



DUKE ENERGY OHIO ESP FILING

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Safe Harbor Statement

This document includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are based on management's beliefs and assumptions. These forward-looking statements are identified by terms and phrases such as "anticipate," "believe," "intend," "estimate," "expect," "continue," "should," "could," "may," "plan," "project," "predict," "will," "potential," "forecast," "target," and similar expressions. Forward-looking statements involve risks and uncertainties that may cause actual results to be materially different from the results predicted. Factors that could cause actual results to differ materially from those indicated in any forward-looking statement include, but are not limited to: State, federal and foreign legislative and regulatory initiatives, including costs of compliance with existing and future environmental requirements, as well as rulings that affect cost and investment recovery or have an impact on rate structures; costs and effects of legal and administrative proceedings, settlements, investigations and claims; industrial, commercial and residential growth or decline in Duke Energy Corporation's (Duke Energy) service territories, customer base or customer usage patterns; additional competition in electric markets and continued industry consolidation; political and regulatory uncertainty in other countries in which Duke Energy conducts business; the influence of weather and other natural phenomena on Duke Energy operations, including the economic, operational and other effects of storms, hurricanes, droughts and tornadoes; the impact on the Duke Energy Registrants' facilities and business from a terrorist attack; the inherent risks associated with the operation and potential construction of nuclear facilities, including environmental, health, safety, regulatory and financial risks; the timing and extent of changes in commodity prices, interest rates and foreign currency exchange rates; unscheduled generation outages, unusual maintenance or repairs and electric transmission system constraints; the performance of electric generation facilities and of projects undertaken by Duke Energy's non-regulated businesses; the results of financing efforts, including Duke Energy's ability to obtain financing on favorable terms, which can be affected by various factors, including Duke Energy's credit ratings and general economic conditions; declines in the market prices of equity securities and resultant cash funding requirements for Duke Energy's defined benefit pension plans; the level of creditworthiness of counterparties to Duke Energy's transactions; employee workforce factors, including the potential inability to attract and retain key personnel; growth in opportunities for Duke Energy's business units, including the timing and success of efforts to develop domestic and international power and other projects; construction and development risks associated with the completion of Duke Energy's capital investment projects in existing and new generation facilities, including risks related to financing, obtaining and complying with terms of permits, meeting construction budgets and schedules, and satisfying operating and environmental performance standards, as well as the ability to recover costs from ratepayers in a timely manner or at all; the effect of accounting pronouncements issued periodically by accounting standard-setting bodies; the expected timing and likelihood of completion of the proposed merger with Progress Energy, Inc. (Progress Energy), including the timing, receipt and terms and conditions of any required governmental and regulatory approvals of the proposed merger that could reduce anticipated benefits or cause the parties to abandon the merger, the diversion of management's time and attention from Duke Energy's ongoing business during this time period, the ability to maintain relationships with customers, employees or suppliers as well as the ability to successfully integrate the businesses and realize cost savings and any other synergies and the risk that the credit ratings of the combined company or its subsidiaries may be different from what the companies expect; the risk that the proposed merger with Progress Energy is terminated prior to completion and results in significant transaction costs to Duke Energy; and the ability to successfully complete merger, acquisition or divestiture plans. These risks, as well as other risks associated with the merger, are more fully discussed in the preliminary joint proxy statement/prospectus that is included in the Registration Statement on Form S-4 that was filed by Duke Energy with the SEC on March 17, 2011 in connection with the merger as well as any amendments to that Registration Statement filed after that date. Additional risks and uncertainties are identified and discussed in Progress Energy's and Duke Energy's reports filed with the SEC and available at the SEC's website at www.sec.gov. In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements might not occur or might occur to a different extent or at a different time than Duke Energy has described. Duke Energy undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Proposed ESP Benefits all Stakeholders

CUSTOMERS

- Retain ability to choose energy providers
- Receive reasonable and stable pricing for an extended period
- Benefit from profit sharing mechanism

DUKE ENERGY OHIO

- Recovers costs and earns fair returns
- Ability to invest in generation assets, clean energy, and future demand

STATE OF OHIO

- Preserves competitive markets
- Supports economic development in Duke Energy Ohio's service territory
- Promotes environment for job creation

PUCO's Mission

Rate Stability

"Our mission is to assure all residential and business consumers access to adequate, safe and reliable utility services at fair prices, while facilitating an environment that provides competitive choices."

"This mission is accomplished by... ensuring financial integrity and service reliability in the Ohio utility industry."

Utility Financial Integrity

Competition

Ohio Framework Results in Challenges for Utilities

Capacity Cost Recovery

- Customers have an option to change generation providers
- Utility is required to provide all customers with a Standard Service Offer price and may not adequately recover all costs associated with that requirement

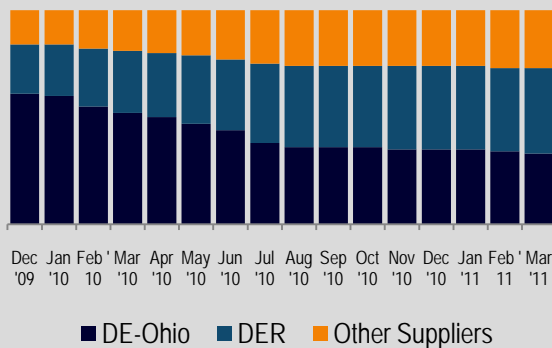
Significantly Excessive Earnings Test (SEET)

- Capped the upside of earnings for Electric Distribution Utilities through the SEET test
- No downside protection ("low earnings test") for utilities

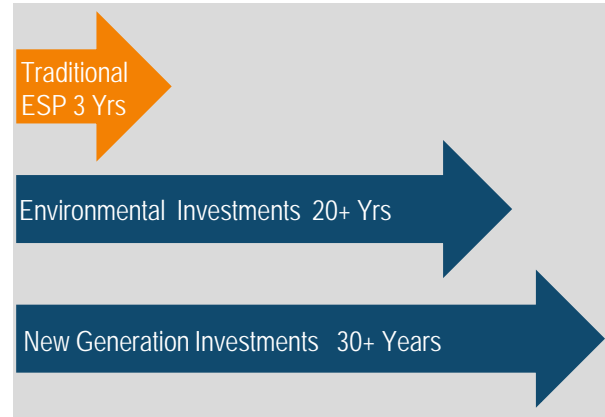
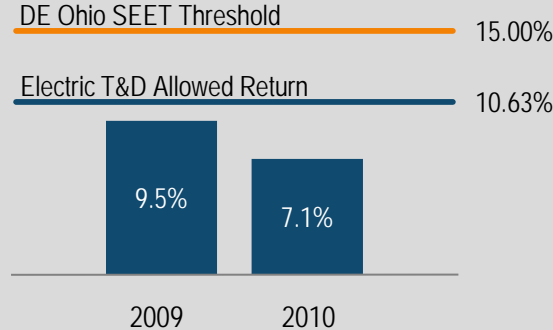
Disincentives for Long-Term Investments

- Framework has encouraged short-term ESPs that do not allow adequate long-term planning
- SB 221 non-bypassable recovery has not been tested
 - Environmental compliance
 - New base load generation

DE Ohio Generation Providers



DE Ohio SEET Results (includes deferrals)



Framework of DE Ohio's current ESP makes it difficult to earn adequate long-term returns on generation

Highlights of Proposed ESP

- Term of 9 years and 5 months
 - May 31, 2021 expiration date to align with the PJM calendar
- Generation remains unbundled and separate from transmission and distribution service
- Further unbundles generation service by separating capacity from energy

NON-BYPASSABLE

RETAIL CAPACITY (RC)

- Cost to supply capacity for all customers, including the Company's cost of service (e.g., depreciation, O&M, taxes, and return on equity of 10.75%)
- Rider will be adjusted annually to reflect actual costs incurred or changes in rate base (e.g., as a result of environmental expenditures or other changes to the generation assets)

PROFIT SHARING MECHANISM (PSM)

- Profit sharing with all customers from sale of energy and ancillary services from Legacy Generation
 - 5% to fund economic development initiatives
 - Remaining profits to be shared 80%/20% between customers/DE Ohio
- Helps mitigate customer rate volatility from changes in energy prices
- Rider will be adjusted quarterly

BYPASSABLE

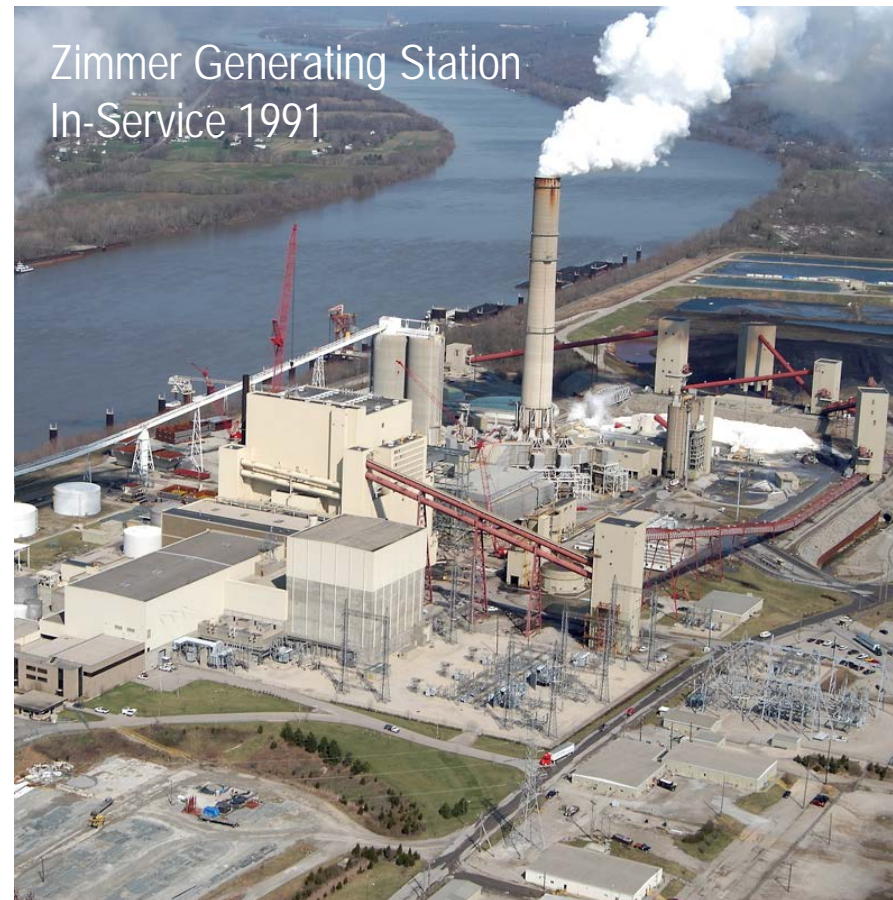
RETAIL ENERGY (RE)

- Pricing determined by competitive auction to procure 100% of energy required to serve SSO load
- Rider will be adjusted after conclusion of each auction

Proposed ESP is projected to result in prices that are 8% lower, on average, than an MRO

Next Steps

- Duke Energy Ohio has requested a **Technical Conference** to describe the proposed ESP filing in greater detail to interested parties
- By statute, PUCO is to issue an order on a proposed ESP **within 275 days** of filing



Balancing Stakeholder Objectives

Stakeholder

Benefits of Proposed ESP

CUSTOMERS

- Retain ability to choose energy providers
- Receive reasonable and stable pricing for an extended period
- Benefit from profit sharing mechanism

- ✓ ESP term is 9 years, 5 months
- ✓ Mitigates potential future exposure to high market prices
- ✓ Receive 76% of net profits from energy sales

DUKE ENERGY OHIO

- Recovers costs and earns fair returns
- Ability to invest in generation assets, clean energy, and future demand

- ✓ Non-bypassable charge for capacity
- ✓ Creates rate structure that allows utility to attract capital necessary for long-term investments

STATE OF OHIO

- Preserves competitive markets
- Supports economic development in DE-Ohio's service territory
- Promotes environment for job creation

- ✓ Energy is priced and purchased through a series of auctions
- ✓ Fund established to attract and retain industries and jobs in Southwest Ohio



APPENDIX

Summary of Proposed ESP Riders

Generation Components	RC	Retail Capacity	<ul style="list-style-type: none"> Cost to supply capacity for all customers, including the Company's cost of service (e.g., depreciation, O&M, taxes, return on rate base) Rider will be adjusted annually to reflect actual costs incurred or changes in rate base (e.g., as a result of environmental expenditures or other changes)
	PSM	Profit Sharing Mechanism	<ul style="list-style-type: none"> Profit sharing with all customers from sale of energy and ancillary services Helps mitigate customer rate volatility from changes in energy prices Rider will be adjusted quarterly
	RE	Retail Energy	<ul style="list-style-type: none"> SSO for energy established via auction Rider will be adjusted after each auction (semi-annually after first year)
	AERR	Alternative Energy Recovery	<ul style="list-style-type: none"> Recovery of alternative energy compliance costs (i.e., RECs) For switched customers, CRES providers responsible for REC compliance
	UE-GEN	Uncollectible Expense Rider for Generation	<ul style="list-style-type: none"> Recovery of generation uncollectibles Purchase of CRES uncollectibles at no discount
	RECON	Reconciliation Rider	<ul style="list-style-type: none"> Short-term rider reconciles over/under recovery of eliminated ESP-era riders (e.g., fuel and purchased power and the system reliability tracker)
	DR	Distribution Reliability	<ul style="list-style-type: none"> Recovery of incremental capital investment in distribution-related reliability that is not otherwise recovered through base electric distribution rates Includes a rate of return based on most recent electric distribution rate case

Non-bypassable

Bypassable

Note: existing Riders BTR, RTO, SAW, SAW-R and ECF are unaffected by this filing

Duke Energy Ohio ESP Filing – June 22, 2011

Overview of Current Duke Energy Ohio ESP

- Public Utilities Commission of Ohio (PUCO) Order issued December 17, 2008 approving Duke Energy Ohio's ESP
- 3-year Plan: Jan. 1, 2009 to Dec. 31, 2011
- Maintains riders/trackers for fuel and purchased power, environmental, and capacity purchases
- New unavoidable riders for SmartGrid, Save-a-Watt and economic development
- The significantly excessive earnings test ROE threshold is 15% (through 2011) – excluding purchase accounting & goodwill, mark-to-market accounting, and material non-recurring gains/losses

Riders	Bypassable	Non-Bypassable
Base Generation	X	
Fuel & Purchased Power	X	
Environmental	X	
Homeland Security/Taxes	X	
Transmission Costs	X	
Save-a-Watt		X
System Reliability ⁽¹⁾		X
Capacity Dedication ⁽¹⁾		X
Regulatory Transition Charge ⁽²⁾		X
Economic Development		X
Smart Grid		X

- (1) Conditionally bypassable to non-residential customers
 (2) RTC expired for residential customers on 12/31/08 and for non-residential customers on 12/31/10

Current ESP structure includes both bypassable and non-bypassable components

Proposed ESP Competitive Auction Process

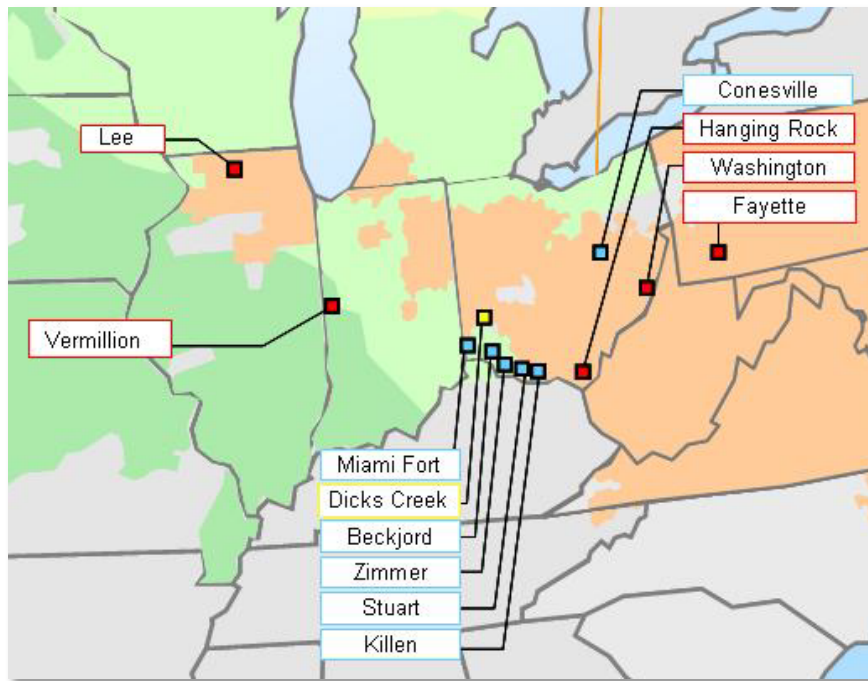
Auction Date	Auction Number	# Tranches to Procure	Delivery Period Begins									
			Jan 2012	June 2013	June 2014	June 2015	June 2016	June 2017	June 2018	June 2019	June 2020	June 2021
2011	1	34	17-Months									
		34	29-Months									
		32	41-Months									
2012	1	17	36-Months									
2012	2	17	36-Months									
2013	1	17	24-Months									
2013	2	17	24-Months									
2014	1	16	12-Months									
2014	2	16	12-Months									
2015	1	17	12-Months									
		17	24-Months									
		16	36-Months									
2015	2	17	12-Months									
		17	24-Months									
		16	36-Months									
2016	1	17	36-Months									
2016	2	17	36-Months									
2017	1	17	24-Months									
2017	2	17	24-Months									
2018	1	16	12-Months									
2018	2	16	12-Months									
2019	1	25	12-Months									
		25	24-Months									
2019	2	25	12-Months									
		25	24-Months									
2020	1	25	12-Months									
2020	2	25	12-Months									

Auction Highlights

- Descending-price clock auction format; administered by independent third-party
- Each tranche represents 1% of the hourly, load-following full-requirements of Duke Energy Ohio's SSO load

Staggered auctions achieve price-smoothing benefits for customers

Generation Profile



Duke Energy Ohio Native-Load Generation⁽¹⁾

Scrubbed Coal-Fired Generation Unscrubbed Coal-Fired Generation

Stuart (MISO)* Type: 4 Coal Units Fuel: Coal Ownership: 39% Operator: DP&L Location: Aberdeen, OH In Service: 1970-1974	2,340 MW (912 Net MW) SCR,FGD
Miami Fort (MISO)* Type: 2 Coal Units, 4 CT Units Fuel: Coal, Oil Ownership: Units 7&8 64%; 100% Location: North Bend, OH In Service: 1949-1978	1,060 MW (700 Net MW) SCR,FGD
Zimmer (MISO)* Type: 1 Coal Unit Fuel: Coal Ownership: 46.5% Location: Moscow, OH In Service: 1991	1,300 MW (605 Net MW) SCR,FGD
Conesville (MISO)* Type: 1 Coal Unit Fuel: Coal Ownership: 40% Operator: AEP Location: Coshocton, OH In Service: 1973	780 MW (312 Net MW) SCR,FGD
Killen (MISO)* Type: 1 Coal Unit Fuel: Coal Ownership: 33% Operator: DP&L Location: Wrightsville, OH In Service: 1982	600 MW (198 Net MW) SCR,FGD

Beckjord (MISO)* Type: 6 Coal Units, 4 CT Units Fuel: Coal, Oil Ownership: Unit 6 37.5%; 100% Location: New Richmond, OH In Service: 1952-1972	1,336 MW (1,074 Net MW) unscrubbed
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Gas/Oil-Fired Generation

Dicks Creek (MISO) Type: 4 Simple Cycle Units Fuel: Natural Gas, #3NG/Oil Ownership: 100% Location: Middletown, OH In Service: 1965-1969	152 MW
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(1) Dedicated to native-load customers through the ESP, which expires 12/31/2011

* Duke Energy Ohio has requested to realign its RTO membership with PJM effective January 1, 2012

SCR – Selective Catalytic Reduction
FGD – Flue Gas Desulfurization

Duke Energy Ohio's coal-fired generation is well-positioned for future environmental regulations

