($/Ton)	437.9	906.0	728.0	+66%
NO_x Allowance ($/Ton)	2,258.1	2,907.8	1,847.5	-18%

Recent Price Trends (1/1/07 to 5/24/07)

- Summer 2007 CIN Hub peak price has increased 25% (from $66.25 to $82.50/MW)
- Summer 2007 Henry Hub natural gas price has increased 13% (from $6.99 to $7.92/mmbtu)
- SO_2 emission allowance prices have increased 32% (from $472 to $622/ton)
- Crude oil prices have increased 5% (from $61.05 to $64.18/barrel) but have been volatile with a price range of $49.90 to $66.70 per barrel

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Challenge –

Evolving Future Resource Adequacy Requirements

- On April 1, 2006, ReliabilityFirst (RFC) passed a standard for resource planning reserve requirements
  - Each load serving entity (LSE) must be a member of a Planned Reserve Sharing Group (PRSG) for determining its planning reserve requirement
  - Each year, the PRSG must perform a 10-year study to determine the planning reserve requirement of the PRSG
  - Each LSE must secure the required resources for the upcoming year
  - The first planning year is June 1, 2008 to May 31, 2009
- Several MISO LSE's (including Duke Energy) have signed a Memorandum of Understanding to try to form a PRSG generally covering the MISO footprint
  - The goal is to sign an agreement by end of May and have the study done by end of 2007
  - If successful, members will share study costs and individual LSE's that are short will have to procure the required resources through bilateral contracts

Challenge –

Completion of CAIR/CAMR Environmental Projects

Gibson Station

- Gibson 3 FGD in service 12/06
- Gibson 2 FGD scheduled in service 6/07
- Projects under construction:
  - Gibson 1 FGD
  - Cayuga 1-2 FGD
  - Gallagher 1-4 baghouses

Challenge –

Planning for Tighter Environmental Constraints & Energy Efficiency

- Continuing environmental pressure on our generation fleet
  - CAIR/CAMR requirements
  - Potential greenhouse gas legislation
- Emphasis on energy efficiency
  - "The Fifth Fuel"
  - Recent activities:
    - February 12, 2007 Indiana Summit on Energy Efficiency
    - Duke Energy Indiana's Market Potential Study
    - Roll-out of Personalized Energy Report

Conclusion

- Duke Energy Indiana believes it has adequate resources and infrastructure to meet our customers' needs during summer 2007