SUMMER 2008 PREPAREDNESS

Duke Energy Indiana
Presentation to Indiana Utility Regulatory Commission

Jim Stanley, President, Duke Energy Indiana
June 3, 2008

OVERVIEW OF PRESENTATION

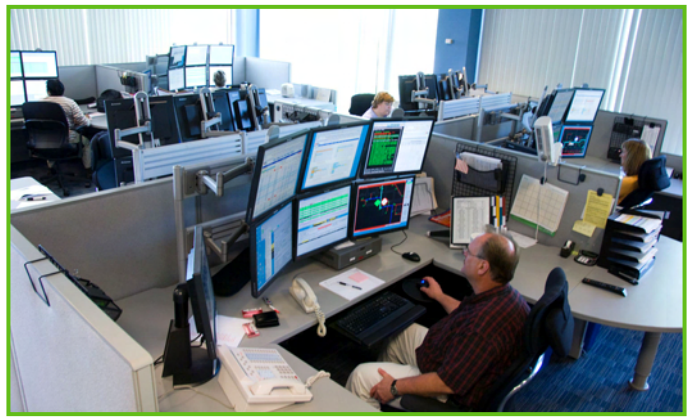
- Recent Duke Energy Indiana operational accomplishments/challenges
- Summer 2008 capacity and energy needs
- Steps taken to prepare for summer 2008
- Challenges

RECENT DUKE ENERGY INDIANA OPERATIONAL ACCOMPLISHMENTS/CHALLENGES

- Generation:
  - Highest generation in 2007 out of last five years
  - Six of our coal units had continuous runs longer than 100 days
  - Several major environmental projects went in-service in 2007 – 2008
  - Thermal derates in summer/fall 2007

Gibson Station – April 2008

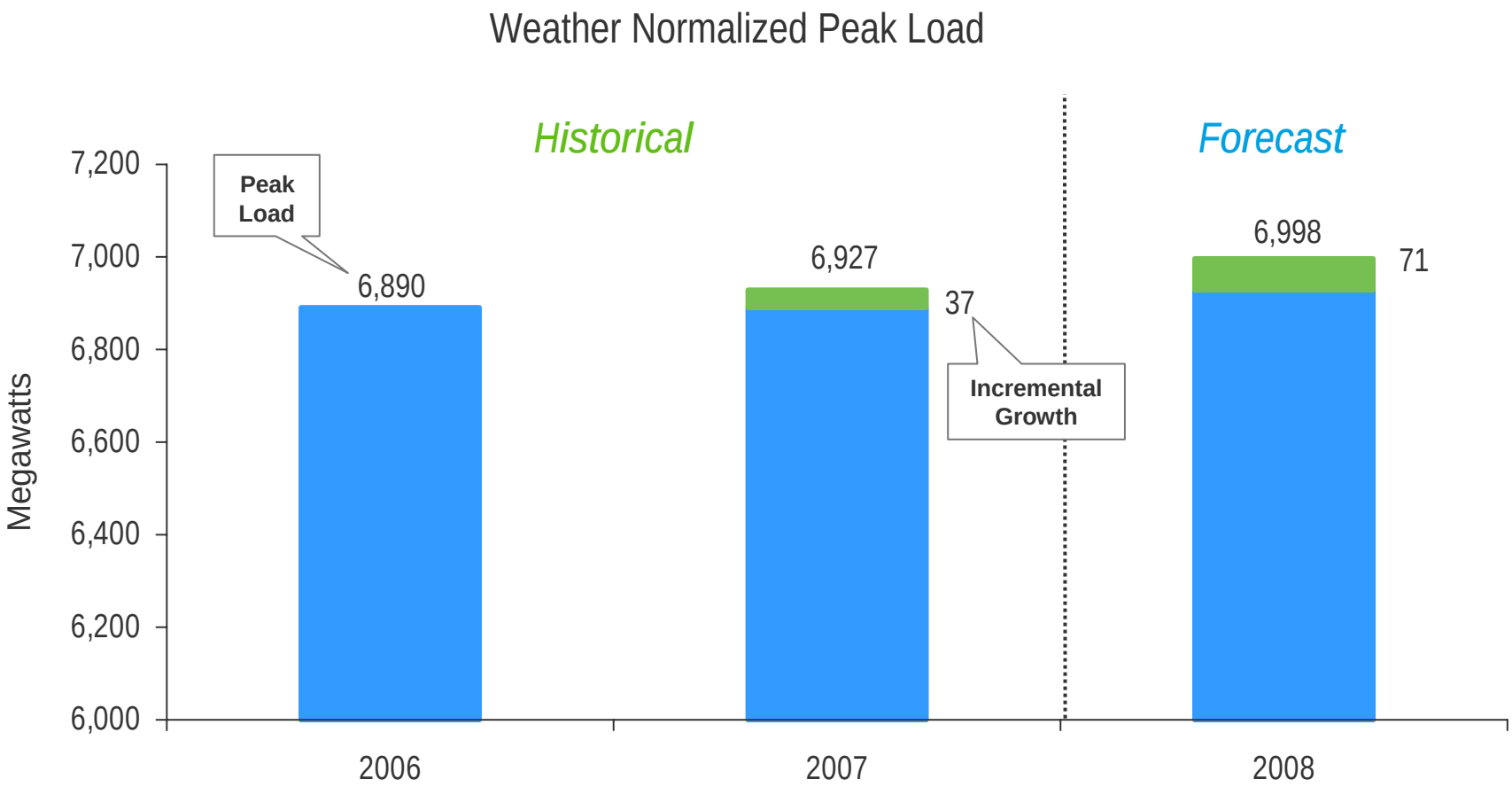
- Power Delivery:
  - Power Delivery Work Center completion – Fall 2007
  - Storm and Bulk Emergency Plans enhancement
  - MISO Ancillary Services Market preparation in anticipation of a June 1, 2008 start date (delayed to September 2008)



Power Delivery Work Center in Plainfield

Summer 2008 Capacity and Energy Needs –

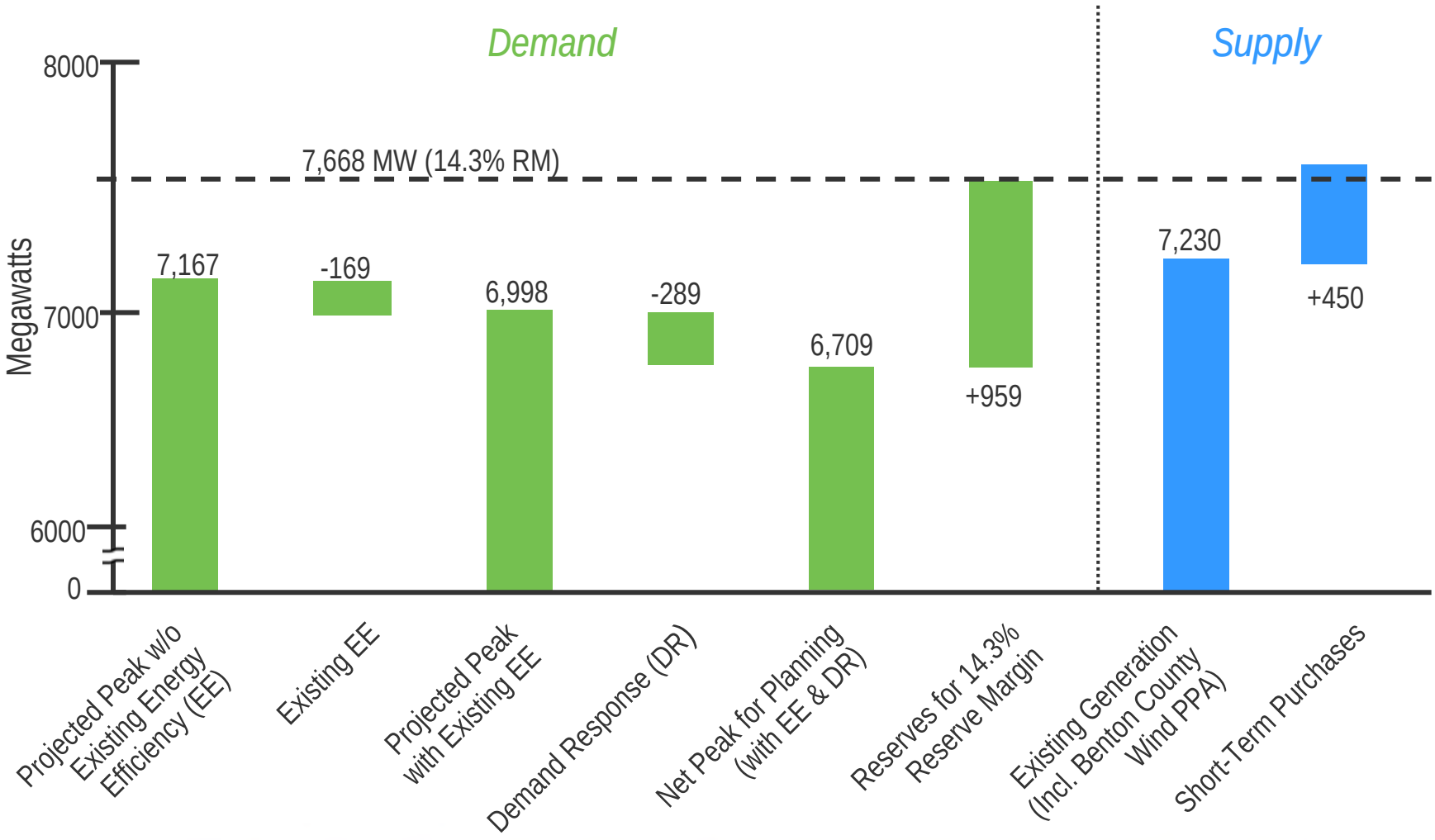
DUKE ENERGY INDIANA'S PEAK DEMAND FORECAST



Percent Growth…	0.5	1.0

Summer 2008 Capacity and Energy Needs –

DUKE ENERGY INDIANA'S SUPPLY/DEMAND BALANCE FOR SUMMER 2008



Steps Taken for Summer 2008 –

GENERATION SYSTEM

Gallagher Station – January 2008

- Over 70 weeks of maintenance outages were performed this spring
- Generation/equipment availability this summer:
  - All coal generating units
  - All gas-fired generating units after July 1
  - Environmental compliance equipment
    - FGDs and SCRs on all five Gibson units
    - Baghouses on all four Gallagher units
    - Cayuga Unit 2 FGD
- Duke Energy Indiana continues to focus on:
  - Peak availability
  - A program of “availability outages”
  - System-wide and plant-wide contingency

Steps Taken for Summer 2008 –

PURCHASED CAPACITY AND ENERGY

- Duke Energy Indiana's current on-system reserve margin is below the Midwest Planning Reserve Sharing Group requirement of 14.3%
- Short-term purchases from physical capacity will be used to achieve approximately a 14.5% installed reserve margin after known derates
  - 350 MW of purchases for June
  - 450 MW of purchases for July – August
- Financial swaps or financial options may also be used to hedge against wholesale market price volatility
- Duke Energy Indiana will also be purchasing up to 100 MW of wind power energy from the Benton County Wind Farm under a 20-year agreement

Benton County Wind Farm

Photo source: Vision Energy LLC. Used by permission

Steps Taken for Summer 2008 –

DEMAND SIDE MANAGEMENT PROGRAMS

Power Manager Load Management Switch

- Between 1991 and 2008, Duke Energy Indiana demand side management programs have achieved:
  - Approximately 169 MW of annual peak demand reductions
  - Over 686,000 MWh annual energy reductions
- 2008 projected peak load management reductions in July (adjusted for losses):
  - Special contracts (e.g., interruptible): 164 MW
  - Special contract – hourly pricing: 13 MW
  - PowerShare®
    - Call (customer contractual commitment): 81 MW
    - Quote (voluntary, yet compensated): 70 MW
  - Power Manager – direct load control: 44 MW

Steps Taken for Summer 2008 –

TRANSMISSION & DISTRIBUTION SYSTEM

- $151 M in long-term T&D investments for load growth and system enhancements
  - Gwynneville 345/69 kV transformer
  - Bloomington 230/69 kV transformer
  - Clark Maritime Center substation
  - Carmel First Avenue substation
  - Noblesville Marilyn Road substation
  - Noblesville Firestone substation
  - Lafayette Shadeland substation
  - Avon South and Plainfield substations
  - French Lick North substation
- Energy Management System (EMS) replacement
- Power Delivery Work Center implementation
  - Mobile work management technology for routine work

Lafayette Shadeland Substation – May 2008

CHALLENGES FOR SUMMER 2008 AND BEYOND – OVERVIEW

- Managing commodity price volatility – market price trends
- Evolving future resource adequacy requirements
- Initiation of ancillary services market
- Planning for tighter and changing environmental requirements

Challenge –

MANAGING COMMODITY PRICE VOLATILITY – MARKET PRICE TRENDS

Commodity	2005	2006	2007	2008 (as of 5/16/08)	% Change 2008 vs. 2007
WTI Crude Oil Price ($/Bl)	$56.70	$66.25	$72.36	$126.29	+75%
July Nymex Henry Hub Natural Gas Price ($/MMBtu)	$7.57	$6.05	$6.21	$11.26	+81%
July MISO CIN Hub On-Peak Power Price ($/MWh)	$75.17	$60.09	$57.56	$98.00	+70%
Central Appalachia Compliance Coal ($/Ton)	$64.85	$54.86	$48.32	$113.25	+134%
Illinois Basin High Sulfur Coal ($/Ton)	$37.50	$32.91	$32.83	$72.50	+121%
Wyoming Powder River Basin High Btu Coal ($/Ton)	$9.77	$12.11	$9.70	$14.25	+47%
SO_2 Allowance ($/Ton)	$906.00	$728.00	$524.00	$213.50	-59%
NO_x Allowance ($/Ton)	$2,907.80	$1,847.50	$807.00	$789.20	-2%

Challenge –

EVOLVING FUTURE RESOURCE ADEQUACY REQUIREMENTS

- Summer 2008 is the first time that Indiana utilities are required to carry a minimum reserve margin to meet the new Reliability*First* 1 day in 10-year standard
- Beginning with the planning year June 1, 2009 – May 31, 2010, MISO will establish a planning reserve margin for each load serving entity as part of its Module E tariff
  - MISO still has to develop and file the financial settlement/enforcement provisions at FERC by June 25, 2008
  - The reserve margin requirement for summer 2009 will not be known until December 31, 2008
  - Module E reserve requirements will give higher capacity value to reliable resources vs. unreliable resources which will make the availability of generating resources even more important
  - Duke Energy Indiana may need to modify some of its Demand Response programs to ensure that they will count toward Module E resource requirements

Challenge –

INITIATION OF THE MIDWEST ISO'S (MISO) ANCILLARY SERVICES MARKET

- MISO's Ancillary Services Market (ASM) is currently scheduled to start on September 9, 2008
- With the initiation of the ASM:
  - MISO will become the balancing authority for balancing supply and demand under the ASM
    - Duke Energy will retain certain tasks as a local balancing authority
  - The buying and selling of regulation and contingency reserves will be integrated into the existing MISO energy market
- Duke Energy Indiana has taken a number of steps to prepare for the initiation of the ASM
  - Development of the Amended Balancing Authority Agreement and supporting documents
  - Modification of the Energy Management System (EMS) to be capable of deploying generation energy as directed by the MISO's generation control, rather than respond to our system
  - Development of training materials and training of personnel
  - Active participation in the MISO's preparatory activities

Challenge –

PLANNING FOR TIGHTENING AND CHANGING ENVIRONMENTAL REQUIREMENTS

Cayuga Station – January 2008

- Completion of environmental projects
  - Cayuga 1 FGD scheduled in service this fall
- Clean Air Mercury Rule overturn
  - Appeals court overturned in February 2008
  - Future of mercury regulation unclear
- New Source Review trial – May 2008
  - Favorable jury verdict for all Duke Energy Indiana units except Wabash River 2, 3 & 5
  - Remedy phase trial – December 2008
- Probable CO_2 emission regulations
  - Allowance allocation vs. auction
  - Input vs. output based allowance distribution

CONCLUSION

Duke Energy Indiana is prepared with adequate resources and infrastructure to meet its customers' needs during summer 2008.





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end