

DUKE ENERGY'S STRATEGY TO MANAGE NATURAL GAS PRICE INCREASES

At Duke Energy, we know that higher natural gas prices translate into higher home heating and business costs for our customers. In recent years, wholesale natural gas prices have increased dramatically. As our customers see the effects of this increase on their bills, they want to know what the gas company is doing to help prevent or reduce such an increase. Let me share with you how we work to help hold the price down and to reduce the impact of increases on customer bills.

First, it is important to remember that we do not produce natural gas. We buy all of the natural gas necessary to supply our customers from wholesale suppliers. By law, this cost is passed through dollar-for-dollar to our customers after review by the state public utility commissions. In other words, we make no profit from increases in the wholesale price of natural gas.

It is also important to note that wholesale natural gas prices are driven principally by national market conditions such as availability of supply, the level of demand, and by the weather (which can affect both supply and demand). But, while we cannot control such market conditions, there is much that we can do to reduce the impact of these conditions on our customers.

Duke Energy relies on a balanced purchasing strategy to manage and hedge the cost of natural gas for our customers. Duke Energy locks in a portion of its gas supply in the summer months for delivery in the winter, through storage injections or fixed price contracts. The balance of Duke Energy's winter natural gas supply is met with either monthly or daily purchases. In each case, we negotiate aggressively with our suppliers, and continuously seek out new sources of supply to make sure we are getting the best price possible for our customers. We believe our balanced purchasing strategy is one of the reasons that Duke Energy's natural gas costs, on average, have been 6% lower than the other major gas utilities in Ohio and Kentucky over the last three years.

In addition, we have worked with our regulators to better control the price fluctuation on customers' bills. Our gas cost recovery rates are filed with the State Regulatory Commissions on a monthly basis in order to provide customers with a rate that is more reflective of current month market prices and to help reduce the impact of future regulatory adjustments from under-or-over recoveries. We also have programs available to help our customers better manage their energy bills and usage: *Budget Billing*; *Quick-e-Audit*; *Online Energy Analysis*; *Weatherization*. Customers who want to take advantage of these programs should visit us at www.duke-energy.com and select their local utility for details or call 513-421-9500.

You have my assurance that we at Duke Energy will continue to do all we can to keep the cost of natural gas as low as possible for our customers.

Patty Walker is group vice president of Duke Energy Ohio/Kentucky Gas Operations, which serves about 500,000 customers in Southwest Ohio and Northern Kentucky.

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