Duke Energy Conference Call Transcript

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PRESENTATION

Operator

Good day, everyone, and welcome to the Duke Energy Ohio ESP filing conference call. Today's call is being recorded. At this time for opening remarks and introductions, I would like to turn the call over to Mr. Stephen De May, Senior Vice President, Treasurer and head of Investor Relations. Please go ahead, sir.

Stephen De May - ***Duke Energy Corporation – Senior Vice President, Treasurer, and Investor Relations***

Thank you. Good morning and thank you, everyone, for joining us today. On Monday Duke Energy Ohio filed an application with the Public Utilities Commission of Ohio for approval of an Electric Security Plan, or ESP, to determine its generation pricing for customers. Subject to Commission approval, this plan will replace the Company's current ESP that expires at the end of 2011.

We have 45 minutes scheduled for today's call. We will begin with brief remarks by Keith Trent, President of our Commercial Businesses, which includes our Ohio generation, and Julie Janson, President of Duke Energy's utility operations in Ohio and Kentucky.

After closing remarks by our Chairman, President, and CEO, Jim Rogers, we will take your questions. During Q&A Jim, Keith and Julie will be joined by Lynn Good, the Company's Chief Financial Officer.

Today's discussion is being webcast, and it includes forward-looking information. You should refer to the information on this slide, as well as additional information contained in our SEC filings concerning factors that could cause future results to differ from this forward-looking information. The presentation materials, which include supplemental appendix information, can be found on our website.

Now I will turn the call over to Keith.

Keith Trent - ***Duke Energy Corporation - President, Commercial Businesses***

Thank you, Stephen, and thanks to all of you for joining us for this call. Today I will give you an overview of the proposed ESP filed by Duke Energy Ohio on Monday, and then Julie will give you more details and outline the main components of the plan.

Our goal in designing this ESP is simple -- we intend to balance our customers' expectations for reliable service at stable and reasonable prices with the need to ensure Duke Ohio earns fair returns on its investments and remains financially healthy. Achieving this balance will position the state of Ohio to compete and to grow.

Our ESP was influenced by our MRO proceeding, our experience with customer switching, the recent Supreme Court decision regarding AEP's ESP, the success of FE’s auctions, our participation in Senate energy hearings, and through extensive discussions with customers, interveners, the Commission, and Commission staff. Our plan aligns with the Commission's mission to promote competition, rate stability, and financial integrity of the Ohio utility companies.

First, our plan provides stable pricing to our customers over a period when prices are expected to rise substantially.

Second, our plan supports competition by retaining customer choice and by conducting biannual competitive energy auctions over the life of the plan.

Third, our plan provides Duke Ohio the ability to earn a fair and reasonable return on its generating assets. We propose to de-couple energy and capacity prices and recover the capacity component through a non-bypassable charge. This non-bypassable charge is reduced by a unique profit-sharing mechanism to mitigate future expected increases in energy prices for our customers.

Finally, a portion of the net profits from the sale of energy and ancillary services will also be used to promote job creation and economic development in Southwest Ohio.

The strength of our filing comes from aligning it with the Commission's objectives and the provisions of Senate Bill 221. It supports competitive markets and competitive choice while providing Duke Ohio a more solid financial footing. It promotes economic development in Southwest Ohio and underscores our commitment to secure the energy future of the region.

As you know, our current three-year ESP will expire at the end of this year. When filed in 2008, we could not have foreseen that industrial demand and electricity market prices would drop the way that they did. As prices fell during the resulting recession, Ohio customers had a clear economic incentive to switch generation providers. As customers switched to competitive providers, underlying challenges in our current ESP framework became apparent.

First, the utility is required to provide all customers with a standard service offer price and may not adequately recover all costs associated with that requirement. Although Senate Bill 221 addresses the recovery of future costs needed to comply with pending environmental regulations and to replace older facilities with new more efficient generation, these provisions have not been tested.

A second challenge is evident in the imposition of a significantly excessive earnings test, which asymmetrically limits the upside earnings ability of utility companies without providing any downside protection. Under our current SSO, our earned returns on common equity, including those from our Ohio T&D business, fell from 9.5% in 2009 to around 7% in 2010. As a reminder, our authorized return on our T&D business is 10.63%, and with our proposal we are asking for a 10.75% return on our dedicated generation assets.

In addition, the traditional three-year ESP fails to provide incentives for long-term investments. This timeframe does not match the long-term commitments of capital required to build and modernize generating facilities.

Combined these factors create a challenging environment for Duke Ohio, and it could be argued, for the state of Ohio as well. Without incentives for long-term utility investments, Ohio could find it increasingly difficult to attract industry, generate jobs and spur economic activity.

Our ESP is designed to address these challenges. In the near term, our proposed ESP will result in rates that are modestly higher than the rates that would have been expected in a MRO. However, over the plan's nine-year term, energy and capacity prices are expected to rise substantially, making our ESP significantly more favorable to customers in the aggregate than the expected results under the market rate offer. In fact, the ESP is lower on average by about 8%, resulting in a present value benefit to customers of around $1 billion.

Now let me turn the call over to Julie, who will describe the components of our ESP in further detail.

Julie Janson - ***Duke Energy Corporation - President, Ohio & Kentucky***

Thank you, Keith. Over the past year, we have discussed with you various options to best position our Ohio operations for the long-term. Last year we proposed a MRO plan. When the Commission denied our filing, we began to evaluate alternative frameworks to strategically balance the needs of all stakeholders -- our customers, the Commission, Duke Energy Ohio and Southwest Ohio.

As you see on slide five, our ESP proposal is simple. It will balance price stability, competition and the financial strength of the utility. We believe the plan addresses the unique environment in Ohio and the challenges that Keith described.

First, instead of a three-year period, our proposed ESP covers the nine-year, five-month period from January 1, 2012, through the end of May 2021. This extended period provides more clarity and stability with respect to pricing for our customers.

For our commercial and industrial customers, they will gain a reasonable level of pricing certainty to support long-term business planning. For Duke Ohio, longer-term clarity is critical, because we must make business decisions now on capital investments that will benefit our customers well into the future.

As you recall, Senate Bill 3 unbundled Ohio's generation from transmission and distribution services. Our ESP takes this unbundling a step further by proposing to separate the capacity and energy components of the price of electricity. In fact, this framework is similar to what has already been approved by the Commission for Duke Ohio's natural gas business, where it has been proven to support fair and competitive prices and also to provide a clear path needed for longer-term investments.

To compensate our investors for the fixed nature of capacity costs, our proposal includes a non-bypassable charge for recovering capacity. It will be based largely upon the actual embedded costs of the approximate 4,000 MW generating fleet in Ohio, including a fair return on this investment. This capacity rider is also the mechanism by which current and future costs to comply with environmental regulations will be recovered.

This capacity rider will be based on a cost of service model consistent with how we traditionally recover our regulated investments. In return for dedicating the generation capacity to our customers, we propose to recover the costs of these investments, as well as on a return on equity of 10.75%. We are proposing that this rider be adjusted annually and be subject to Commission review.

Our ESP proposal also supports the competitive market in Ohio. All customers will retain the right to choose their energy supplier. The price of energy to serve our standard service offer load will be set by a competitive auction process. This price will be avoidable by customers who choose to switch providers.

The energy rider will be our mechanism for recovering the costs of such energy auctions. We are proposing that descending-price clock, full- requirements auctions are conducted on a biannual basis. This process is similar in format to the two auctions approved by the Ohio Commission and conducted by FirstEnergy's Ohio utilities. Our proposed schedule of the auctions is included in the appendix to this presentation. The energy rider will be adjusted and reviewed by the Commission after the conclusion of each auction.

Another component of our ESP is an innovative profit-sharing mechanism, which will benefit customers and is designed to promote economic development in our service territory. In exchange for recovering capacity charges on an unavoidable basis, we will return to customers the majority share of net profits earned through the output of our generating assets. The first 5% of these profits will be used to establish an economic development program called Advance Southwest Ohio. This fund will support economic growth initiatives and the creation and retention of jobs in our Ohio service territory.

After the 5% is distributed to the economic fund, customers will be allocated 80% of the remaining net profits. This will lower the capacity charge that they would otherwise pay and will help to mitigate customer rate volatility from changes in energy prices. The Company will retain the remaining 20% of net profits, and through this sharing mechanism, the Company's interests in the profitability of these assets are aligned with those of our customers.

In addition, we will have a proposed distribution reliability rider. This rider will recover incremental investment for distribution-related reliability, including Smart Grid, that is not otherwise covered in base rates. Details on this and other riders can be found in the appendix to this presentation.

Also, I will note that the proposed ESP has a more simplified rider structure than our current ESP.

The Commission maintains oversight over our plan during its term and will have two opportunities to reassess whether it remains more favorable in the aggregate to the MRO option or whether the Company is substantially likely to have significantly excessive earnings under the plan. The first opportunity is in year four, and the second is in year eight. If the Commission determines the ESP is no longer more favorable or that significantly excessive earnings are substantially likely, the utility will be required to migrate to the MRO option.

In summary, our customers have told us that they want both choice and predictability. They do not want to be subjected to volatility in energy markets as evidenced by the objections to our MRO plan.

The ESP proposal we filed with the Commission is balanced and simple. Our proposal addresses each of the primary objectives of the Public Utilities Commission of Ohio. The plan provides stable pricing to our customers over a term when prices are expected to increase substantially. It supports competitive markets by retaining our customer's ability to choose energy providers. It provides mechanisms to recover costs that are necessary to maintain the operational and financial integrity of Duke Ohio, and importantly, it supports economic development in Southwest Ohio.

Many of you are probably wondering whether we expect the Ohio Commission -- when we expect the Ohio Commission to order on our ESP filing. As you may know, the Commission has 275 days to issue an order once the filing is made. However, we are asking the Commission to approve the ESP in sufficient time for us to run an auction process, so that the plan would be in effect on January 1 of 2012.

A procedural schedule has not yet been established. We have asked the Commission for a technical conference next week to describe the content of our filing in greater detail to interested parties. If the Ohio Commission approves our filing as proposed and the plan remains in place for its entire term, we will not seek to transfer the legacy Ohio generating assets out of the utility prior to May 31, 2021.

With that outline of our plan and expected next steps, I will turn the call over to Jim before we take your questions.

Jim Rogers - ***Duke Energy Corporation - Chairman, President & CEO***

Thank you, Julie. I am very pleased with the innovative ESP that our team has put forward for the Commission to review. It carefully balances the objectives of all stakeholders. The plan provides both stable pricing and choice for customers. It supports the competitive environment and the energy future for Ohio. It also meets our objective to earn fair and reasonable returns over an extended period on our dedicated generating assets. Our returns underpin the Duke Energy dividend payment, a significant value proposition for our shareholders.

We expect electricity prices to rise in coming years as new environmental regulations are implemented. These rules will eventually lead to the closure and replacement of older coal-generating facilities. The increase in electricity prices may also be driven by the rise in gas prices over the next decade. The ESP we are proposing provides our customers the stability needed as they are impacted by these changes.

In closing, I would like to add that we are excited about this plan and have received very positive initial feedback. The structure is simple, yet thoughtfully designed to appeal to our many stakeholders. The plan aligns with Ohio's 10-year IRP planning horizon. Its long-term nature helps incent investments in the state. Contemporaneously it enhances retail competition while allowing us to earn fair returns on our dedicated generation.

We will update you as we progress through the regulatory approval process over the next several months.

At this time we are prepared to answer your questions. Operator?

QUESTION AND ANSWER

Operator

(Operator Instructions). Daniel Eggers, Credit Suisse.

Daniel Eggers - ***Credit Suisse - Analyst***

Jim, when you guys put out the first plan on the MRO, you guys were pretty intent on going to market, and now this seems to look a lot like a re-regulation strategy. Did you see there was no middle ground between the two like you have seen at FirstEnergy or elsewhere from a strategic perspective, and do you think that you guys can go this far to looking more regulated without more of a legislative solution in Ohio?

Jim Rogers - ***Duke Energy Corporation - Chairman, President & CEO***

I would start the answer and then turn to Keith to amplify on it. But, first, I think the most important point here is we have learned a lot from the MRO filing from our customers. They made it pretty clear to us that they wanted some certainty with respect to the future.

What we have attempted to do after many discussions with the various stakeholders in Ohio, we have, we believe, found a way to thread the needle in the sense of giving our customers, all our customers, an opportunity to have choice in the retail market with respect to energy and at the same time with this proposal allow us to get a fair return on our dedicated assets.

I would say from a bigger picture perspective what we have done here is really critical to the state long-term. Because it really establishes the framework that allows the Commission to consider, and a precedent to follow with respect to the building of new generation in the state, to the investment in the state that comes with that, the job creation, the tax base. So, in a broader perspective, this is a win for the state, and during the time of the ESP, it is a win for our customers, as well as our investors.

Keith Trent - ***Duke Energy Corporation - President, Commercial Businesses***

Yes, Daniel, I think Jim has really hit the points. But I would add clearly the one place that we were not comfortable with was being in what you have referred to and I have referred to as sort of no man's land where we were neither allowed to earn the upside from the market, or we are also not provided a reasonable assurance of a regulated or fair type return. So that was the place that was not acceptable to us.

As Jim said, through the MRO process, we heard very loud and clear from our customers that they wanted choice but they also wanted stability. And this plan gives our customers that in a very, very clear, simple way. For us, what we want is fair returns, and that is in our blood, if you will, in terms of our value proposition. And so this plan really fits very squarely, I think, with what we heard customers want and what we want.

Daniel Eggers - ***Credit Suisse - Analyst***

Okay. And I guess just on timing the 275-day statutory limit that you wanted to have rates effective for the beginning of 2012. How quickly would the Commission have to respond with a final decision on the ESP to give you guys time to put up an auction and then have it effective for the beginning of next year?

Julie Janson - ***Duke Energy Corporation - President, Ohio & Kentucky***

We certainly are contemplating as possible an order by the end of the year, and we would need to have the possibility of running our first auction in the October timeframe. So we are hoping that the simplicity of this plan will allow us to get through the process relatively quickly. Certainly the 275 days is instructional, and we are hoping we can get through more quickly than that.

Daniel Eggers - ***Credit Suisse - Analyst***

So we would need to see sort of substantial progress really in July and August to think that this would kind of come on the timeframe you guys are talking about?

Julie Janson - ***Duke Energy Corporation - President, Ohio & Kentucky***

I think that is fair.

Jim Rogers - ***Duke Energy Corporation - Chairman, President & CEO***

And, you know, Dan, I would add one other point, and that is, our team has done a tremendous amount of work with the various stakeholders in the state, have had numerous conversations, and we are filing this after all those conversations, and with the hope that we have addressed everybody's issue, with respect that they raise with us in these very detailed conversations.

Daniel Eggers - ***Credit Suisse - Analyst***

Okay. Not to take up too much time, but I guess is this possible you could settle the ESP plan and go forward, or does this need to go through a Commission with the final Commission decision?

Keith Trent - ***Duke Energy Corporation - President, Commercial Businesses***

Well, I would say time will tell, but, as Jim mentioned, we have had numerous conversations with really every interested group, and so never can say absolutely that we will reach a settlement, but I think that we have got good opportunities for doing so.

Operator

Jonathan Arnold, Deutsche Bank.

Jonathan Arnold - ***Deutsche Bank - Analyst***

A couple of questions. You referenced this number of $1 billion. I think it was the number roughly for how this plan compares to a market plan over the full term. I just recall somewhere in the testimony there is a point at which it crosses over and becomes a positive MPV, so, as it becomes a longer-term deal, given your modeling of forward prices, etc. So how long does the ESP have to be in order to become better in the aggregate on a financial basis?

Keith Trent - ***Duke Energy Corporation - President, Commercial Businesses***

Without getting too detailed on that, what I would say is certainly the first few years are above the MRO blend line. And then after that, we see the turn where the pricing under our plan is significantly below the MRO blend line. So think of it in the first few years in terms of how that works.

And that is actually a feature of the plan that we think is very, very important. This long-term plan giving stable prices over the length of the plan and also the fact that the sharing mechanism has the impact of mitigating these future energy price increases as well. So you focused on an issue that certainly has been the focus of our conversations, but we think it is workable because of the long-term nature of the plan and the stable pricing that it provides.

Jonathan Arnold - ***Deutsche Bank - Analyst***

So the pricing is kind of above the market plan for, say, the first half and then below for the second half, but by the end it becomes net positive in the aggregate? Is that --?

Keith Trent - ***Duke Energy Corporation - President, Commercial Businesses***

I would say not the first half. It is less than the first half that it's above market -- above the MRO blend.

Jonathan Arnold - ***Deutsche Bank - Analyst***

Can you be any more specific?

Keith Trent - ***Duke Energy Corporation - President, Commercial Businesses***

A few years is probably close I would say for you.

Jonathan Arnold - ***Deutsche Bank - Analyst***

Okay. And then the other question I had, I have not managed to get through all this testimony, but I noticed you are modeling a carbon price in 2017. I think that is correct. Can you just talk about how that flows through the analysis in terms of -- presumably that is a cost that would be -- but the sharing mechanism sort of mutes the impact for customers.

Keith Trent - ***Duke Energy Corporation - President, Commercial Businesses***

Jonathan, let --

Jonathan Arnold - ***Deutsche Bank - Analyst***

Do you need the carbon? If you were not receiving a carbon price, would I guess the statement we just discussed still be the case?

Keith Trent - ***Duke Energy Corporation - President, Commercial Businesses***

The way I would answer that is we do include certainly environmental costs, but what I would propose to you is let's take that question off-line, and we can explore the specifics and the testimony through our Investor Relations folks.

Jonathan Arnold - ***Deutsche Bank - Analyst***

Okay. And then maybe if I could ask one other thing. What happens to a customer that has switched already? Do these riders that you're proposing would apply to a switched customer, or do we just work with the legacy customers?

Keith Trent - ***Duke Energy Corporation - President, Commercial Businesses***

This plan would apply to all customers, our entire load.

Jonathan Arnold - ***Deutsche Bank - Analyst***

Everyone in your service territory would be subject to the -- so what -- I have seen some commentary about what happens to pricing for the average customer on day one. Can you comment at all on what would happen to average pricing for a switched customer?

Keith Trent - ***Duke Energy Corporation - President, Commercial Businesses***

I don't have the specifics on that, and obviously it depends on which type of customer and when they switched and what the pricing in their particular agreement provided. But you are correct that for switched customers the pricing impact would be more significant than for those who have not switched. And I would say, I would also point out to you that the majority of our residential customers have not switched. And so the pricing impact on those folks will be low. And I would also remind you that all of our customers are going to benefit from this longer-term stable pricing concept.

Jonathan Arnold - ***Deutsche Bank - Analyst***

Okay. And then you said you had positive feedback and talked a lot about stakeholders. Does that include Commission staff or the PUCO at all, or is that more just in the customer arena?

Keith Trent - ***Duke Energy Corporation - President, Commercial Businesses***

Yes, we have talked with, as I said, every interested group.

Operator

Leslie Rich, JPMorgan.

Leslie Rich - ***JPMorgan - Analyst***

I just wondered if I could clarify, the gas plants in Ohio would not be included in this? They would stay separate?

Jim Rogers - ***Duke Energy Corporation - Chairman, President & CEO***

Leslie, that is correct.

Leslie Rich - ***JPMorgan - Analyst***

Okay. So the capacity component that you are discussing, what is the level of that? Is that on a dollars per megawatt hour or kHw basis? If that is based on your legacy units, have you quantified what that would be?

Keith Trent - ***Duke Energy Corporation - President, Commercial Businesses***

Yes. First of all, it is really based on cost of service. So you go through the calculation of looking at the book value of the assets and the costs for providing that generation service, and I believe that there is information in the testimony that specifically talks about the cost per megawatt hour associated with the capacity component. I think that is in the range of $27.66 and then you back off of that the energy credit from the sharing mechanism, which is a little over $7. So your resulting capacity cost is around $20.60 per megawatt hour. And that is -- (multiple speakers). That is for 2012.

Leslie Rich - ***JPMorgan - Analyst***

And how does that compare to what customers would be paying now?

Keith Trent - ***Duke Energy Corporation - President, Commercial Businesses***

That is higher in the first year from a capacity standpoint than what customers are paying now. Our projection is that over time, though, that capacity price will be significantly lower in the future and will result in this almost $1 billion of net present value savings that we have described.

Leslie Rich - ***JPMorgan - Analyst***

And then just to clarify, in terms of the PJM and capacity market, the gas plants participate in that market but the coal plants currently don't, and it would remain that way?

Keith Trent - ***Duke Energy Corporation - President, Commercial Businesses***

For the capacity we have elected the FRR mechanism, which basically says we are providing our load -- we are providing capacity for our load outside of the market. And so that is how that component would continue. But you are right. The gas plants would continue to participate in the PJM market.

Let me add one other thing on your last question. For customers that have not switched from us, the overall pricing impact is very low. I mean it will be roughly comparable in 2012 to what they are paying now.

Operator

Ali Agha, SunTrust.

Ali Agha - *SunTrust - Analyst*

Looking through the testimony and I may have missed this, but could you tell us what is the incremental revenues that you asked for as part of this filing, I guess, for the next couple of years, the 2012, 2013 time period?

Lynn Good - *Duke Energy Corporation - CFO & Group Executive*

I think if we want to talk about specifics on revenue increases, I would ask the investor relations team to walk you through the testimony to that level of detail. In terms of the way we are thinking about this plan from an earnings perspective, we think this provides us with not only stability of returns, but an opportunity to earn a more regulated return on the generation. So that is the way we are thinking about it in terms of what it will contribute as we go forward.

Ali Agha - *SunTrust - Analyst*

I see. So unlike AEP which have laid out specific increases, annual increases, I don't believe you have done that in your filing. Is that correct?

Lynn Good - *Duke Energy Corporation - CFO & Group Executive*

That is correct.

Ali Agha - *SunTrust - Analyst*

And secondly, along the same lines, I know there is a fair amount of testimony that gets redacted here, but if I'm looking at this right, based on the amount of the testimony that I saw, your rate base growth over the next -- over the life of this, if I compare that to the implied net income growth that you are showing for the legacy assets, the net income growth is significantly higher than the rate base growth. And conceptually should that be a result of the energy market sharing side of it that is causing that big net income ramp, which is -- (multiple speakers)?

Lynn Good - *Duke Energy Corporation - CFO & Group Executive*

Yes, that is a component of it. And the rate base growth is primarily driven by environmental investments, as well as maintenance investment on the legacy assets.

Ali Agha - *SunTrust - Analyst*

Right. No, I understood that. But it is the energy, I guess, sharing that really picks up in future years?

Lynn Good - *Duke Energy Corporation - CFO & Group Executive*

That is right.

Operator

Francois Broquin, Sanford Bernstein.

Francois Broquin - ***Sanford Bernstein - Analyst***

I have a question I am trying to understand better the un-bundling of capacity and energy. How can a poor marketer that commits to supply Duke Ohio's customer with energy whenever they need it do so without committing capacity?

Keith Trent - ***Duke Energy Corporation - President, Commercial Businesses***

Actually very, very simply. There is -- and, in fact, after our plan came out, there was a report from CRES suppliers who evaluated the plan and actually said this is great, that they embraced the plan, that it enabled them to compete on energy only, which is what they want to compete on and can clearly compete there. And, in fact, they went on to say that they felt it was very appropriate for the capacity component to not be something that they are competing on. And if you think about it, today they really don't compete on capacity. What they are is effectively price takers on capacity, primarily through the PJM market. And so that is going to be no different in this plan. They will not be pricing capacity. They will just be pricing energy.

So we think it actually will be easier for them and enable them to compete more effectively in our system.

Francois Broquin - ***Sanford Bernstein - Analyst***

Okay. And also a question on the profit-sharing and the mechanics. What happens once your coal contracts are getting repriced? Is there a risk that the profits from energy would be decreased significantly, and therefore, the benefits to decrease the retail capacity rider would be wiped out?

Keith Trent - ***Duke Energy Corporation - President, Commercial Businesses***

Well, obviously all the market dynamics that would have to play in, in terms of determining what our energy margins would be and calculating effectively the dark spread would be the critical thing.

One thing I would point out, though, I think there may have been some confusion in some of the analysts' reviews early in terms of whether we actually can produce the $7 energy margin that we have talked about in our plan. And I think the confusion there actually has been around our coal pricing and the type of coal that we use. We really don't use a lot of the Central App, we don't use Central App coal for these plants, the legacy plants, and the pricing that we have in our coal supply very much will support the $7 margin that we have talked about in the early years for the plants.

I think there may have been a little bit of confusion on the type of coal and our pricing, but we feel very comfortable with that margin.

Operator

Cleo Zagrean, Macquarie Capital.

Cleo Zagrean - ***Macquarie Capital - Analyst***

My first question is, how has the Commission incorporated views on commodity and power prices in the past, and how would you approach their look in case they do not agree with your forecast for higher power and commodity prices going forward?

Keith Trent - ***Duke Energy Corporation - President, Commercial Businesses***

Well, I can't speak specifically on how -- what their view is on commodity prices going forward. Certainly they, like everyone else, they are interested in what the pricing future looks like.

What I would tell you is I have not heard from any party, we have not heard from any party, a belief that energy prices are not going up. I think people consistently and uniformly believe that they are going up. You may have some debate about how fast and when and that sort of thing.

So certainly people are looking at how are the prices going up, but if you think about the pressures on price, I think they are fairly clear. The environmental regulations that are coming, we believe will force retirements. We think that you are going to see gas price increases. We think you are going to see the economy improving. And so those factors, I think, are factors that are going to push energy prices up, and I think that there is general agreement that those things will be drivers of higher prices in the future.

Cleo Zagrean *- Macquarie Capital - Analyst*

Thank you. And as a follow-up, if you could explain how you are carving out the cost of generation for capacity versus energy and whether you have considered in your dialog with stakeholders before maybe as an alternative imposing a cost on customers who choose to return to your service load so as to be rewarded for that risk as opposed to having this opportunity to set a fixed cost for capacity generation?

Keith Trent *- Duke Energy Corporation - President, Commercial Businesses*

We have certainly evaluated all sorts of things and listen to customers. And, again, what we heard from customers is they want stable fair pricing so that is what this plan does.

The plan is a complete separation between capacity and energy, and so here is how that works. The capacity component -- we will provide the capacity, and that is provided through a cost-based capacity. Our generation assets then will sell into the wholesale market, and margins that are achieved from those sales will be split between customers and us and will mitigate the capacity price some. So that is the capacity piece of it.

The energy component for our entire load will be fully auctioned, and so there is a complete separation. And under that construct, there is no need for taking on a difficult and complex issue of trying to change the way you price for a customer who is with you and switches and comes back. We don't need to address that in this plan because all of our customers will be paying this capacity charge.

Operator

At this time I would like to turn the conference back over to our speakers for any additional or closing remarks.

Stephen De May *- Duke Energy Corporation - Senior Vice President, Treasurer, and Investor Relations*

Thank you, Tricia, and thank you all for joining us for this update on our ESP filing in Ohio. As always, the Investor Relations team is available for any follow-up questions. Have a great day.

Operator

Again, thank you, ladies and gentlemen, for your participation. This will conclude today's conference call.