# Large Filing Separator Sheet

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divesting or changing the nature of some of our foreign utility holdings, including some facilities acquired in our Westcoast purchase.

Existing regulations may be revised or reinterpreted, new laws and regulations may be adopted or become applicable to us or our facilities, and future changes in laws and regulations may have a detrimental effect on our business. Certain restructured markets have recently experienced supply problems and price volatility. These supply problems and volatility have been the subject of a significant amount of press coverage, much of which has been critical of the restructuring initiatives. In some of these markets, including California, proposals have been made by governmental agencies and other interested parties to re-regulate areas of these markets which have previously been deregulated. We cannot assure you that other proposals to re-regulate will not be made or that legislative or other attention to the electric power restructuring process will not cause the deregulation process to be delayed or reversed. If the current trend towards competitive restructuring of the wholesale and retail power markets is reversed, discontinued or delayed, our business models may be inaccurate and we may face difficulty in growing our business and generating revenues in accordance with our current business plans.

The FERC has proposed to broaden its regulations that restrict relations between jurisdictional electric and natural gas companies, or "jurisdictional companies," and marketing affiliates. The proposed



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rules would limit communications between a jurisdictional company and all our affiliates engaged in energy activities. The rulemaking is pending at the FERC and the precise scope and effect of the rule is unclear. If adopted as proposed, the rule could adversely affect our ability to coordinate and manage our energy activities.

OUR SALES MAY DECREASE IF WE ARE UNABLE TO GAIN ADEQUATE, RELIABLE AND AFFORDABLE ACCESS TO TRANSMISSION AND DISTRIBUTION ASSETS DUE TO THE FERC AND REGIONAL REGULATION OF WHOLESALE MARKET TRANSACTIONS FOR ELECTRICITY AND GAS.

We depend on transmission and distribution facilities owned and operated by utilities and other energy companies to deliver the electricity and natural gas we sell to the wholesale market, as well as the natural gas we purchase to supply some of our electric generation facilities. If transmission is disrupted, or if capacity is inadequate, our ability to sell and deliver products may be hindered.

The FERC has issued power transmission regulations that require wholesale electric transmission services to be offered on an open-access, non-discriminatory basis. Although these regulations are designed to encourage competition in wholesale market transactions for electricity, some companies have failed to provide fair and equal access to their transmission systems or have not provided sufficient transmission capacity to enable other companies to transmit electric power. We cannot predict whether and to what extent the industry will comply with these initiatives, or whether the regulations will fully accomplish their objectives. In addition, other companies' ability to access and compete for our existing "native-load" transmission customers may negatively affect our business leading to declining prices for transmission services as a result of this competition.

In addition, the independent system operators who oversee the transmission systems in regional power markets, such as California, have in the past been authorized to impose, and may continue to impose, price limitations and other mechanisms to address volatility in the power markets. These types of price limitations and other mechanisms may adversely impact the profitability of our wholesale power marketing and trading. Given the extreme volatility and lack of meaningful long-term price history in many of these markets and the imposition of price limitations by regulators, independent system operators or other market operators, we can offer no assurance that we will be able to operate profitably in all wholesale power markets.

IN THE FUTURE, WE MAY NOT BE ABLE TO SECURE LONG-TERM PURCHASE AGREEMENTS FOR OUR POWER GENERATION FACILITIES, AND OUR EXISTING POWER PURCHASE AGREEMENTS MAY NOT BE ENFORCEABLE, EITHER OF WHICH WOULD SUBJECT OUR SALES TO INCREASED VOLATILITY.

Historically, power from generation facilities has been sold under long-term power purchase agreements pursuant to which all energy and capacity was generally sold to a single party at fixed prices. Because of changes in the industry, the percentage of facilities with these types of long-term power purchase agreements has decreased, and it is likely that most of our facilities will operate without these agreements. Without the benefit of long-term power purchase agreements, we cannot assure you that we will be able to sell the power generated by our facilities or that our facilities will be able to operate profitably.

Recently, some entities have brought litigation or regulatory proceedings aimed at forcing the renegotiation or termination of power purchase agreements requiring payments to owners of generating facilities that are qualifying facilities under PURPA. Many qualifying facilities sell their electric output to utilities and other entities pursuant to long-term contracts at prices that are based upon the incremental cost that, at the time of contracting, it was estimated that it would cost the utility or entity to generate or purchase the power from another source. In some cases, these prices are now substantially in excess of market prices. In addition, in the future, utilities and other entities, with the approval of federal or state regulatory authorities, could seek to abrogate their existing power purchase agreements with qualifying facilities or with other power generators. Some of our power purchase agreements for power generated from our independent power projects and generation assets could be subject to similar efforts by the



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entities who contract to purchase power from our facilities. If those efforts were to be successful, our sales could decrease or be subject to increased volatility.

THE DIFFERENT REGIONAL POWER MARKETS IN WHICH WE COMPETE OR WILL COMPETE IN THE FUTURE HAVE CHANGING REGULATORY STRUCTURES, WHICH COULD AFFECT OUR GROWTH AND PERFORMANCE IN THESE REGIONS.

Our results are likely to be affected by differences in the market and transmission regulatory structures in various regional power markets. Problems or delays that may arise in the formation and operation of new regional transmission organizations, or RTOs, may restrict our ability to sell power produced by our generating capacity to certain markets if there is insufficient transmission capacity otherwise available. The rules governing the various regional power markets may also change from time to time which could affect our costs or revenues. Because it remains unclear which companies will be participating in the various regional power markets, or how RTOs will develop or what regions they will cover, we are unable to assess fully the impact that these power markets may have on our business.

Currently, Franchised Electric operates with exclusive rights to supply electricity in a franchised service territory of 22,000 square miles in North Carolina and South Carolina. Our financial performance in our franchised service territory is likely to be affected by differences in the market and regulatory structures in various regional power markets. Problems that may arise in the formation and operation of new RTOs, may result in delayed or disputed collection of revenues. The rules governing the various regional power markets may also change from time to time which could affect our costs or revenues. Because it remains unclear which companies will be participating in the various regional power markets, or how RTOs will develop or what regions they will cover, we are unable to assess fully the impact that these power markets may have on our business.

THE RECENTLY ENACTED RATE FREEZE AFFECTING OUR NORTH CAROLINA UTILITY WILL LIMIT OUR ABILITY TO PASS ON TO OUR CUSTOMERS OUR COST OF PRODUCING ELECTRICITY.

In June 2002, the State of North Carolina passed new clean air legislation that freezes electric utility rates from June 20, 2002 to December 31, 2007, in order for North Carolina electric utilities, including Duke Energy, to make significant reductions in emissions of sulfur dioxide and nitrogen oxides from the state's coal-fired power plants over the next ten years. We estimate the cost of achieving the proposed emission reductions to be approximately $1.5 billion. While we expect to recover 70% of the total estimated costs of plant improvements through the terms of the legislation, there is no guarantee that we will recover such amount. In addition, it is unclear how the NCUC will determine how any remaining costs will be recovered. As a result of the rate freeze, we will be limited in the amount of revenue our North Carolina utility generates in relation to operational costs and the amount of recovery for our costs of emission reductions.

GAS

OUR GAS TRANSMISSION AND STORAGE OPERATIONS ARE SUBJECT TO GOVERNMENT REGULATIONS AND RATE PROCEEDINGS THAT COULD HAVE AN ADVERSE IMPACT ON OUR ABILITY TO RECOVER THE COSTS OF OPERATING OUR PIPELINE FACILITIES.

Our U.S. interstate gas transmission and storage operations conducted through Duke Energy Gas Transmission Corporation and its subsidiaries are subject to the FERC's rules and regulations in accordance with the Natural Gas Act of 1938 and the Natural Gas Policy Act of 1978. The FERC's regulatory authority extends to:

- transportation of natural gas;

- rates and charges;

- construction;

- acquisition, extension or abandonment of services or facilities;

- accounts and records;



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- depreciation and amortization policies; and

- operating terms and conditions of service.

The FERC has taken certain actions to strengthen market forces in the natural gas pipeline industry which has led to increased competition throughout the industry. In a number of key markets, interstate pipelines are now facing competitive pressure from other major pipeline systems, enabling local distribution companies and end users to choose a supplier or switch suppliers based on the short-term price of gas and the cost of transportation.

In 2000, the FERC issued Order 637, which sets forth revisions to its policies governing the regulation of interstate natural gas pipelines. Some of our pipeline and storage companies were among several parties who filed appeals in the District of Columbia Circuit Court of Appeals seeking court review of various aspects of the Order. Based on the court's order, FERC issued an interim policy on certain of the issues remanded by the court and has requested comments on the remanded issues. We have filed comments with the FERC, and the matter is now pending before the FERC. We made an Order 637 compliance filing with the FERC during 2001. The FERC issued orders approving, subject to modifications, the pro forma tariff sheets submitted by us. However, we have filed for rehearing of the order with respect to certain issues. The matter is now pending before the FERC. Given the extent of the FERC's regulatory power, we cannot give any assurance regarding the likely regulations under which we will operate our natural gas transmission and storage business in the future or the effect of regulation on our financial position and results of operations. In addition, the FERC has proposed to broaden its regulations on jurisdictional companies, as described above. The proposed rules would limit communications between a jurisdictional company and all our affiliates engaged in energy activities. The rulemaking is pending at the FERC and the precise scope and effect of the rule is unclear. If adopted as proposed, the rule could adversely affect our ability to coordinate and manage our energy activities.

Texas Eastern and Algonquin currently have in effect rate settlements approved by FERC which prevent those companies or third parties from modifying Texas Eastern and Algonquin's rates, except for certain allowed adjustments. These settlements do not preclude the FERC from taking action on its own to modify the rates. The Texas Eastern settlement will expire on December 31, 2003 and the Algonquin settlement will expire on May 1, 2003, at which time the companies or third parties may institute actions at the FERC to modify the companies' rates. It is not possible to determine at this time whether any such actions would be instituted or what the outcome would be but such proceedings could result in either Texas Eastern or Algonquin being required to adjust its rates.

POSSIBLE CHANGES AND DEVELOPMENTS IN THE CANADIAN REGULATORY ENVIRONMENT COULD RESULT IN A NEGATIVE IMPACT ON WESTCOAST'S BUSINESS AND OPERATIONS.

Through the acquisition of Westcoast, we added a significant network of mostly Canadian-based natural gas assets, including transmission pipeline, gathering and processing facilities, storage facilities and distribution systems. The majority of these assets are subject to various degrees of regulation. Currently, Westcoast's interprovincial gathering, processing and transmission facilities and operations, are regulated by the National Energy Board and its storage and distribution facilities and operations are regulated by various provincial regulatory authorities. Changes in the regulation of Westcoast's facilities and operations may be beyond its control and may impact its capacity to conduct its business effectively and sustain or increase profitability. Furthermore, as the regulatory environment within which Westcoast conducts its business and operates its facilities continues to evolve from a traditional cost recovery model to a more competitive, market-based approach, there is increasing competition among pipeline companies. We cannot predict the timing or scope of these changes and developments in the regulatory environment or the impact they may ultimately have on Westcoast's business and operations.

A toll settlement approved by the National Energy Board establishes methods for setting Westcoast's revenue requirements and tolls for transmission services for a two-year period ending December 31, 2003. Upon its expiration, Westcoast may renegotiate the toll settlement and/or apply to the National Energy

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Board to modify its tolls. It is not possible to predict the impact of these alternative courses of action on Westcoast's tolls for transmission services.

Westcoast's southern mainline and the Fort Nelson mainline systems are currently fully contracted. The Fort St. John mainline continues to be under-utilized by approximately 159 MMcf per day or 24% of its total contractible capacity. Shippers with firm transmission service that expires on October 31 of any year may give notice to Westcoast, prior to September 30 of the previous year, to renew such service effective November 1. Approximately 55% by volume of transmission service on the southern mainline and 40% by volume of transmission service on the northern mainline is subject to renewal effective November 1, 2003 and the balance at varying times thereafter.

Aboriginal groups have claimed aboriginal and treaty rights over a substantial portion of the lands on which Westcoast's facilities in British Columbia and Alberta and the gas supply areas served by those facilities are located. The existence of these claims, which range from the assertion of rights of limited use up to aboriginal title, has given rise to some uncertainty regarding access to public lands for future development purposes.

RISKS RELATED TO OUR BUSINESS GENERALLY AND OUR INDUSTRY

ENVIRONMENTAL REGULATION AND LIABILITY

OUR BUSINESS WILL BE SUBJECT TO ENVIRONMENTAL LEGISLATION IN ALL JURISDICTIONS IN WHICH IT OPERATES AND ANY CHANGES IN SUCH LEGISLATION COULD NEGATIVELY AFFECT THE RESULTS OF OPERATIONS.

Our operations are subject to extensive environmental regulation pursuant to a variety of U.S., Canadian, and other federal, provincial, state and municipal laws and regulations. Such environmental legislation imposes, among other things, restrictions, liabilities and obligations in connection with the generation, handling, use, storage, transportation, treatment and disposal of hazardous substances and waste and in connection with spills, releases and emissions of various substances into the environment. Environmental legislation also requires that our facilities, sites and other properties associated with our operations be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities.

Existing environmental regulations could also be revised or reinterpreted, new laws and regulations could be adopted or become applicable to us or our facilities, and future changes in environmental laws and regulations could occur. The federal government and several states recently have proposed increased environmental regulation of many industrial activities, including increased regulation of air quality, water quality and solid waste management. For example, the U.S. Environmental Protection Agency has recently promulgated more stringent air quality standards for particulate matter emitted from power plants and is developing new policies concerning the protection of endangered species and sediment contamination based on new interpretations of the Clean Water Act. With the trend toward stricter standards, greater regulation, more extensive permit requirements and an increase in the number and types of assets operated by us subject to environmental regulation, we expect our environmental expenditures to be substantial in the future.

Compliance with environmental legislation can require significant expenditures, including expenditures for clean up costs and damages arising out of contaminated properties and failure to comply with environmental legislation may result in the imposition of fines and penalties. The steps we take to bring our facilities into compliance could be prohibitively expensive, and we may be required to shut down or alter the operation of our facilities, which may cause us to incur losses. Further, our regulatory rate structure and our contracts with clients may not necessarily allow us to recover capital costs we incur to comply with new environmental regulations such as the rate freeze being imposed by the NCUC. Also, we may not be able to obtain or maintain from time to time all required environmental regulatory approvals for certain development projects. If there is a delay in obtaining any required environmental regulatory approvals or if we fail to obtain and comply with them, the operation of our facilities could be prevented or become subject to additional costs. Should we fail to comply with all applicable environmental laws, we



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may be subject to penalties and fines imposed against us by regulatory authorities. Although it is not expected that the costs of complying with current environmental legislation will have a material adverse effect on our financial condition or results of operations, no assurance can be made that the costs of complying with environmental legislation in the future will not have such an effect.

WE COULD INCUR MATERIAL LOSSES IF WE ARE HELD LIABLE FOR THE ENVIRONMENTAL CONDITION OF ANY OF OUR ASSETS.

We are generally responsible for all on-site liabilities associated with the environmental condition of our power generation facilities and natural gas assets which we have acquired or developed, regardless of when the liabilities arose and whether they are known or unknown. In addition, in connection with certain acquisitions and sales of assets, we may obtain, or be required to provide, indemnification against certain environmental liabilities. If we incur a material liability, or the other party to a transaction fails to meet its indemnification obligations to us, we could suffer material losses.

ACCOUNTING POLICY RISKS

POTENTIAL CHANGES IN ACCOUNTING PRACTICES FOR THE ENERGY INDUSTRY MAY CAUSE US TO REVISE OUR FINANCIAL DISCLOSURE IN THE FUTURE, WHICH MAY CHANGE THE WAY ANALYSTS MEASURE OUR BUSINESS OR FINANCIAL PERFORMANCE.

Recently discovered accounting irregularities in various industries have forced regulators and legislators to take a renewed look at accounting practices, financial disclosures, companies' relationships with their independent auditors and retirement plan practices. While it is still unclear what laws or regulations will develop, we cannot predict the ultimate impact of any future changes in accounting regulations or practices in general with respect to public companies or the energy industry or in our operations specifically.

In addition, new accounting standards could be enacted by the Financial Accounting Standards Board or the SEC which could impact the way we are required to record revenues, assets and liabilities. For instance, SFAS No. 143, "Accounting for Asset Retirement Obligations," which we must implement by January 1, 2003, will require that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred, if a reasonable estimate can be made. Such change in recognition could lead to an increase in our liabilities related to certain assets, therefore reducing our overall reported assets. Other future changes in accounting standards could lead to negative impacts on reported earnings or increases in liabilities which in turn could affect our reported results of operations.

FINANCING RISK

OUR BUSINESS IS DEPENDENT ON OUR ABILITY TO SUCCESSFULLY ACCESS CAPITAL MARKETS. OUR INABILITY TO ACCESS CAPITAL MAY LIMIT OUR ABILITY TO EXECUTE OUR BUSINESS PLAN OR PURSUE IMPROVEMENTS.

We rely on access to both short-term money markets and longer-term capital markets as a source of liquidity for capital requirements not satisfied by the cash flow from our operations. If we are not able to access capital at competitive rates, our ability to implement our strategy will be adversely affected. Certain market disruptions or a downgrade of our credit rating may increase our cost of borrowing or adversely affect our ability to access one or more financial markets. Such disruptions could include:

- further economic downturns;
- the bankruptcy of an unrelated energy company;
- capital market conditions generally;
- market prices for electricity and gas;
- terrorist attacks or threatened attacks on our facilities or unrelated energy companies; or
- the overall health of the utility industry.

Restrictions on our ability to access financial markets may affect our ability to execute our business plan as scheduled. An inability to access capital may limit our ability to pursue improvements or acquisitions that we may otherwise rely on for future growth.



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INCREASES IN OUR LEVERAGE COULD ADVERSELY AFFECT OUR COMPETITIVE POSITION, BUSINESS PLANNING AND FLEXIBILITY, FINANCIAL CONDITION, ABILITY TO SERVICE OUR DEBT OBLIGATIONS AND TO PAY DIVIDENDS ON OUR COMMON STOCK, AND ABILITY TO ACCESS CAPITAL ON FAVORABLE TERMS.

Our cash requirements arise primarily from the capital intensive nature of our electric utilities, as well as the expansion of our diversified businesses. In addition to operating cash flows, we rely heavily on our commercial paper and long-term debt. Our credit lines impose various limitations that could impact our liquidity and result in a material adverse impact on our business strategy and our ongoing financing needs. Changes in economic conditions could result in higher interest rates, which would increase our interest expense on our floating rate debt and reduce funds available to us for our current plans. Additionally, an increase in our leverage could adversely affect us by:

- increasing the cost of future debt financing;
- prohibiting the payment of dividends on our common stock or adversely impacting our ability to pay such dividends at the current rate;
- making it more difficult for us to satisfy our existing financial obligations;
- limiting our ability to obtain additional financing, if we need it, for working capital, acquisitions, debt service requirements or other purposes;
- increasing our vulnerability to adverse economic and industry conditions;
- requiring us to dedicate a substantial portion of our cash flow from operations to payments on our debt, which would reduce funds available to us for operations, future business opportunities or other purposes; and
- limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we compete.

A DOWNGRADE IN OUR CREDIT RATING COULD NEGATIVELY AFFECT OUR ABILITY TO ACCESS CAPITAL AND/OR TO OPERATE OUR POWER AND GAS TRADING BUSINESSES.

Standard & Poor's Ratings Group, a division of The McGraw-Hill Companies, Inc., and Moody's Investors Service, Inc. rate our senior, unsecured debt at A and A1, respectively, with our Moody's rating on review for potential downgrade. If Moody's or Standard & Poor's were to downgrade our long-term rating, particularly below investment grade, our borrowing costs would increase which would diminish our financial results. In addition, we would likely be required to pay a high interest rate in future financings, and our potential pool of investors and funding sources would likely decrease. Further, if our short-term rating were to fall below A-1 or P-1, the current ratings assigned by Standard & Poor's and Moody's, respectively, it would significantly limit our access to the commercial paper market.

Our power and gas trading businesses rely on our investment grade ratings. Most of our counterparties require the creditworthiness of an investment grade entity to stand behind transactions. If our ratings were to decline below investment grade, our ability to profitably operate our power and gas trading businesses would be diminished because we would likely have to deposit collateral of cash or cash related instruments which would reduce our profits.

OPERATIONAL RISKS

IF WE DO NOT SUCCESSFULLY INTEGRATE RECENTLY ACQUIRED OR NEW ASSETS INTO OUR OPERATIONS, WE MAY INCUR SIGNIFICANT EXPENSES AND LOSSES.

We may not be able to successfully or profitably integrate, operate, maintain and manage our recently acquired or developed assets in a competitive environment. Our ability to successfully integrate acquired assets into our operations, such as Westcoast, will depend on, among other things, the adequacy of our implementation plans and the ability to achieve desired operating efficiencies. Successful business combinations require management and other personnel to devote significant amounts of time to integrating the acquired business with existing operations. These efforts may distract their attention from day-to-day business, the development or acquisition of new properties and other business opportunities. Unexpected



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costs or challenges may also arise whenever businesses with different operations and management are combined. We will experience increased costs and losses on our investments if we are unable to successfully integrate new assets into our operations.

OUR INVESTMENTS AND PROJECTS LOCATED OUTSIDE OF THE UNITED STATES EXPOSE US TO RISKS RELATED TO LAWS OF OTHER COUNTRIES, TAXES, ECONOMIC CONDITIONS, FLUCTUATIONS IN CURRENCY RATES, POLITICAL CONDITIONS AND POLICIES OF FOREIGN GOVERNMENTS. THESE RISKS MAY DELAY OR REDUCE OUR REALIZATION OF VALUE FROM OUR INTERNATIONAL PROJECTS.

We currently own and may acquire and/or dispose of material energy-related investments and projects outside the United States. The economic and political conditions in certain countries where we have interests or in which we may explore development, acquisition or investment opportunities present risks of delays in construction and interruption of business, as well as risks of war, expropriation, nationalization, renegotiation, trade sanctions or nullification of existing contracts and changes in law or tax policy, that are greater than in the United States. The uncertainty of the legal environment in certain foreign countries in which we develop or acquire projects or make investments could make it more difficult to obtain non-recourse project or other financing on suitable terms, could adversely affect the ability of certain customers to honor their obligations with respect to such projects or investments and could impair our ability to enforce our rights under agreements relating to such projects or investments.

Operations in foreign countries also can present currency exchange rate and convertibility, inflation and repatriation risk. In certain conditions under which we develop or acquire projects, or make investments, economic and monetary conditions and other factors could affect our ability to convert our earnings denominated in foreign currencies. In addition, risk from fluctuations in currency exchange rates can arise when our foreign subsidiaries expend or borrow funds in one type of currency but receive revenue in another. In such cases, an adverse change in exchange rates can reduce our ability to meet expenses, including debt service obligations. Foreign currency risk can also arise when the revenues received by our foreign subsidiaries are not in U.S. dollars. In such cases, a strengthening of the U.S. dollar could reduce the amount of cash and income we receive from these foreign subsidiaries. While we believe we have hedges and contracts in place to mitigate our most significant short-term foreign currency exchange risks, our hedges may not be sufficient or we may have some exposures that are not hedged which could result in losses or volatility in our revenues.

THE LONG-TERM FINANCIAL CONDITION OF OUR U.S. AND CANADIAN NATURAL GAS TRANSMISSION BUSINESSES ARE DEPENDENT ON THE CONTINUED AVAILABILITY OF NATURAL GAS RESERVES.

The development of additional natural gas reserves requires significant capital expenditures by others for exploration and development drilling and the installation of production, gathering, storage, transportation and other facilities and permit natural gas to be produced and delivered to our pipeline systems. Low prices for natural gas, regulatory limitations, or the lack of available capital for these projects could adversely affect the development of additional reserves and production, gathering, storage and pipeline transmission and import and export of natural gas supplies. Additional natural gas reserves may not be developed in commercial quantities and in sufficient amounts to fill the capacities of our pipeline systems.

GATHERING, PROCESSING AND TRANSPORTING ACTIVITIES INVOLVE NUMEROUS RISKS THAT MAY RESULT IN ACCIDENTS AND OTHER OPERATING RISKS AND COSTS.

There are inherent in our gas gathering, processing and transporting properties a variety of hazards and operating risks, such as leaks, explosions and mechanical problems, that could cause substantial financial losses. In addition, these risks could result in loss of human life, significant damage to property, environmental pollution, impairment of our operations and substantial losses to us. In accordance with customary industry practice, we maintain insurance against some, but not all, of these risks and losses. The occurrence of any of these events not fully covered by insurance could have a material adverse effect on our financial position and results of operations. The location of pipelines near populated areas, including residential areas, commercial business centers and industrial sites, could increase the level of damages resulting from these risks.

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WE ARE SUBJECT TO THE RISKS OF NUCLEAR GENERATION.

Our three nuclear stations, Oconee, Catawba and McGuire subject us to the risks of nuclear generation, which include:

- the potential harmful effects on the environment and human health resulting from the operation of nuclear facilities and the storage, handling and disposal of radioactive materials;

- limitations on the amounts and types of insurance commercially available to cover losses that might arise in connection with nuclear operations; and

- uncertainties with respect to the technological and financial aspects of decommissioning nuclear plants at the end of their licensed lives.

The Nuclear Regulatory Commission has broad authority under federal law to impose licensing and safety-related requirements for the operation of nuclear generation facilities. In the event of non-compliance, the Nuclear Regulatory Commission has the authority to impose fines or shut down a unit, or both, depending upon its assessment of the severity of the situation, until compliance is achieved. Revised safety requirements promulgated by the Nuclear Regulatory Commission could necessitate substantial capital expenditures at our nuclear plants. In addition, although we have no reason to anticipate a serious nuclear incident, if an incident did occur, it could have a material adverse effect on our results of operations or financial condition. Furthermore, the non-compliance of other nuclear facilities operators with applicable regulations or the occurrence of a serious nuclear incident at other facilities could result in increased regulation of the industry as a whole, which could then increase our compliance costs and impact the results of operations of our facilities.

FIELD SERVICES ACCOUNTING ADJUSTMENTS IN 2002 COULD AFFECT OUR RESULTS OF OPERATIONS.

Field Services has been conducting an internal review of various balance sheet accounts and anticipates completing this review by December 31, 2002. As previously disclosed, this review has already resulted in Field Services booking reserves for gas imbalances, making adjustments to gas inventories and recording other miscellaneous charges of $13 million in the first quarter of 2002 and $34 million in the second quarter of 2002. Field Services anticipates additional adjustments could be required prior to the end of 2002. Although the effect of these adjustments has not yet been determined, based on the facts known today, any such adjustments are not expected to be material to Duke Energy Corporation. The impact to us of these adjustments would reflect our approximate 70% ownership of Field Services.

RECENT TERRORIST ACTIVITIES AND THE POTENTIAL FOR MILITARY AND OTHER ACTIONS COULD ADVERSELY AFFECT OUR BUSINESS.

On September 11, 2001, the United States was the target of terrorist attacks of unprecedented scope. The continued threat of terrorism and the impact of retaliatory military and other action by the United States and its allies may lead to increased political, economic and financial market instability and volatility in prices for natural gas which could affect the market for our gas operations. In addition, future acts of terrorism could be directed against companies operating in the United States. In particular, nuclear generation facilities such as our nuclear plants could be potential targets of terrorist activities. These developments have subjected our operations to increased risks and, depending on their ultimate magnitude, could have a material adverse effect on our business. In particular, we may experience increased capital or operating costs to implement increased security for our plants, including our nuclear power plants under the Nuclear Regulatory Commission's design basis threat requirements, such as additional physical plant security and additional security personnel.

The insurance industry has also been disrupted by these events. As a result, the availability of insurance covering risks we and our competitors typically insure against may decrease. In addition, the insurance we are able to obtain may have higher deductibles, higher premiums and more restrictive policy terms.



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USE OF PROCEEDS

Our net proceeds from the sale of shares of our common stock in this offering are estimated to be approximately $974 million (approximately $1.120 billion if the underwriters' over-allotment option is exercised in full) after deducting underwriting discounts and commissions and estimated offering expenses payable by us. We expect to use the net proceeds from the offering of common stock primarily to make a capital contribution to Duke Capital Corporation so that Duke Capital can repay outstanding commercial paper which originally was issued to fund a portion of the cash consideration paid in the acquisition of Westcoast. At September 20, 2002, Duke Capital had approximately $1.528 billion of commercial paper outstanding which had a weighted average interest rate of 1.96% and maturities of approximately four months or less.



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PRICE RANGE OF COMMON STOCK

Our common stock trades on the New York Stock Exchange, or NYSE, under the symbol "DUK." The following table sets forth on a per share basis the high and low intra-day prices for our common stock for the periods indicated.

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<Caption>

| | COMMON STOCK PRICE | |
|---|---|---|
| | HIGH | LOW |
| <S> | <C> | <C> |
| 2000: | | |
| First Quarter | $28.97 | $22.88 |
| Second Quarter | 31.38 | 25.94 |
| Third Quarter | 43.69 | 28.22 |
| Fourth Quarter | 45.22 | 39.41 |
| 2001: | | |
| First Quarter | 40.40 | 32.12 |
| Second Quarter | 39.20 | 29.09 |
| Third Quarter | 42.85 | 34.39 |
| Fourth Quarter | 41.35 | 32.22 |
| 2002: | | |
| First Quarter | 40.00 | 31.99 |
| Second Quarter | 39.60 | 28.50 |
| Third Quarter (through September 25, 2002) | 31.10 | 17.81 |

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The reported last sale price of our common stock on September 25, 2002 on the NYSE was $18.35 per share. As of August 31, 2002, there were approximately 149,142 holders of record of our common stock.

DIVIDENDS

We have paid cash dividends on our common stock without interruption since 1926. We paid a quarterly dividend of $0.275 per share in each of 2000 and 2001 and each of the first, second and third quarters of 2002. Future dividends will depend upon our future earnings, financial condition and other factors affecting dividend policy.

We have an InvestorDirect Choice Plan pursuant to which holders of our common stock may automatically reinvest their common stock dividends in shares of our common stock. Holders who become participants in the plan may also make optional cash payments (not more than $100,000 per calendar year) to be invested in shares of our common stock. For information concerning the InvestorDirect

Choice Plan, write us at Duke Energy Corporation, Investor Relations Department, P.O. Box 1005, Charlotte, NC 28201-1005.



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CAPITALIZATION

The following table sets forth our capitalization as of June 30, 2002:

- on an actual basis; and
- on an as adjusted basis to give effect to the sale of the 54,500,000 shares of our common stock in this offering and the application of the net proceeds as described under "Use of Proceeds".

You should read the information in this table together with our consolidated financial statements and the related notes incorporated by reference in this prospectus supplement and accompanying prospectus.

<Table>
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| | AS OF JUNE 30, 2002 | |
|---|---|---|
| | ACTUAL | AS ADJUSTED |
| | (IN MILLIONS) | |
| <S> | <C> | <C> |
| Short-term debt, including commercial paper | $ 2,673 | $ 1,699 |
| Long-term debt, including current maturities: | | |
| First and refunding mortgage bonds | 790 | 790 |
| Other long-term debt | 3,665 | 3,665 |
| Long-term debt of subsidiaries | 14,882 | 14,882 |
| Total long term debt | 19,337 | 19,337 |
| Guaranteed preferred beneficial interests in subordinated notes of Duke Energy or subsidiaries | 1,407 | 1,407 |
| Minority interests | 2,996 | 2,996 |
| Preferred and preference stock, including current sinking fund obligations: | | |
| With sinking fund requirements | 38 | 38 |
| Without sinking fund requirements | 209 | 209 |
| Total preferred stock, including current sinking fund obligations | 247 | 247 |
| Common stockholders' equity: | | |
| Common stock, no par; 2 billion shares authorized; 832 million shares outstanding, actual and 887 million shares outstanding, as adjusted | 8,184 | 9,158 |
| Retained earnings | 6,553 | 6,553 |
| Accumulated other comprehensive income | 150 | 150 |
| Total common stockholders' equity | 14,887 | 15,861 |
| Total capitalization | $41,547 | $41,547 |

</Table>

<PAGE>

CERTAIN UNITED STATES TAX CONSEQUENCES TO NON-UNITED STATES HOLDERS

The following summary describes the material United States federal income tax consequences of the ownership of common stock by a Non-United States Holder (as defined below) as of the date hereof. This discussion does not address all aspects of United States federal income taxes and does not deal with foreign, state and local tax consequences that may be relevant to such Non-United States Holders in light of their personal circumstances. Special rules may apply to certain Non-United States Holders, such as certain United States expatriates, "controlled foreign corporations," "passive foreign investment companies," "foreign personal holding companies" and corporations that accumulate earnings to avoid United States federal income tax, that are subject to special treatment under the Internal Revenue Code of 1986, as amended (the "Code"). Such Non-United States Holders should consult their own tax advisors to determine the United States federal, state, local and other tax consequences that may be relevant to them. Furthermore, the discussion below is based upon the provisions of the Code, and regulations, rulings and judicial decisions thereunder as of the date hereof, and such authorities may be repealed, revoked or modified so as to result in United States federal income tax consequences different from those discussed below.

If a partnership holds common stock, the tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. Persons who are partners of partnerships holding common stock should consult their own tax advisors.

As used herein, a "United States Holder" of common stock means a holder that for United States federal income tax purposes is (i) a citizen or resident of the United States, (ii) a corporation or partnership created or organized in or under the laws of the United States or any political subdivision thereof, (iii) an estate the income of which is subject to United States federal income taxation regardless of its source or (iv) a trust if (1) it is subject to the primary supervision of a court within the United States and one or more United States persons have the authority to control all substantial decisions of the trust or (2) it has a valid election in effect under applicable U.S. Treasury regulations to be treated as a United States person. A "Non-United States Holder" is a holder that is not a United States Holder.

PERSONS CONSIDERING THE PURCHASE, OWNERSHIP OR DISPOSITION OF COMMON STOCK SHOULD CONSULT THEIR OWN TAX ADVISORS CONCERNING THE UNITED STATES FEDERAL INCOME TAX CONSEQUENCES IN LIGHT OF THEIR PARTICULAR SITUATIONS AS WELL AS ANY CONSEQUENCES ARISING UNDER THE LAWS OF ANY OTHER TAXING JURISDICTION.

DIVIDENDS

Dividends paid to a Non-United States Holder of common stock generally will be subject to withholding of United States federal income tax at a 30% rate or such lower rate as may be specified by an applicable income tax treaty. However, dividends that are effectively connected with the conduct of a trade or business by the Non-United States Holder within the United States, and, where a tax treaty applies, are attributable to a United States permanent establishment of the Non-United States Holder, are not subject to the withholding tax, but instead are subject to United States federal income tax on a net income basis at applicable graduated individual or corporate rates. Certain certification and disclosure requirements must be satisfied in order for effectively connected income to be exempt from withholding. Any such effectively connected dividends received by a foreign corporation may be subject to an additional "branch profits tax" at a 30% rate or such lower rate as may be specified by an applicable income tax treaty.

A Non-United States Holder of common stock who wishes to claim the benefit of an applicable treaty rate (and avoid backup withholding as discussed below) for dividends paid will be required (a) to complete Internal Revenue Service ("IRS") Form W-8BEN (or other applicable form) and certify under penalties of perjury that such holder is not a United States person or (b) if the common stock is held through certain foreign intermediaries, to satisfy the relevant certification requirements of applicable U.S. Treasury regulations. Special certification and other requirements apply to certain Non-United States Holders that are entities rather than individuals.

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A Non-United States Holder of common stock eligible for a reduced rate of United States withholding tax pursuant to an income tax treaty may obtain a refund of any excess amounts withheld by filing an appropriate claim for refund with the IRS.

GAIN ON DISPOSITION OF COMMON STOCK

A Non-United States Holder generally will not be subject to United States federal income tax with respect to gain recognized on a sale or other disposition of common stock unless (i) the gain is effectively connected with a trade or business of the Non-United States Holder in the United States, and, where a tax treaty applies, is attributable to a United States permanent establishment of the Non-United States Holder, (ii) in the case of a Non-United States Holder who is an individual and holds the common stock as a capital asset, such holder is present in the United States for 183 or more days in the taxable year of the sale or other disposition and certain other conditions are met, or (iii) we are or have been a "United States real property holding corporation" for United States federal income tax purposes.

A Non-United States Holder described in clause (i) above will be subject to tax on the net gain derived from the sale under regular graduated United States federal income tax rates, and, if it is a corporation, may be subject to the branch profits tax on such gain at a 30% rate or such lower rate as may be specified by an applicable income tax treaty. An individual Non-United States Holder described in clause (ii) above will be subject to a flat 30% tax on the gain derived from the sale, which tax may be offset by U.S. source capital losses (even though the individual is not considered a resident of the United States).

We have not determined whether we are a "United States real property holding corporation" for United States federal income tax purposes. If we are or become a United States real property holding corporation, provided that the common stock is regularly traded on an established securities market, only a Non-United States Holder who actually or constructively holds or held (at any time during the shorter of the five-year period preceding the date of disposition or the holder's holding period) more than five percent of the common stock will be subject to United States federal income tax on the disposition of the common stock.

FEDERAL ESTATE TAX

Common stock held by an individual Non-United States Holder at the time of death will be included in such holder's gross estate for United States federal estate tax purposes, unless an applicable estate tax treaty provides otherwise.

INFORMATION REPORTING AND BACKUP WITHHOLDING

We must report annually to the IRS and to each Non-United States Holder the amount of dividends paid to such holder and the tax withheld, if any, with respect to such dividends, regardless of whether withholding was required.

copies of the information returns reporting such dividends and withholding may also be made available to the tax authorities in the country in which the Non-United States Holder resides under the provisions of an applicable income tax treaty.

A Non-United States Holder will be subject to backup withholding unless applicable certification requirements are met.

Payment of the proceeds of a sale of common stock within the United States or conducted through certain U.S.-related financial intermediaries is subject to both backup withholding and information reporting unless the beneficial owner certifies under penalties of perjury that it is a Non-United States Holder (and the payor does not have actual knowledge or reason to know that the beneficial owner is a United States person) or the holder otherwise establishes an exemption.

Any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against such holder's United States federal income tax liability provided the required information is furnished to the IRS.

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UNDERWRITING

Under the terms and subject to the conditions contained in an underwriting agreement dated the date of this prospectus supplement, the underwriters named below, for whom Morgan Stanley & Co. Incorporated is acting as representative, have severally agreed to purchase, and we have agreed to sell to them, severally, the number of shares of common stock indicated below:

<Table>
<Caption>

| NAME | NUMBER OF SHARES |
|---|---|
| <S> | <C> |
| Morgan Stanley & Co. Incorporated | 21,810,900 |
| Banc of America Securities LLC | 2,904,850 |
| Deutsche Bank Securities Inc. | 2,904,850 |
| Goldman, Sachs & Co. | 2,904,850 |
| J.P. Morgan Securities Inc. | 2,904,850 |
| Salomon Smith Barney Inc. | 2,904,850 |
| Wachovia Securities, Inc. | 2,904,850 |
| ABN AMRO Rothschild LLC | 1,635,000 |
| CIBC World Markets Corp. | 1,635,000 |
| Credit Suisse First Boston Corporation | 1,635,000 |
| Scotia Capital (USA) Inc. | 1,635,000 |
| TD Securities (USA) Inc. | 1,635,000 |
| UBS Warburg LLC | 1,635,000 |
| Barclays Bank PLC | 545,000 |
| Blaylock & Partners, L.P. | 136,250 |
| BNP Paribas Securities Corp. | 272,500 |
| Commerzbank Capital Markets Corporation | 545,000 |
| Credit Lyonnais Securities (USA) Inc. | 545,000 |
| Dresdner Kleinwort Wasserstein Securities LLC | 545,000 |
| Mizuho International PLC | 545,000 |
| RBC Capital Markets | 545,000 |
| SG Cowen Securities Corporation | 545,000 |
| SunTrust Capital Markets, Inc. | 272,500 |
| Tokyo-Mitsubishi Securities (USA), Inc. | 545,000 |
| WestLB Panmure Ltd. | 272,500 |
| The Williams Capital Group, L.P. | 136,250 |

| | |
|---|---|
| Total........................................ | 54,500,000 |
| | ========== |

</Table>

The underwriters are offering the shares of common stock subject to their acceptance of the shares from us and subject to prior sale. The underwriting agreement provides that the several obligations of the underwriters to pay for and accept delivery of the shares of common stock offered by this prospectus supplement are subject to the approval of certain legal matters by their counsel and to other conditions. The underwriters are obligated to take and pay for all of the shares of common stock offered by this prospectus supplement if any are taken. However, the underwriters are not required to take or pay for the shares of common stock covered by the underwriters' over-allotment option described below.

The underwriters initially propose to offer some of the shares of common stock directly to the public at the public offering price listed on the cover page of this prospectus supplement. The underwriters may also offer some of the shares of common stock to securities dealers at a price that represents a concession not in excess of $0.30 per share. After the initial offering of the shares of common stock, the offering price



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and other selling terms may from time to time be changed by Morgan Stanley & Co. Incorporated on behalf of the underwriters.

We have granted to the underwriters an option to purchase from us within 30 days from the date of this prospectus supplement up to an aggregate of 8,175,000 additional shares of common stock at the public offering price listed on the cover page of this prospectus supplement less underwriting discounts and commissions. The underwriters may exercise this option solely to cover over-allotments, if any, made in connection with this offering. If the option is exercised, each underwriter will become obligated, subject to certain conditions, to purchase approximately the same percentage of additional shares of common stock as the number listed next to the underwriter's name in the preceding table bears to the total number of shares of common stock offered by all the underwriters. If the underwriters' over-allotment option is exercised in full, the total public offering price would be approximately $1.150 billion, the total underwriting discounts and commissions would be approximately $29 million and the total proceeds to us, before offering expenses, would be approximately $1.121 billion.

We estimate that the total expenses of this offering payable by us, excluding underwriting discounts and commissions, will be approximately $1 million.

Our common stock is listed on the New York Stock Exchange and trades under the symbol "DUK," and the shares of common stock offered hereby have been approved for listing subject to official notice of issuance. No underwriter is obligated to make a market in our common stock and any market making may be discontinued at any time without notice.

In connection with this offering, certain of the underwriters may distribute prospectuses electronically.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933, and to contribute to payments the underwriters may be required to make under the Securities Act of 1933.

We and our executive officers have each agreed that subject to certain exceptions, without the prior written consent of Morgan Stanley & Co. Incorporated on behalf of the underwriters, we and our executive officers will not, during the 60-day period after the date of this prospectus supplement:

- offer, pledge, sell or contract to sell any shares of common stock,

- sell any option or contract to purchase any shares of common stock,

- purchase any option or contract to sell any shares of common stock,

- grant any option, right or warrant for the sale of any shares of common stock,

- lend or otherwise dispose of or transfer any shares of common stock, or

- enter into any swap or other agreement that transfers, in whole or in part, the economic consequence of ownership of any shares of common stock, whether any such swap or transaction is to be settled by delivery of shares or other securities, in cash or otherwise.

This lock-up provision applies to shares of common stock and to securities convertible into or exchangeable or exercisable for or repayable with shares of common stock. It also applies to shares of common stock owned now or acquired later by the person executing the agreement or for which the person executing the agreement later acquires the power of disposition. This agreement does not apply to issuances under our employee or director compensation plans or our employee or other investment plans. Morgan Stanley & Co. Incorporated on behalf of the underwriters, in its sole discretion, may release any of the securities subject to these lock-up agreements at any time without notice.

In order to facilitate the offering of the common stock, the underwriters may engage in transactions that stabilize, maintain or otherwise affect the price of the common stock. Specifically, the underwriters may over-allot in connection with the offering, creating a short position in the common stock for their own account. A short sale is covered if the short position is no greater than the number of shares of common stock available for purchase by the underwriters under the over-allotment option. The underwriters can



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close out a covered short sale by exercising the over-allotment option or purchasing common stock in the open market. In determining the source of common stock to close out a covered short sale, the underwriters will consider, among other things, the open market price of the common stock compared to the price available under the over-allotment option. The underwriters may also sell common stock in excess of the over-allotment option, creating a naked short position. The underwriters must close out any naked short position by purchasing common stock in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the common stock in the open market after pricing that could adversely affect investors who purchase shares of common stock in the offering. As an additional means of facilitating the offering of common stock, the underwriters may bid for and purchase any shares of common stock in the open market to stabilize the price of the common stock. Finally, the underwriting syndicate may reclaim selling concessions allowed to an underwriter or a dealer for distributing the shares of common stock in the offering, if the syndicate repurchases previously distributed shares of common stock in transactions to cover syndicate short positions, in stabilization transactions or otherwise. Any of these activities may stabilize or maintain the market price of the common stock above independent market levels or prevent or retard a decline in the market price of the common stock. The underwriters are not required to engage in these activities, and may end any of these activities at any time.

From time to time, some of the underwriters and their affiliates have provided, and continue to provide, investment banking and commercial banking services to us and our affiliates.

## EXPERTS

The consolidated financial statements and the related financial statement schedule incorporated in this prospectus supplement by reference from Duke Energy's Annual Report on Form 10-K for the year ended December 31, 2001 have been audited by Deloitte & Touche LLP, as independent auditors, as stated in their report, which is incorporated herein by reference, and have been so incorporated in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

## LEGAL MATTERS

Certain legal matters with respect to the offering of the common stock will be passed on for us by Edward M. Marsh, Jr., Esq., who is our Deputy General Counsel and Assistant Secretary, and by Simpson Thacher & Bartlett, New York, New York, and for the underwriters by Sidley Austin Brown & Wood LLP, New York, New York. In rendering their opinions, Simpson Thacher & Bartlett and Sidley Austin Brown & Wood LLP will rely upon Mr. Marsh as to all matters of North Carolina law. As of September 23, 2002, Mr. Marsh owned 10,512 shares of our common stock or common stock units and options to purchase 36,350 shares, 10,800 of which were exercisable.

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PROSPECTUS

$2,000,000,000

DUKE ENERGY CORPORATION

SENIOR NOTES
JUNIOR SUBORDINATED NOTES
FIRST AND REFUNDING MORTGAGE BONDS
COMMON STOCK
STOCK PURCHASE CONTRACTS
STOCK PURCHASE UNITS

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DUKE ENERGY CAPITAL TRUST III

DUKE ENERGY CAPITAL TRUST IV

DUKE ENERGY CAPITAL TRUST V

TRUST PREFERRED SECURITIES
GUARANTEED, TO THE EXTENT DESCRIBED HEREIN, BY

DUKE ENERGY CORPORATION

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This prospectus contains summaries of the general terms of these securities. You will find the specific terms of these securities, and the manner in which they are being offered, in supplements to this prospectus. You should read this prospectus and the applicable prospectus supplement carefully before you invest.

The Common Stock of Duke Energy is listed on the New York Stock Exchange under the symbol "DUK."

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

This prospectus is dated August 27, 2002.

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that Duke Energy, Duke Energy Capital Trust III, Duke Energy Capital Trust IV and Duke Energy Capital Trust V filed with the SEC utilizing a "shelf" registration process. Under the shelf registration process, Duke Energy may issue Senior Notes, Junior Subordinated Notes, First and Refunding Mortgage Bonds, Common Stock, Stock Purchase Contracts and Stock Purchase Units and the Trusts may issue Preferred Securities in one or more offerings up to a total dollar amount of $2,000,000,000.

This prospectus provides general descriptions of the securities Duke Energy and the Trusts may offer. Each time securities are sold, a prospectus supplement will provide specific information about the terms of that offering. The prospectus supplement may also add, update or change information contained in this prospectus. The registration statement filed with the SEC includes exhibits that provide more details about the matters discussed in this prospectus. You should read this prospectus, the related exhibits filed with the SEC and any prospectus supplement, together with the additional information described under the caption "Where You Can Find More Information."

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DUKE ENERGY CORPORATION

Duke Energy, together with its subsidiaries, an integrated provider of energy and energy services, offers physical delivery and management of both electricity and natural gas throughout the United States and abroad. Duke Energy, together with its subsidiaries, provides these and other services through seven business segments:

o Franchised Electric

o Natural Gas Transmission

o Field Services

o North American Wholesale Energy

o International Energy

o Other Energy Services

o Duke Ventures

Franchised Electric generates, transmits, distributes and sells electricity in central and western North Carolina and western South Carolina. It conducts operations primarily through Duke Power and Nantahala Power and Light. These electric operations are subject to the rules and regulations of the Federal Energy Regulatory Commission ("FERC"), the North Carolina Utilities Commission and the Public Service Commission of South Carolina.

Natural Gas Transmission provides transportation, storage and distribution of natural gas for customers throughout the east coast and southern portion of the United States and Canada. Natural Gas Transmission provides gas gathering, processing and transportation services to customers located in British Columbia, Canada and in the Pacific northwest region of the United States. Natural Gas Transmission does business primarily through Duke Energy Gas Transmission Corporation. Duke Energy acquired Westcoast Energy, Inc. on March 14, 2002. Interstate natural gas transmission and storage operations in the United States are subject to the FERC's rules and regulations while natural gas gathering, processing, transmission, distribution and storage operations in Canada are subject to the rules and regulations of the National Energy Board, the Ontario Energy Board and the British Columbia Utilities Commission.

Field Services gathers, processes, transports, markets and stores natural gas and produces, transports, markets and stores natural gas liquids. It conducts operations primarily through Duke Energy Field Services, LLC, which is approximately 30% owned by Phillips Petroleum. Field Services operates gathering systems in western Canada and 11 contiguous states in the United States. Those systems serve major natural gas-producing regions in the Rocky Mountains, Permian Basin, Mid-Continent, East Texas-Austin Chalk-North Louisiana, and onshore and offshore Gulf Coast areas.

Duke Energy North America develops, operates and manages merchant generation facilities and engages in commodity sales and services related to natural gas and electric power. Duke Energy North America conducts business throughout the United States and Canada through Duke Energy North America, LLC and Duke Energy Trading and Marketing, LLC. Duke Energy Trading and Marketing is approximately 40% owned by Exxon Mobil Corporation. Prior to April 1, 2002, the Duke Energy North America business segment was combined with Duke Energy Merchants Holdings, LLC to form a segment called North American Wholesale Energy. As of June 30, 2002, management combined Duke Energy Merchants Holdings with the Other Energy Services segment. Management separated Duke Energy North America for increased reporting transparency. Previous periods have been reclassified to conform to the current presentation. As of August 1, 2002, Duke Energy's North American trading and marketing functions currently in Duke Energy North America and Duke Energy Merchants Holdings, including Duke Energy Trading and Marketing and the Canadian trading operations, were consolidated into one group.

International Energy develops, operates and manages natural gas transportation and power generation facilities and engages in energy trading and marketing of natural gas and electric power. It conducts

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operations primarily through Duke Energy International, LLC and its activities target the Latin American, Asia-Pacific and European regions.

Other Energy Services is composed of diverse energy businesses, operating primarily through Duke Energy Merchants Holdings, Duke/Fluor Daniel and Energy Delivery Services. Duke Energy Merchants Holdings engages in commodity buying and selling, and risk management and financial services in the energy commodity markets other than natural gas and power (such as refined products, liquefied petroleum gas, residual fuels, crude oil and coal).

Duke/Fluor Daniel provides comprehensive engineering, procurement, construction, commissioning and operating plant services for fossil-fueled electric power generating facilities worldwide. It is a 50/50 partnership between Duke Energy and Fluor Enterprises, Inc., a wholly owned subsidiary of Fluor Corporation. Energy Delivery Services is an engineering, construction, maintenance and technical services firm specializing in electric transmission and distribution lines and substation projects. It was formed in the second quarter of 2002 from the power delivery services component of Duke Engineering & Services, Inc. This segment was excluded from the sale of Duke Engineering & Services on April 30, 2002. Other Energy Services also retained the portion of DukeSolutions, Inc. that was not sold on May 1, 2002. Duke Engineering & Services and DukeSolutions were included in Other Energy Services through the date of their sale.

Duke Ventures is composed of other diverse businesses, operating primarily through Crescent Resources, LLC, DukeNet Communications, LLC and Duke Capital Partners, LLC. Crescent Resources develops high-quality commercial, residential and multi-family real estate projects and manages land holdings primarily in the southeastern and southwestern United States. DukeNet Communications develops and manages fiber optic communications systems for wireless, local and long distance communications companies and selected educational, governmental, financial and health care entities. Duke Capital Partners, a wholly owned merchant banking company, provides debt and equity capital and financial advisory services primarily to the energy industry.

The foregoing information about Duke Energy and its business segments is only a general summary and is not intended to be comprehensive. For additional information about Duke Energy and its business segments, you should refer to the information described under the caption "Where You Can Find More Information."

Duke Energy is a North Carolina corporation. Its principal executive offices are located at 526 South Church Street, Charlotte, North Carolina 28202 (telephone (704) 594-6200).

RATIO OF EARNINGS TO FIXED CHARGES
(UNAUDITED)

<Table>
<Caption>

| | YEAR ENDED DECEMBER 31, | | | | | SIX MONTHS ENDED JUNE 30, 2002 |
|---|---|---|---|---|---|---|
| | 1997(1) | 1998 | 1999 | 2000 | 2001 | |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> |
| Ratio of Earnings to Fixed Charges.... | 4.0 | 4.5 | 2.7 | 3.6 | 3.8 | 2.7 |

</Table>

For purposes of this ratio (a) earnings consist of income from continuing operations before income taxes and fixed charges, and (b) fixed charges consist of all interest deductions, the interest component of rentals and preference security dividends of consolidated subsidiaries.

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(1) Data reflects accounting for the stock-for-stock merger of Duke Energy and PanEnergy Corp on June 18, 1997 as a pooling of interests. As a result, the data gives effect to the merger as if it had occurred as of January 1, 1997.

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USE OF PROCEEDS

Unless Duke Energy states otherwise in the accompanying prospectus supplement, Duke Energy intends to use the net proceeds from the sale of any offered securities:

- o to redeem or purchase from time to time presently outstanding securities when it anticipates those transactions will result in an overall cost savings;

- o to repay maturing securities;

- o to finance its ongoing construction program; or

- o for general corporate purposes.

The proceeds from the sale of Preferred Securities by a Trust will be invested in Junior Subordinated Notes issued by Duke Energy. Except as Duke Energy may otherwise describe in the related prospectus supplement, Duke Energy expects to use the net proceeds from the sale of such Junior Subordinated Notes to the applicable Trust for the above purposes.

RECENT DEVELOPMENTS

Duke Energy adopted SFAS No. 142, "Goodwill and Other Intangible Assets," as of January 1, 2002. SFAS No. 142 requires that goodwill no longer be amortized over an estimated useful life, as previously required. Instead, goodwill amounts are subject to a fair-value-based annual impairment assessment. Duke Energy did not recognize any material impairment due to the implementation of SFAS No. 142. The standard also requires certain identifiable intangible assets to be recognized separately and amortized as appropriate upon reassessment. No adjustments to intangibles were identified by Duke Energy at transition.

The following table shows what net income and earnings per share would have been if amortization (including any related tax effects) related to goodwill that is no longer being amortized had been excluded from prior periods.

<Table>
<Caption>
<S> <C> <C> <C>
<Caption>

| | FOR THE YEAR ENDED | | |
|---|---|---|---|
| | 2001 | 2000 | 1999 |
| | (IN MILLIONS, EXCEPT PER SHARE AMOUNTS) | | |
| <S> | <C> | <C> | <C> |
| Income Before Extraordinary Item and Cumulative Effect of Change in Accounting Principle | $1,994 | $1,776 | $ 847 |
| Extraordinary Gain, net of tax | -- | -- | 660 |
| Cumulative Effect of Change in Accounting Principle, net of tax | (96) | -- | -- |
| Reported net income | 1,898 | 1,776 | 1,507 |

| | | | |
|---|---|---|---|
| Add back: Goodwill amortization, net of tax.............. | 75 | 56 | 39 |
| | ------ | ------ | ------ |
| Adjusted net income.................................... | $1,973 | $1,832 | $1,546 |
| | ====== | ====== | ====== |
| BASIC EARNINGS PER SHARE (BEFORE EXTRAORDINARY ITEM AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE) | | | |
| Reported earnings per share............................ | $ 2.58 | $ 2.39 | $ 1.13 |
| Goodwill amortization.................................. | 0.10 | 0.07 | 0.05 |
| | ------ | ------ | ------ |
| Adjusted earnings per share............................ | $ 2.68 | $ 2.46 | $ 1.18 |
| | ------ | ------ | ------ |
| DILUTED EARNINGS PER SHARE (BEFORE EXTRAORDINARY ITEM AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE) | | | |
| Reported earnings per share............................ | $ 2.56 | $ 2.38 | $ 1.13 |
| Goodwill amortization.................................. | 0.10 | 0.07 | 0.05 |
| | ------ | ------ | ------ |
| Adjusted earnings per share............................ | $ 2.66 | $ 2.45 | $ 1.18 |
| | ------ | ------ | ------ |

</Table>

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<PAGE>

<Table>
<Caption>

| | FOR THE YEAR ENDED | | |
|---|---|---|---|
| | 2001 | 2000 | 1999 |
| | -------- | -------- | -------- |
| | (IN MILLIONS, EXCEPT PER SHARE AMOUNTS) | | |
| <S> | <C> | <C> | <C> |
| BASIC EARNINGS PER SHARE | | | |
| Reported earnings per share............................ | $ 2.45 | $ 2.39 | $ 2.04 |
| Goodwill amortization.................................. | 0.10 | 0.07 | 0.05 |
| | ------ | ------ | ------ |
| Adjusted earnings per share............................ | $ 2.55 | $ 2.46 | $ 2.09 |
| | ------ | ------ | ------ |

| | | | |
|---|---|---|---|
| DILUTED EARNINGS PER SHARE | | | |
| Reported earnings per share................................ | $ 2.44 | $ 2.38 | $ 2.03 |
| Goodwill amortization...................................... | 0.10 | 0.07 | 0.05 |
| | ------ | ------ | ------ |
| Adjusted earnings per share................................ | $ 2.54 | $ 2.45 | $ 2.08 |
| | ------ | ------ | ------ |

</Table>

## THE TRUSTS

Duke Energy formed each Trust as a statutory business trust under Delaware law. Each Trust's business is defined in a trust agreement executed by Duke Energy, as depositor, and Chase Manhattan Bank USA, National Association (formerly known as Chase Manhattan Bank Delaware). Each trust agreement will be amended when Preferred Securities are issued under it and will be in substantially the form filed as an exhibit to the registration statement, of which this prospectus is a part. An amended trust agreement is called a "Trust Agreement" in this prospectus.

The Preferred Securities and the Common Securities of each Trust represent undivided beneficial interests in the assets of that Trust. The Preferred Securities and the Common Securities together are sometimes called the "Trust Securities" in this prospectus.

The trustees of each Trust will conduct that Trust's business and affairs. Duke Energy, as the holder of the Common Securities of each Trust, will appoint the trustees of that Trust. The trustees of each Trust will consist of:

o two officers of Duke Energy as Administrative Trustees;

o The JPMorgan Chase Bank as Property Trustee; and

o Chase Manhattan Bank USA, National Association as Delaware Trustee.

The prospectus supplement relating to the Preferred Securities of a Trust will provide further information concerning that Trust.

No separate financial statements of any Trust are included in this prospectus. Duke Energy considers that such statements would not be material to holders of the Preferred Securities because no Trust has any independent operations and the sole purpose of each Trust is investing the proceeds of the sale of its Trust Securities in Junior Subordinated Notes. Duke Energy does not expect that any of the Trusts will be filing annual, quarterly or special reports with the SEC.

The principal place of business of each Trust will be c/o Duke Energy Corporation, 526 South Church Street, Charlotte, North Carolina 28202, telephone (704) 594-6200.

### ACCOUNTING TREATMENT

Each Trust will be treated as a subsidiary of Duke Energy for financial reporting purposes. Accordingly, Duke Energy's consolidated financial statements will include the accounts of each Trust. The Preferred Securities, along with other trust preferred securities that Duke Energy guarantees on an equivalent basis, will be presented as a separate line item in Duke Energy's consolidated balance sheets, entitled "Guaranteed Preferred Beneficial Interests in Subordinated Notes of Duke Energy Corporation or

Subsidiaries." Duke Energy will record distributions that each Trust pays on the Preferred Securities as an expense in its consolidated statement of income.

DESCRIPTION OF THE SENIOR NOTES

Duke Energy will issue the Senior Notes in one or more series under its Senior Indenture dated as of September 1, 1998 between Duke Energy and JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank), as Trustee, as supplemented from time to time. The Senior Indenture is an exhibit to the registration statement, of which this prospectus is a part.

The Senior Notes are unsecured and unsubordinated obligations and will rank equally with all of Duke Energy's other unsecured and unsubordinated indebtedness. The First and Refunding Mortgage Bonds are effectively senior to the Senior Notes to the extent of the value of the properties securing them. As of June 30, 2002, there were approximately $790,000,000 in aggregate principal amount of First and Refunding Mortgage Bonds outstanding.

Duke Energy conducts its non-electric operations, and certain of its electric operations outside its service area in the Carolinas, through subsidiaries. Accordingly, its ability to meet its obligations under the Senior Notes is partly dependent on the earnings and cash flows of those subsidiaries and the ability of those subsidiaries to pay dividends or to advance or repay funds to Duke Energy. In addition, the rights that Duke Energy and its creditors would have to participate in the assets of any such subsidiary upon the subsidiary's liquidation or recapitalization will be subject to the prior claims of the subsidiary's creditors. Certain of Duke Energy's subsidiaries have incurred substantial amounts of debt in the expansion of their businesses, and Duke Energy anticipates that certain of its subsidiaries will do so in the future.

The following description of the Senior Notes is only a summary and is not intended to be comprehensive. For additional information you should refer to the Senior Indenture.

General

The Senior Indenture does not limit the amount of Senior Notes that Duke Energy may issue under it. Duke Energy may issue Senior Notes from time to time under the Senior Indenture in one or more series by entering into supplemental indentures or by its Board of Directors or a duly authorized committee authorizing the issuance. The form of supplemental indenture to the Senior Indenture is an exhibit to the registration statement, of which this prospectus is a part.

The Senior Notes of a series need not be issued at the same time, bear interest at the same rate or mature on the same date.

The Senior Indenture does not protect the holders of Senior Notes if Duke Energy engages in a highly leveraged transaction.

Provisions Applicable to Particular Series

The prospectus supplement for a particular series of Senior Notes being offered will disclose the specific terms related to the offering, including the price or prices at which the Senior Notes to be offered will be issued. Those terms may include some or all of the following:

o the title of the series;

o the total principal amount of the Senior Notes of the series;

o the date or dates on which principal is payable or the method for determining the date or dates, and any right that Duke Energy has to change the date on which principal is payable;

o the interest rate or rates, if any, or the method for determining the rate or rates, and the date or dates from which interest will accrue;

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o any interest payment dates and the regular record date for the interest payable on each interest payment date, if any;

o whether Duke Energy may extend the interest payment periods and, if so, the terms of the extension;

o the place or places where payments will be made;

o whether Duke Energy has the option to redeem the Senior Notes and, if so, the terms of its redemption option;

o any obligation that Duke Energy has to redeem the Senior Notes through a sinking fund or to purchase the Senior Notes through a purchase fund or at the option of the holder;

o whether the provisions described under "Defeasance and Covenant Defeasance" will not apply to the Senior Notes;

o the currency in which payments will be made if other than U.S. dollars, and the manner of determining the equivalent of those amounts in U.S. dollars;

o if payments may be made, at Duke Energy's election or at the holder's election, in a currency other than that in which the Senior Notes are stated to be payable, then the currency in which those payments may be made, the terms and conditions of the election and the manner of determining those amounts;

o the portion of the principal payable upon acceleration of maturity, if other than the entire principal;

o whether the Senior Notes will be issuable as global securities and, if so, the securities depositary;

o any changes in the events of default or covenants with respect to the Senior Notes;

o any index or formula used for determining principal, premium or interest;

o if the principal payable on the maturity date will not be determinable on one or more dates prior to the maturity date, the amount which will be deemed to be such principal amount or the manner of determining it; and

o any other terms.

Unless Duke Energy states otherwise in the applicable prospectus supplement, Duke Energy will issue the Senior Notes only in fully registered form without coupons, and there will be no service charge for any registration of transfer or exchange of the Senior Notes. Duke Energy may, however, require payment to cover any tax or other governmental charge payable in connection with any transfer or exchange. Subject to the terms of the Senior Indenture and the limitations applicable to global securities, transfers and exchanges of the Senior Notes may be made at JPMorgan Chase Bank, 450 West 33rd Street, New York, New York 10001 or at any other office or agency maintained by Duke Energy for such purpose.

The Senior Notes will be issuable in denominations of $1,000 and any integral multiples of $1,000, unless Duke Energy states otherwise in the applicable prospectus supplement.

Duke Energy may offer and sell the Senior Notes, including original issue discount Senior Notes, at a substantial discount below their principal amount. The applicable prospectus supplement will describe special United States federal income tax and any other considerations applicable to those securities. In addition, the applicable prospectus supplement may describe certain special United States federal income tax or other considerations, if any, applicable to any Senior Notes that are denominated in a currency other than U.S. dollars.

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Global Securities

Duke Energy may issue some or all of the Senior Notes as book-entry securities. Any such book-entry securities will be represented by one or more fully registered global securities. Duke Energy will register each global security with or on behalf of a securities depositary identified in the applicable prospectus supplement. Each global security will be deposited with the securities depositary or its nominee or a custodian for the securities depositary.

As long as the securities depositary or its nominee is the registered holder of a global security representing Senior Notes, that person will be considered the sole owner and holder of the global security and the Senior Notes it represents for all purposes. Except in limited circumstances, owners of beneficial interests in a global security:

o may not have the global security or any Senior Notes it represents registered in their names;

o may not receive or be entitled to receive physical delivery of certificated Senior Notes in exchange for the global security; and

o will not be considered the owners or holders of the global security or any Senior Notes it represents for any purposes under the Senior Notes or the Senior Indenture.

Duke Energy will make all payments of principal and any premium and interest on a global security to the securities depositary or its nominee as the holder of the global security. The laws of some jurisdictions require that certain purchasers of securities take physical delivery of securities in definitive form. These laws may impair the ability to transfer beneficial interests in a global security.

Ownership of beneficial interests in a global security will be limited to institutions having accounts with the securities depositary or its nominee, which are called "participants" in this discussion, and to persons that hold beneficial interests through participants. When a global security representing Senior Notes is issued, the securities depositary will credit on its book entry, registration and transfer system the principal amounts of Senior Notes the global security represents to the accounts of its participants. Ownership of beneficial interests in a global security will be shown only on, and the transfer of those ownership interests will be effected only through, records maintained by:

o the securities depositary, with respect to participants' interests; and

o any participant, with respect to interests the participant holds on behalf of other persons.

Payments participants make to owners of beneficial interests held through those participants will be the responsibility of those participants. The securities depositary may from time to time adopt various policies and procedures governing payments, transfers, exchanges and other matters relating to beneficial interests in a global security. None of the following will have any responsibility or liability for any aspect of the securities depositary's or any participant's records relating to beneficial interests in a global security representing Senior Notes, for payments made on account of those beneficial interests or for maintaining, supervising or reviewing any records relating to those beneficial interests:

o Duke Energy;

o the Senior Indenture Trustee; or

o an agent of either of them.

Redemption

Provisions relating to the redemption of Senior Notes will be set forth in the applicable prospectus supplement. Unless Duke Energy states otherwise in the applicable prospectus supplement, Duke Energy may redeem Senior Notes only upon notice mailed at least 30 but not more than 60 days before the date fixed for redemption. Unless Duke Energy states otherwise in the applicable prospectus supplement, that notice may state that the redemption will be conditional upon the Senior Indenture Trustee, or the applicable paying agent, receiving sufficient funds to pay the principal, premium and interest on those

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Senior Notes on the date fixed for redemption and that if the Senior Indenture Trustee or the applicable paying agent does not receive those funds, the redemption notice will not apply, and Duke Energy will not be required to redeem those Senior Notes.

Duke Energy will not be required to:

o issue, register the transfer of, or exchange any Senior Notes of a series during the period beginning 15 days before the date the notice is mailed identifying the Senior Notes of that series that have been selected for redemption; or

o register the transfer of or exchange any Senior Note of that series selected for redemption except the unredeemed portion of a Senior Note being partially redeemed.

Consolidation, Merger, Conveyance or Transfer

The Senior Indenture provides that Duke Energy may consolidate or merge with or into, or convey or transfer all or substantially all of its properties and assets to, another corporation or other entity. Any successor must, however, assume Duke Energy's obligations under the Senior Indenture and the Senior Notes issued under it, and Duke Energy must deliver to the Senior Indenture Trustee a statement by certain of its officers and an opinion of counsel that affirm compliance with all conditions in the Senior Indenture relating to the transaction. When those conditions are satisfied, the successor will succeed to and be substituted for Duke Energy under the Senior Indenture, and Duke Energy will be relieved of its obligations under the Senior Indenture and the Senior Notes.

Modification; Waiver

Duke Energy may modify the Senior Indenture with the consent of the holders of a majority in principal amount of the outstanding Senior Notes of all series of Senior Notes that are affected by the modification, voting as one class. The consent of the holder of each outstanding Senior Note affected is, however, required to:

- change the maturity date of the principal or any installment of principal or interest on that Senior Note;
- reduce the principal amount, the interest rate or any premium payable upon redemption on that Senior Note;
- reduce the amount of principal due and payable upon acceleration of maturity;
- change the currency of payment of principal, premium or interest on that Senior Note;
- impair the right to institute suit to enforce any such payment on or after the maturity date or redemption date;
- reduce the percentage in principal amount of Senior Notes of any series required to modify the Senior Indenture, waive compliance with certain restrictive provisions of the Senior Indenture or waive certain defaults; or
- with certain exceptions, modify the provisions of the Senior Indenture governing modifications of the Senior Indenture or governing waiver of covenants or past defaults.

In addition, Duke Energy may modify the Senior Indenture for certain other purposes, without the consent of any holders of Senior Notes.

The holders of a majority in principal amount of the outstanding Senior Notes of any series may waive, for that series, Duke Energy's compliance with certain restrictive provisions of the Senior Indenture, including the covenant described under "Negative Pledge." The holders of a majority in principal amount of the outstanding Senior Notes of all series under the Senior Indenture with respect to which a default has occurred and is continuing, voting as one class, may waive that default for all those series, except a default in the payment of principal or any premium or interest on any Senior Note or a default with



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respect to a covenant or provision which cannot be modified without the consent of the holder of each outstanding Senior Note of the series affected.

Events of Default

The following are events of default under the Senior Indenture with respect to any series of Senior Notes, unless Duke Energy states otherwise in the applicable prospectus supplement:

- failure to pay principal of or any premium on any Senior Note of that series when due;
- failure to pay when due any interest on any Senior Note of that series

that continues for 60 days; for this purpose, the date on which interest is due is the date on which Duke Energy is required to make payment following any deferral of interest payments by it under the terms of Senior Notes that permit such deferrals;

o failure to make any sinking fund payment when required for any Senior Note of that series that continues for 60 days;

o failure to perform any covenant in the Senior Indenture (other than a covenant expressly included solely for the benefit of other series) that continues for 90 days after the Senior Indenture Trustee or the holders of at least 33% of the outstanding Senior Notes of that series give Duke Energy written notice of the default; and

o certain bankruptcy, insolvency or reorganization events with respect to Duke Energy.

In the case of the fourth event of default listed above, the Senior Indenture Trustee may extend the grace period. In addition, if holders of a particular series have given a notice of default, then holders of at least the same percentage of Senior Notes of that series, together with the Senior Indenture Trustee, may also extend the grace period. The grace period will be automatically extended if Duke Energy has initiated and is diligently pursuing corrective action.

Duke Energy may establish additional events of default for a particular series and, if established, any such events of default will be described in the applicable prospectus supplement.

If an event of default with respect to Senior Notes of a series occurs and is continuing, then the Senior Indenture Trustee or the holders of at least 33% in principal amount of the outstanding Senior Notes of that series may declare the principal amount of all Senior Notes of that series to be immediately due and payable. However, that event of default will be considered waived at any time after the declaration but before a judgment for payment of the money due has been obtained if:

o Duke Energy has paid or deposited with the Senior Indenture Trustee all overdue interest, the principal and any premium due otherwise than by the declaration and any interest on such amounts, and any interest on overdue interest, to the extent legally permitted, in each case with respect to that series, and all amounts due to the Senior Indenture Trustee; and

o all events of default with respect to that series, other than the nonpayment of the principal that became due solely by virtue of the declaration, have been cured or waived.

The Senior Indenture Trustee is under no obligation to exercise any of its rights or powers at the request or direction of any holders of Senior Notes unless those holders have offered the Senior Indenture Trustee security or indemnity against the costs, expenses and liabilities which it might incur as a result. The holders of a majority in principal amount of the outstanding Senior Notes of any series have, with certain exceptions, the right to direct the time, method and place of conducting any proceedings for any remedy available to the Senior Indenture Trustee or the exercise of any power of the Senior Indenture Trustee with respect to those Senior Notes. The Senior Indenture Trustee may withhold notice of any default, except a default in the payment of principal or interest, from the holders of any series if the Senior Indenture Trustee in good faith considers it in the interest of the holders to do so.

The holder of any Senior Note will have an absolute and unconditional right to receive payment of the principal, any premium and, within certain limitations, any interest on that Senior Note on its maturity date or redemption date and to enforce those payments.

Duke Energy is required to furnish each year to the Senior Indenture Trustee a statement by certain of its officers to the effect that it is not in default under the Senior Indenture or, if there has been a default, specifying the default and its status.

Payments; Paying Agent

The paying agent will pay the principal of any Senior Notes only if those Senior Notes are surrendered to it. The paying agent will pay interest on Senior Notes issued as global securities by wire transfer to the holder of those global securities. Unless Duke Energy states otherwise in the applicable prospectus supplement, the paying agent will pay interest on Senior Notes that are not in global form at its office or, at Duke Energy's option:

- o by wire transfer to an account at a banking institution in the United States that is designated in writing to the Senior Indenture Trustee at least 16 days prior to the date of payment by the person entitled to that interest; or

- o by check mailed to the address of the person entitled to that interest as that address appears in the security register for those Senior Notes.

Unless Duke Energy states otherwise in the applicable prospectus supplement, the Senior Indenture Trustee will act as paying agent for that series of Senior Notes, and the principal corporate trust office of the Senior Indenture Trustee will be the office through which the paying agent acts. Duke Energy may, however, change or add paying agents or approve a change in the office through which a paying agent acts.

Any money that Duke Energy has paid to a paying agent for principal or interest on any Senior Notes which remains unclaimed at the end of two years after that principal or interest has become due will be repaid to Duke Energy at its request. After repayment to Duke Energy, holders should look only to Duke Energy for those payments.

Negative Pledge

While any of the Senior Notes remain outstanding, Duke Energy will not create, or permit to be created or to exist, any mortgage, lien, pledge, security interest or other encumbrance upon any of its property, whether owned on or acquired after the date of the Senior Indenture, to secure any indebtedness for borrowed money of Duke Energy, unless the Senior Notes then outstanding are equally and ratably secured for so long as any such indebtedness is so secured.

The foregoing restriction does not apply with respect to, among other things:

- o purchase money mortgages, or other purchase money liens, pledges, security interests or encumbrances upon property that Duke Energy acquired after the date of the Senior Indenture;

- o mortgages, liens, pledges, security interests or other encumbrances existing on any property at the time Duke Energy acquired it, including those which exist on any property of an entity with which Duke Energy is consolidated or merged or which transfers or leases all or substantially all of its properties to Duke Energy;

o mortgages, liens, pledges, security interests or other encumbrances upon any property of Duke Energy that existed on the date of the initial issuance of the Senior Notes;

o pledges or deposits to secure performance in connection with bids, tenders, contracts (other than contracts for the payment of money) or leases to which Duke Energy is a party;

o liens created by or resulting from any litigation or proceeding which at the time is being contested in good faith by appropriate proceedings;

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o liens incurred in connection with the issuance of bankers' acceptances and lines of credit, bankers' liens or rights of offset and any security given in the ordinary course of business to banks or others to secure any indebtedness payable on demand or maturing within 12 months of the date that such indebtedness is originally incurred;

o liens incurred in connection with repurchase, swap or other similar agreements (including commodity price, currency exchange and interest rate protection agreements);

o liens securing industrial revenue or pollution control bonds;

o liens, pledges, security interests or other encumbrances on any property arising in connection with any defeasance, covenant defeasance or in-substance defeasance of indebtedness of Duke Energy;

o liens created in connection with, and created to secure, a non-recourse obligation;

o Bonds issued or to be issued from time to time under Duke Energy's First and Refunding Mortgage, and the "permitted liens" specified in Duke Energy's First and Refunding Mortgage;

o indebtedness which Duke Energy may issue in connection with its consolidation or merger with or into any other entity, which may be its affiliate, in exchange for or otherwise in substitution for secured indebtedness of that entity ("Third Party Debt") which by its terms (1) is secured by a mortgage on all or a portion of the property of that entity, (2) prohibits that entity from incurring secured indebtedness, unless the Third Party Debt is secured equally and ratably with such secured indebtedness or (3) prohibits that entity from incurring secured indebtedness;

o indebtedness of any entity which Duke Energy is required to assume in connection with a consolidation or merger of that entity, with respect to which any property of Duke Energy is subjected to a mortgage, lien, pledge, security interest or other encumbrance;

o mortgages, liens, pledges, security interests or other encumbrances upon any property that Duke Energy acquired, constructed, developed or improved after the date of the Senior Indenture which are created before, at the time of, or within 18 months after such acquisition -- or in the case of property constructed, developed or improved, after the completion of the construction, development or improvement and commencement of full commercial operation of that property, whichever is later -- to secure or provide for the payment of any part of its purchase price or cost; provided that, in the case of such construction, development or improvement, the mortgages, liens, pledges, security interests or other encumbrances shall not apply to any property that Duke Energy owns other than real property that is unimproved up to that time; and

- o the replacement, extension or renewal of any mortgage, lien, pledge, security interest or other encumbrance described above; or the replacement, extension or renewal (not exceeding the principal amount of indebtedness so secured together with any premium, interest, fee or expense payable in connection with any such replacement, extension or renewal) of the indebtedness so secured; provided that such replacement, extension or renewal is limited to all or a part of the same property that secured the mortgage, lien, pledge, security interest or other encumbrance replaced, extended or renewed, plus improvements on it or additions or accessions to it.

In addition, Duke Energy may create or assume any other mortgage, lien, pledge, security interest or other encumbrance not excepted in the Senior Indenture without Duke Energy equally and ratably securing the Senior Notes, if immediately after that creation or assumption, the principal amount of indebtedness for borrowed money of Duke Energy that all such other mortgages, liens, pledges, security interests and other encumbrances secure does not exceed an amount equal to 10% of Duke Energy's common stockholders' equity as shown on its consolidated balance sheet for the accounting period occurring immediately before the creation or assumption of that mortgage, lien, pledge, security interest or other encumbrance.



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Defeasance and Covenant Defeasance

The Senior Indenture provides that Duke Energy may be:

- o discharged from its obligations, with certain limited exceptions, with respect to any series of Senior Notes, as described in the Senior Indenture, such a discharge being called a "defeasance" in this prospectus; and

- o released from its obligations under certain restrictive covenants especially established with respect to any series of Senior Notes, including the covenant described under "Negative Pledge," as described in the Senior Indenture, such a release being called a "covenant defeasance" in this prospectus.

Duke Energy must satisfy certain conditions to effect a defeasance or covenant defeasance. Those conditions include the irrevocable deposit with the Senior Indenture Trustee, in trust, of money or government obligations which through their scheduled payments of principal and interest would provide sufficient money to pay the principal and any premium and interest on those Senior Notes on the maturity dates of those payments or upon redemption.

Following a defeasance, payment of the Senior Notes defeased may not be accelerated because of an event of default under the Senior Indenture. Following a covenant defeasance, the payment of Senior Notes may not be accelerated by reference to the covenants from which Duke Energy has been released. A defeasance may occur after a covenant defeasance.

Under current United States federal income tax laws, a defeasance would be treated as an exchange of the relevant Senior Notes in which holders of those Senior Notes might recognize gain or loss. In addition, the amount, timing and character of amounts that holders would thereafter be required to include in income might be different from that which would be includible in the absence of that defeasance. Duke Energy urges investors to consult their own tax advisors as to the specific consequences of a defeasance, including the applicability and effect of tax laws other than United States federal income tax laws.

Under current United States federal income tax law, unless accompanied by other changes in the terms of the Senior Notes, a covenant defeasance should not be treated as a taxable exchange.

Concerning the Senior Indenture Trustee

JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank) is the Senior Indenture Trustee and is also the trustee under Duke Energy's Subordinated Indenture and the trustee under Duke Energy's First and Refunding Mortgage. Duke Energy and certain of its affiliates maintain deposit accounts and banking relationships with JPMorgan Chase Bank. JPMorgan Chase Bank also serves as trustee or agent under other indentures and agreements pursuant to which securities of Duke Energy and of certain of its affiliates are outstanding.

The Senior Indenture Trustee will perform only those duties that are specifically set forth in the Senior Indenture unless an event of default under the Senior Indenture occurs and is continuing. In case an event of default occurs and is continuing, the Senior Indenture Trustee will exercise the same degree of care as a prudent individual would exercise in the conduct of his or her own affairs.

DESCRIPTION OF THE JUNIOR SUBORDINATED NOTES

Duke Energy will issue the Junior Subordinated Notes in one or more series under its Subordinated Indenture dated as of December 1, 1997 between Duke Energy and JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank), as Trustee, as supplemented from time to time. The Subordinated Indenture is an exhibit to the registration statement, of which this prospectus is a part.

The Junior Subordinated Notes are unsecured obligations of Duke Energy and are junior in right of payment to "Senior Indebtedness" of Duke Energy. You will find a description of the subordination provisions of the Junior Subordinated Notes, including a description of Senior Indebtedness of Duke Energy, under "Subordination."

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Duke Energy conducts its non-electric operations, and certain of its electric operations outside its service area in the Carolinas, through subsidiaries. Accordingly, its ability to meet its obligations under the Junior Subordinated Notes is partly dependent on the earnings and cash flows of those subsidiaries and the ability of those subsidiaries to pay dividends or to advance or repay funds to Duke Energy. In addition, the rights that Duke Energy and its creditors would have to participate in the assets of any such subsidiary upon the subsidiary's liquidation or recapitalization will be subject to the prior claims of the subsidiary's creditors. Certain of Duke Energy's subsidiaries have incurred substantial amounts of debt in the expansion of their businesses and Duke Energy anticipates that certain of its subsidiaries will do so in the future.

The following description of the Junior Subordinated Notes is only a summary and is not intended to be comprehensive. For additional information you should refer to the Subordinated Indenture.

General

The Subordinated Indenture does not limit the amount of Subordinated Notes, including Junior Subordinated Notes, that Duke Energy may issue under it. Duke Energy may issue Subordinated Notes, including Junior Subordinated Notes, from time to time under the Subordinated Indenture in one or more series by entering into supplemental indentures or by its Board of Directors or a duly authorized committee authorizing the issuance. Two forms of supplemental indenture to the Subordinated Indenture (one with respect to Junior Subordinated Notes initially issued to a Trust and the other with respect to Junior Subordinated Notes initially issued to the public) are exhibits to the registration statement, of which this prospectus is a part.

The Junior Subordinated Notes of a series need not be issued at the same time, bear interest at the same rate or mature on the same date.

The Subordinated Indenture does not protect the holders of Junior Subordinated Notes if Duke Energy engages in a highly leveraged transaction.

Provisions Applicable to Particular Series

The prospectus supplement for a particular series of Junior Subordinated Notes being offered will disclose the specific terms related to the offering, including the price or prices at which the Junior Subordinated Notes to be offered will be issued. Those terms may include some or all of the following:

o the title of the series;

o the total principal amount of the Junior Subordinated Notes of the series;

o the date or dates on which principal is payable or the method for determining the date or dates, and any right that Duke Energy has to change the date on which principal is payable;

o the interest rate or rates, if any, or the method for determining the rate or rates, and the date or dates from which interest will accrue;

o any interest payment dates and the regular record date for the interest payable on each interest payment date, if any;

o whether Duke Energy may extend the interest payment periods and, if so, the terms of the extension;

o the place or places where payments will be made;

o whether Duke Energy has the option to redeem the Junior Subordinated Notes and, if so, the terms of its redemption option;

o any obligation that Duke Energy has to redeem the Junior Subordinated Notes through a sinking fund or to purchase the Junior Subordinated Notes through a purchase fund or at the option of the holder;

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o whether the provisions described under "Defeasance and Covenant Defeasance" will not apply to the Junior Subordinated Notes;

o the currency in which payments will be made if other than U.S. dollars, and the manner of determining the equivalent of those amounts in U.S. dollars;

o if payments may be made, at Duke Energy's election or at the holder's election, in a currency other than that in which the Junior Subordinated Notes are stated to be payable, then the currency in which those payments may be made, the terms and conditions of the election and the manner of determining those amounts;

o the portion of the principal payable upon acceleration of maturity, if other than the entire principal;

o whether the Junior Subordinated Notes will be issuable as global securities and, if so, the securities depositary;

o any changes in the events of default or covenants with respect to the Junior Subordinated Notes;

o any index or formula used for determining principal, premium or interest;

o if the principal payable on the maturity date will not be determinable on one or more dates prior to the maturity date, the amount which will be deemed to be such principal amount or the manner of determining it;

o the subordination of the Junior Subordinated Notes to any other of Duke Energy's indebtedness, including other series of Subordinated Notes; and

o any other terms.

The interest rate and interest and other payment dates of each series of Junior Subordinated Notes issued to a Trust will correspond to the rate at which distributions will be paid and the distribution and other payment dates of the Preferred Securities of that Trust.

Unless Duke Energy states otherwise in the applicable prospectus supplement, Duke Energy will issue the Junior Subordinated Notes only in fully registered form without coupons, and there will be no service charge for any registration of transfer or exchange of the Junior Subordinated Notes. Duke Energy may, however, require payment to cover any tax or other governmental charge payable in connection with any transfer or exchange. Subject to the terms of the Subordinated Indenture and the limitations applicable to global securities, transfers and exchanges of the Junior Subordinated Notes may be made at JPMorgan Chase Bank, 450 West 33rd Street, New York, New York 10001 or at any other office maintained by Duke Energy for such purpose.

The Junior Subordinated Notes will be issuable in denominations of $1,000 and any integral multiples of $1,000, unless Duke Energy states otherwise in the applicable prospectus supplement.

Duke Energy may offer and sell the Junior Subordinated Notes, including original issue discount Junior Subordinated Notes, at a substantial discount below their principal amount. The applicable prospectus supplement will describe special United States federal income tax and any other considerations applicable to those securities. In addition, the applicable prospectus supplement may describe certain special United States federal income tax or other considerations, if any, applicable to any Junior Subordinated Notes that are denominated in a currency other than U.S. dollars.

Global Securities

Duke Energy may issue some or all of the Junior Subordinated Notes as book-entry securities. Any such book-entry securities will be represented by one or more fully registered global certificates. Duke Energy will register each global security with or on behalf of a securities depositary identified in the applicable prospectus supplement. Each global security will be deposited with the securities depositary or its nominee or a custodian for the securities depositary.



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As long as the securities depositary or its nominee is the registered holder of a global security representing Junior Subordinated Notes, that person will be considered the sole owner and holder of the global security and the Junior Subordinated Notes it represents for all purposes. Except in limited circumstances, owners of beneficial interests in a global security:

- may not have the global security or any Junior Subordinated Notes it represents registered in their names;
- may not receive or be entitled to receive physical delivery of certificated Junior Subordinated Notes in exchange for the global security; and
- will not be considered the owners or holders of the global security or any Junior Subordinated Notes it represents for any purposes under the Junior Subordinated Notes or the Subordinated Indenture.

Duke Energy will make all payments of principal and any premium and interest on a global security to the securities depositary or its nominee as the holder of the global security. The laws of some jurisdictions require that certain purchasers of securities take physical delivery of securities in definitive form. These laws may impair the ability to transfer beneficial interests in a global security.

Ownership of beneficial interests in a global security will be limited to institutions having accounts with the securities depositary or its nominee, which are called "participants" in this discussion, and to persons that hold beneficial interests through participants. When a global security representing Junior Subordinated Notes is issued, the securities depositary will credit on its book-entry, registration and transfer system the principal amounts of Junior Subordinated Notes the global security represents to the accounts of its participants. Ownership of beneficial interests in a global security will be shown only on, and the transfer of those ownership interests will be effected only through, records maintained by:

- the securities depositary, with respect to participants' interests; and
- any participant, with respect to interests the participant holds on behalf of other persons.

Payments participants make to owners of beneficial interests held through those participants will be the responsibility of those participants. The securities depositary may from time to time adopt various policies and procedures governing payments, transfers, exchanges and other matters relating to beneficial interests in a global security. None of the following will have any responsibility or liability for any aspect of the securities depositary's or any participant's records relating to beneficial interests in a global security representing Junior Subordinated Notes, for payments made on account of those beneficial interests or for maintaining, supervising or reviewing any records relating to those beneficial interests:

- Duke Energy;
- the Subordinated Indenture Trustee;
- the Trust (if the Junior Subordinated Notes are issued to a Trust); or
- any agent of any of them.

Redemption

Provisions relating to the redemption of Junior Subordinated Notes will be set forth in the applicable prospectus supplement. Unless Duke Energy states otherwise in the applicable prospectus supplement, Duke Energy may redeem Junior Subordinated Notes only upon notice mailed at least 30 but not more than 60 days before the date fixed for redemption.

Duke Energy will not be required to:

- o issue, register the transfer of, or exchange any Junior Subordinated Notes of a series during the period beginning 15 days before the date the notice is mailed identifying the Junior Subordinated Notes of that series that have been selected for redemption; or



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- o register the transfer of or exchange any Junior Subordinated Note of that series selected for redemption except the unredeemed portion of a Junior Subordinated Note being partially redeemed.

Consolidation, Merger, Conveyance or Transfer

The Subordinated Indenture provides that Duke Energy may consolidate or merge with or into, or convey or transfer all or substantially all of its properties and assets to, another corporation or other entity. Any successor must, however, assume Duke Energy's obligations under the Subordinated Indenture and the Subordinated Notes, including the Junior Subordinated Notes, and Duke Energy must deliver to the Subordinated Indenture Trustee a statement by certain of its officers and an opinion of counsel that affirm compliance with all conditions in the Subordinated Indenture relating to the transaction. When those conditions are satisfied, the successor will succeed to and be substituted for Duke Energy under the Subordinated Indenture, and Duke Energy will be relieved of its obligations under the Subordinated Indenture and any Subordinated Notes, including the Junior Subordinated Notes.

Modification; Waiver

Duke Energy may modify the Subordinated Indenture with the consent of the holders of a majority in principal amount of the outstanding Subordinated Notes of all series that are affected by the modification, voting as one class. The consent of the holder of each outstanding Subordinated Note affected is, however, required to:

- o change the maturity date of the principal or any installment of principal or interest on that Subordinated Note;
- o reduce the principal amount, the interest rate or any premium payable upon redemption on that Subordinated Note;
- o reduce the amount of principal due and payable upon acceleration of maturity;
- o change the currency of payment of principal, premium or interest on that Subordinated Note;
- o impair the right to institute suit to enforce any such payment on or after the maturity date or redemption date;
- o reduce the percentage in principal amount of Subordinated Notes of any series required to modify the Subordinated Indenture, waive compliance with certain restrictive provisions of the Subordinated Indenture or waive certain defaults; or
- o with certain exceptions, modify the provisions of the Subordinated Indenture governing modifications of the Subordinated Indenture or governing waiver of covenants or past defaults.

In addition, Duke Energy may modify the Subordinated Indenture for certain other purposes, without the consent of any holders of Subordinated Notes, including Junior Subordinated Notes.

The holders of a majority in principal amount of the outstanding Junior Subordinated Notes of any series may waive, for that series, Duke Energy's compliance with certain restrictive provisions of the Subordinated Indenture. The holders of a majority in principal amount of the outstanding Subordinated Notes of all series under the Subordinated Indenture with respect to which a default has occurred and is continuing, voting as one class, may waive that default for all those series, except a default in the payment of principal or any premium or interest on any Subordinated Note or a default with respect to a covenant or provision which cannot be modified without the consent of the holder of each outstanding Subordinated Note of the series affected.

Duke Energy may not amend the Subordinated Indenture to change the subordination of any outstanding Junior Subordinated Notes without the consent of each holder of Senior Indebtedness that the amendment would adversely affect.



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Events of Default

The following are events of default under the Subordinated Indenture with respect to any series of Junior Subordinated Notes, unless Duke Energy states otherwise in the applicable prospectus supplement:

o failure to pay principal of or any premium on any Junior Subordinated Note of that series when due;

o failure to pay when due any interest on any Junior Subordinated Note of that series that continues for 60 days; for this purpose, the date on which interest is due is the date on which Duke Energy is required to make payment following any deferral of interest payments by it under the terms of Junior Subordinated Notes that permit such deferrals;

o failure to make any sinking fund payment when required for any Junior Subordinated Note of that series that continues for 60 days;

o failure to perform any covenant in the Subordinated Indenture (other than a covenant expressly included solely for the benefit of other series) that continues for 90 days after the Subordinated Indenture Trustee or the holders of at least 33% of the outstanding Junior Subordinated Notes of that series give Duke Energy written notice of the default; and

o certain bankruptcy, insolvency or reorganization events with respect to Duke Energy.

In the case of the fourth event of default listed above, the Subordinated Indenture Trustee may extend the grace period. In addition, if holders of a particular series have given a notice of default, then holders of at least the same percentage of Junior Subordinated Notes of that series, together with the Subordinated Indenture Trustee, may also extend the grace period. The grace period will be automatically extended if Duke Energy has initiated and is diligently pursuing corrective action.

Duke Energy may establish additional events of default for a particular series and, if established, any such events of default will be described in the applicable prospectus supplement.

If an event of default with respect to Junior Subordinated Notes of a series occurs and is continuing, then the Subordinated Indenture Trustee or the holders of at least 33% in principal amount of the outstanding Junior Subordinated Notes of that series may declare the principal amount of all Junior Subordinated Notes of that series to be immediately due and payable. However, that event of default will be considered waived at any time after the declaration but before a judgment for payment of the money due has been obtained if:

o Duke Energy has paid or deposited with the Subordinated Indenture Trustee all overdue interest, the principal and any premium due otherwise than by the declaration and any interest on such amounts, and any interest on overdue interest, to the extent legally permitted, in each case with respect to that series, and all amounts due to the Subordinated Indenture Trustee; and

o all events of default with respect to that series, other than the nonpayment of the principal that became due solely by virtue of the declaration, have been cured or waived.

In the case of Junior Subordinated Notes issued to a Trust, a holder of Preferred Securities may institute a legal proceeding directly against Duke Energy, without first instituting a legal proceeding against the Property Trustee of the Trust by which those Preferred Securities were issued or any other person or entity, for enforcement of payment to that holder of principal or interest on an equivalent amount of Junior Subordinated Notes of the related series on or after the due dates specified in those Junior Subordinated Notes.

The Subordinated Indenture Trustee is under no obligation to exercise any of its rights or powers at the request or direction of any holders of Junior Subordinated Notes unless those holders have offered the Subordinated Indenture Trustee security or indemnity against the costs, expenses and liabilities that it might incur as a result. The holders of a majority in principal amount of the outstanding Junior Subordinated Notes of any series have, with certain exceptions, the right to direct the time, method and

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place of conducting any proceedings for any remedy available to the Subordinated Indenture Trustee or the exercise of any power of the Subordinated Indenture Trustee with respect to those Junior Subordinated Notes. The Subordinated Indenture Trustee may withhold notice of any default, except a default in the payment of principal or interest, from the holders of any series if the Subordinated Indenture Trustee in good faith considers it in the interest of the holders to do so.

The holder of any Junior Subordinated Note will have an absolute and unconditional right to receive payment of the principal, any premium and, within certain limitations, any interest on that Junior Subordinated Note on its maturity date or redemption date and to enforce those payments.

Duke Energy is required to furnish each year to the Subordinated Indenture Trustee a statement by certain of its officers to the effect that it is not in default under the Subordinated Indenture or, if there has been a default, specifying the default and its status.

Payments; Paying Agent

The paying agent will pay the principal of any Junior Subordinated Notes only if those Junior Subordinated Notes are surrendered to it. The paying agent will pay interest on Junior Subordinated Notes issued as global securities by wire transfer to the holder of those global securities. Unless Duke Energy states otherwise in the applicable prospectus supplement, the paying agent will pay interest on Junior Subordinated Notes that are not in global form at its office or, at Duke Energy's option:

- o by wire transfer to an account at a banking institution in the United States that is designated in writing to the Subordinated Indenture Trustee at least 16 days prior to the date of payment by the person entitled to that interest; or

- o by check mailed to the address of the person entitled to that interest as that address appears in the security register for those Junior Subordinated Notes.

Unless Duke Energy states otherwise in the applicable prospectus supplement, the Subordinated Indenture Trustee will act as paying agent for that series of Junior Subordinated Notes, and the principal corporate trust office of the Subordinated Indenture Trustee will be the office through which the paying agent acts. Duke Energy may, however, change or add paying agents or approve a change in the office through which a paying agent acts.

Any money that Duke Energy has paid to a paying agent for principal or interest on any Junior Subordinated Notes that remains unclaimed at the end of two years after that principal or interest has become due will be repaid to Duke Energy at its request. After repayment to Duke Energy, holders should look only to Duke Energy for those payments.

Defeasance and Covenant Defeasance

The Subordinated Indenture provides that Duke Energy may be:

- o discharged from its obligations, with certain limited exceptions, with respect to any series of Junior Subordinated Notes, as described in the Subordinated Indenture, such a discharge being called a "defeasance" in this prospectus; and

- o released from its obligations under certain restrictive covenants especially established with respect to a series of Junior Subordinated Notes, as described in the Subordinated Indenture, such a release being called a "covenant defeasance" in this prospectus.

Duke Energy must satisfy certain conditions to effect a defeasance or covenant defeasance. Those conditions include the irrevocable deposit with the Subordinated Indenture Trustee, in trust, of money or government obligations which through their scheduled payments of principal and interest would provide sufficient money to pay the principal and any premium and interest on those Junior Subordinated Notes on the maturity dates of those payments or upon redemption. Following a defeasance, payment of the Junior


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Subordinated Notes defeased may not be accelerated because of an event of default under the Subordinated Indenture.

Under current United States federal income tax laws, a defeasance would be treated as an exchange of the relevant Junior Subordinated Notes in which holders of those Junior Subordinated Notes might recognize gain or loss. In addition, the amount, timing and character of amounts that holders would thereafter be required to include in income might be different from that which would be includible in the absence of that defeasance. Duke Energy urges investors to consult their own tax advisors as to the specific consequences of a defeasance, including the applicability and effect of tax laws other than United States federal income tax laws.

Junior Subordinated Notes issued to a Trust will not be subject to covenant defeasance.

Subordination

Each series of Junior Subordinated Notes will be subordinate and junior in right of payment, to the extent set forth in the Subordinated Indenture, to all Senior Indebtedness as defined below. If:

o Duke Energy makes a payment or distribution of any of its assets to creditors upon its dissolution, winding-up, liquidation or reorganization, whether in bankruptcy, insolvency or otherwise;

o a default beyond any grace period has occurred and is continuing with respect to the payment of principal, interest or any other monetary amounts due and payable on any Senior Indebtedness; or

o the maturity of any Senior Indebtedness has been accelerated because of a default on that Senior Indebtedness,

then the holders of Senior Indebtedness generally will have the right to receive payment, in the case of the first instance, of all amounts due or to become due upon that Senior Indebtedness, and, in the case of the second and third instances, of all amounts due on the Senior Indebtedness, or Duke Energy will make provision for those payments, before the holders of any Junior Subordinated Notes have the right to receive any payments of principal or interest on their Junior Subordinated Notes.

"Senior Indebtedness" means, with respect to any series of Junior Subordinated Notes, the principal, premium, interest and any other payment in respect of any of the following:

o all of Duke Energy's indebtedness that is evidenced by notes, debentures, bonds or other securities Duke Energy sells for money or other obligations for money borrowed;

o all indebtedness of others of the kinds described in the preceding category which Duke Energy has assumed or guaranteed or which Duke Energy has in effect guaranteed through an agreement to purchase, contingent or otherwise; and

o all renewals, extensions or refundings of indebtedness of the kinds described in either of the preceding two categories.

Any such indebtedness, renewal, extension or refunding, however, will not be Senior Indebtedness if the instrument creating or evidencing it or the assumption or guarantee of it provides that it is not superior in right of payment to or is equal in right of payment with those Junior Subordinated Notes. Senior Indebtedness will be entitled to the benefits of the subordination provisions in the Subordinated Indenture irrespective of the amendment, modification or waiver of any term of the Senior Indebtedness.

Future series of Subordinated Notes that are not Junior Subordinated Notes may rank senior to outstanding series of Junior Subordinated Notes and would constitute Senior Indebtedness with respect to those series.

The Subordinated Indenture does not limit the amount of Senior Indebtedness that Duke Energy may issue. As of June 30, 2002, Duke Energy's Senior Indebtedness totaled approximately $4,600,000,000.



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Concerning the Subordinated Indenture Trustee

JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank) is the Subordinated Indenture Trustee and is also the Senior Indenture Trustee and the trustee under Duke Energy's First and Refunding Mortgage. Duke Energy and certain of its affiliates maintain deposit accounts and banking relationships with JPMorgan Chase Bank. JPMorgan Chase Bank also serves as trustee or agent under other indentures and agreements pursuant to which securities of Duke Energy and of certain of its affiliates are outstanding.

The Subordinated Indenture Trustee will perform only those duties that are specifically set forth in the Subordinated Indenture unless an event of default under the Subordinated Indenture occurs and is continuing. In case an event of default occurs and is continuing, the Subordinated Indenture Trustee will exercise the same degree of care as a prudent individual would exercise in the conduct of his or her own affairs.

DESCRIPTION OF THE FIRST AND REFUNDING MORTGAGE BONDS

Duke Energy will issue the First and Refunding Mortgage Bonds in one or more series under its First and Refunding Mortgage, dated as of December 1, 1927, to JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank), as Trustee, as supplemented and amended. The First and Refunding Mortgage is sometimes called the "Mortgage" and the First and Refunding Mortgage Bonds are sometimes called the "Bonds" in this prospectus. The trustee under the Mortgage is sometimes called the "Bond Trustee" in this prospectus. The Mortgage is an exhibit to the registration statement, of which this prospectus is a part.

The following description of the Bonds is only a summary and is not intended to be comprehensive. For additional information you should refer to the Mortgage.

General

The amount of Bonds that Duke Energy may issue under the Mortgage is unlimited. Duke Energy's Board of Directors will determine the terms of each series of Bonds, including denominations, maturity, interest rate and payment terms and whether the series will have redemption or sinking fund provisions.

Unless Duke Energy states otherwise in the applicable prospectus supplement, Duke Energy will issue the Bonds only in fully registered form without coupons and there will be no service charge for any transfers and exchanges of the Bonds. Duke Energy may, however, require payment to cover any stamp tax or other governmental charge payable in connection with any transfer or exchange. Transfers and exchanges of the Bonds may be made at JPMorgan Chase Bank, 450 West 33rd Street, New York, New York 10001 or at any other office maintained by Duke Energy for such purpose.

The Bonds will be issuable in denominations of $1,000 and multiples of $1,000, unless Duke Energy states otherwise in the applicable prospectus supplement. The Bonds will be exchangeable for an equivalent principal amount of Bonds of other authorized denominations of the same series.

The prospectus supplement for a particular series of Bonds will describe the maturity, interest rate and payment terms of those Bonds and any relevant redemption or sinking fund provisions.

Security

The Mortgage creates a continuing lien to secure the payment of principal and interest on the Bonds. All the Bonds are equally and ratably secured without preference, priority or distinction. The lien of the Mortgage covers substantially all of Duke Energy's properties, real, personal and mixed, and Duke Energy's franchises, including properties acquired after the date of the

Mortgage, with certain exceptions. Those exceptions include cash, accounts receivable, inventories of materials and supplies, merchandise held for sale, securities that Duke Energy holds, certain after-acquired property not useful in Duke Energy's electric business, certain after-acquired franchises and certain after-acquired non-electric properties.



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The lien of the Mortgage is subject to certain permitted liens and to liens that exist upon properties that Duke Energy acquired after it entered into the Mortgage to the extent of the amounts of prior lien bonds secured by those properties (not, however, exceeding 75% of the cost or value of those properties) and additions to those properties. "Prior lien bonds" are bonds or other indebtedness that are secured at the time of acquisition by a lien upon property that Duke Energy acquires after the date of the Mortgage that becomes subject to the lien of the Mortgage.

Issuance of Additional Bonds

If Duke Energy satisfies the conditions in the Mortgage, the Bond Trustee may authenticate and deliver additional Bonds in an aggregate principal amount not exceeding:

- the amount of cash that Duke Energy has deposited with the Bond Trustee for that purpose;

- the amount of previously authenticated and delivered Bonds or refundable prior lien bonds that have been or are to be retired which, with certain exceptions, Duke Energy has deposited with the Bond Trustee for that purpose; or

- 66 2/3% of the aggregate of the net amounts of additional property (electric) certified to the Bond Trustee after February 18, 1949.

The Bond Trustee may not authenticate and deliver any additional Bonds under the Mortgage, other than certain types of refunding Bonds, unless Duke Energy's available net earnings for twelve consecutive calendar months within the immediately preceding fifteen calendar months have been at least twice the amount of the annual interest charges on all Bonds outstanding under the Mortgage, including the Bonds proposed to be issued, and on all outstanding prior lien bonds that the Bond Trustee does not hold under the Mortgage.

Duke Energy may not apply to the Bond Trustee to authenticate and deliver any Bonds (1) in an aggregate principal amount exceeding $26,000,000 on the basis of additional property (electric) that Duke Energy acquired or constructed prior to January 1, 1949 or (2) on the basis of Bonds or prior lien bonds paid, purchased or redeemed prior to February 1, 1949. Duke Energy may not certify any additional property (electric) which is subject to the lien of any prior lien bonds for the purpose of establishing those prior lien bonds as refundable if the aggregate principal amount of those prior lien bonds exceeds 66 2/3% of the net amount of the additional property that is subject to the lien of such prior lien bonds.

Release Provisions

The Mortgage permits Duke Energy to dispose of certain property and to take other actions without the Bond Trustee releasing that property. The Mortgage also permits the release of mortgaged property if Duke Energy deposits cash or other consideration equal to the value of the mortgaged property to be released. In certain events and within certain limitations, the Bond Trustee is required to pay out cash that the Bond Trustee receives -- other than for the Replacement Fund or as the basis for issuing Bonds -- upon Duke Energy's application.

Duke Energy may withdraw cash that it deposited with the Bond Trustee as the basis for issuing Bonds in an amount equal to the principal amount of any Bonds that it is entitled to have authenticated and delivered on the basis of additional property (electric), on the basis of Bonds previously authenticated and delivered or on the basis of refundable prior lien bonds.

Replacement Fund

The Mortgage requires Duke Energy to deposit with the Bond Trustee annually, for the Replacement Fund established under the Mortgage, the sum of the "replacement requirements" for all years beginning with 1949 and ending with the last calendar year preceding the deposit date, less certain deductions. Those deductions are (1) the aggregate original cost of all fixed property (electric) retired during that time period, not exceeding the aggregate of the gross amounts of additional property (electric) that Duke



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Energy acquired or constructed during the same period, and (2) the aggregate amount of cash that Duke Energy deposited with the Bond Trustee up to that time, or that Duke Energy would have been required to deposit except for permitted reductions, under the Replacement Fund.

The "replacement requirement" for any year is 2 1/2% of the average "amount of depreciable fixed property" (electric) owned by Duke Energy at the beginning and end of that year, not exceeding, however, the amount Duke Energy is permitted to charge as an operating expense for depreciation or retirement by any governmental authority, or the amount deductible as depreciation or similar expense for federal income tax purposes. The "amount of depreciable fixed property" (electric) is the amount by which the sum of $192,913,385 plus the aggregate gross amount of all depreciable additional property (electric) that Duke Energy acquired or constructed from January 1, 1949 to the date as of which such amount is determined exceeds the original cost of all of Duke Energy's depreciable fixed property (electric) retired during that period or released from the lien of the Mortgage.

Duke Energy may reduce the amount of cash at any time required to be deposited in the Replacement Fund and may withdraw any cash that it previously deposited that is held in the Replacement Fund:

- in an amount equal to 150% of the principal amount of Bonds previously authenticated and delivered under the Mortgage, or refundable prior lien bonds, deposited with the Bond Trustee and on the basis of which Duke Energy would otherwise have been entitled to have additional Bonds authenticated and delivered; and

- in an amount equal to 150% of the principal amount of Bonds which Duke Energy would otherwise be entitled to have authenticated and delivered on the basis of additional property (electric).

Upon Duke Energy's application, the Bond Trustee will apply cash that Duke Energy deposited in the Replacement Fund and has not previously withdrawn to the payment, purchase or redemption of Bonds issued under the Mortgage or to the purchase of refundable prior lien bonds.

Duke Energy has never deposited any cash with the Bond Trustee for the Replacement Fund. If Duke Energy deposits any cash in the future, it has agreed not to apply that cash to the redemption of the Bonds as long as any Bonds then outstanding remain outstanding.

Amendments of the Mortgage

Duke Energy may amend the Mortgage with the consent of the holders of 66 2/3% in principal amount of the Bonds, except that no such amendment may:

o affect the terms of payment of principal at maturity or of interest or premium on any Bond;

o affect the rights of Bondholders to sue to enforce any such payment at maturity; or

o reduce the percentage of Bonds required to consent to an amendment.

No amendment may affect the rights under the Mortgage of the holders of less than all of the series of Bonds outstanding unless the holders of 66 2/3% in principal amount of the Bonds of each series affected consent to the amendment.

The covenants included in the supplemental indenture for any series of Bonds to be issued will be solely for the benefit of the holders of those Bonds. Duke Energy may modify any such covenant only with the consent of the holders of 66 2/3% in principal amount of those Bonds outstanding, without the consent of Bondholders of any other series.

Events of Default

The Bond Trustee may, and at the written request of the holders of a majority in principal amount of the outstanding Bonds will, declare the principal of all outstanding Bonds due when any event of default

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under the Mortgage occurs. The holders of a majority in principal amount of the outstanding Bonds may, however, waive the default and rescind the declaration if Duke Energy cures the default.

Events of default under the Mortgage include:

o default in the payment of principal;

o default for 60 days in the payment of interest;

o default in the performance of any other covenant in the Mortgage continuing for 60 days after the Bond Trustee or the holders of not less than 10% in principal amount of the Bonds then outstanding give notice of the default; and

o certain bankruptcy or insolvency events with respect to Duke Energy.

Duke Energy provides a statement by certain of its officers each year to the Bond Trustee stating whether it has complied with the covenants of the Mortgage.

Concerning the Bond Trustee

JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank) is the Bond Trustee and is also the Senior Indenture Trustee and the Subordinated Indenture Trustee. Duke Energy and certain of its affiliates maintain deposit accounts and banking relationships with JPMorgan Chase Bank. JPMorgan Chase Bank also serves as trustee or agent under other indentures and agreements pursuant to which securities of Duke Energy and of certain of its affiliates are outstanding.

The Bond Trustee is under no obligation to exercise any of its powers at the request of any of the holders of the Bonds unless those Bondholders have offered to the Bond Trustee security or indemnity satisfactory to it against the cost, expenses and liabilities it might incur as a result. The holders of a majority in principal amount of the Bonds outstanding may direct the time, method and place of conducting any proceeding for any remedy available to the Bond Trustee, or the exercise of any trust or power of the Bond Trustee. The Bond Trustee will not be liable for any action that it takes or omits to take in good faith in accordance with any such direction.

## DESCRIPTION OF THE COMMON STOCK

The following description of Duke Energy's Common Stock is only a summary and is not intended to be comprehensive. For additional information you should refer to the applicable provisions of the North Carolina Business Corporation Act and Duke Energy's Restated Articles of Incorporation (Articles) and By-Laws. The Articles and By-Laws are exhibits to the registration statement, of which this prospectus is a part.

### General

Duke Energy is authorized to issue up to 2,000,000,000 shares of Common Stock. At June 30, 2002, approximately 832,000,000 shares of Common Stock were outstanding. Duke Energy is also authorized to issue up to 12,500,000 shares of Preferred Stock, 10,000,000 shares of Preferred Stock A, 20,000,000 shares of Serial Preferred Stock and 1,500,000 shares of Preference Stock. At June 30, 2002, 2,154,984 shares of Preferred Stock, 1,257,185 shares of Preferred Stock A and no shares of Serial Preferred Stock or Preference Stock were outstanding. The Preferred Stock, Preferred Stock A, Serial Preferred Stock and Preference Stock together are sometimes called the "Preferred Stocks."

### Dividends

Holders of Common Stock are entitled to such dividends as may be declared from time to time by the Board of Directors from legally available funds but only if full dividends on all outstanding series of the Preferred Stocks for the then current and all prior dividend periods and any required sinking fund payments with respect to any outstanding series of such securities have been paid or provided for.



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### Voting Rights

Subject to the rights, if any, of the holders of the Preferred Stocks that may be outstanding or as otherwise provided by law, the holders of Common Stock have exclusive voting rights, each share being entitled to one vote. Holders of Common Stock have noncumulative voting rights, which means that the holders of more than 50% of the shares voting for the election of directors can elect 100% of the directors and the holders of the remaining shares voting for the election of directors will not be able to elect any directors.

Whenever dividends on any part of any outstanding Preferred Stock or Preferred Stock A are in arrears in an amount equivalent to the total dividends required to be paid on that Preferred Stock or Preferred Stock A in any period of 12 calendar months, the holders of the Preferred Stock as a class have the exclusive right to elect a majority of the authorized number of directors and the holders of the Preferred Stock A as a class have the exclusive right to elect two directors. Those rights cease whenever Duke Energy pays all accrued and unpaid dividends in full. Whenever six quarterly dividends on any outstanding series of the Preference Stock are in arrears or any required sinking fund payments are in default, the holders of the Preference Stock as a class have the exclusive right to elect two directors. This right ceases whenever all dividends and required sinking fund obligations in default have been paid in full or provided for. In addition, the consent of the holders of specified percentages of any outstanding Preferred Stock, Preferred Stock A or Preference Stock, or some or all of the holders of such classes, is required in connection with certain increases in authorized amounts of or changes in stock senior to the Common Stock or in connection with any sale of substantially all of Duke Energy's assets or certain mergers.

The holders of the Serial Preferred Stock will have such voting rights as a series or otherwise with respect to the election of directors or otherwise as may be fixed by the Board of Directors at the time of the creation of the series, in addition to any voting rights provided by law.

Rights Upon Liquidation

The holders of Common Stock are entitled in liquidation to share ratably in the assets of Duke Energy after payment of all debts and liabilities and after required preferential payments to the holders of outstanding Preferred Stocks.

Miscellaneous

The outstanding shares of Common Stock are, and the shares of Common Stock sold hereunder will be, upon payment for them, fully paid and nonassessable. Holders of Common Stock have no preemptive rights and no conversion rights. The Common Stock is not subject to redemption and is not entitled to the benefit of any sinking fund provisions.

If so provided by the Board of Directors at the time of creation of any series of Serial Preferred Stock, the shares of such series may be convertible or exchangeable into shares of Common Stock or other securities of Duke Energy or of any other corporation or other entity, upon terms fixed at the time of creation of the series.

Transfer Agent and Registrar

Duke Energy acts as transfer agent and registrar for the Common Stock.

Preference Stock Purchase Rights

Each share of Common Stock has attached to it a Preference Stock Purchase Right. The Rights initially are represented only by the certificates for the shares of Common Stock and will not trade separately from those shares unless and until:

o ten days after it is publicly announced that a person or group (with certain exceptions) has acquired, or has obtained the right to acquire, the beneficial ownership of 15% or more of the outstanding Common Stock (an "acquiring person"); or



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o ten business days (or a later date determined by Duke Energy's Board of Directors) after the date a person or group commences, or public announcement is made that the person or group intends to commence, a tender or exchange offer that would result in the person or group becoming an acquiring person.

If and when the Rights separate, each Right will entitle the holder to purchase 1/10,000 of a share of Duke Energy's Series A Participating Preference Stock for an exercise price that is presently $190.

In the event that a person or group becomes an acquiring person, each Right (except for Rights beneficially owned by the acquiring person or its transferees, which Rights become void) will entitle its holder to purchase, for the exercise price, a number of shares of Common Stock having a market value of twice the exercise price. Also, if, after ten days following the date of the announcement that a person or group has become an acquiring person:

- o Duke Energy is involved in a merger or similar form of business combination in which Duke Energy is not the surviving corporation or in which Duke Energy is the surviving corporation but the Common Stock is changed or exchanged; or

- o more than 50% of Duke Energy's assets or earning power is sold or transferred;

then each Right (except for voided Rights) will entitle its holder to purchase, for the exercise price, a number of shares of common stock of the acquiring company having a value of twice the exercise price. If any person or group acquires from 15% to but excluding 50% of the outstanding Common Stock, Duke Energy's Board of Directors may, at its option, exchange each outstanding Right (except for those held by an acquiring person or its transferees) for one share of Common Stock or 1/10,000 of a share of Series A Participating Preference Stock.

Duke Energy's Board of Directors may redeem the Rights for $0.01 per Right prior to ten business days after the date of the public announcement that a person or group has become an acquiring person.

The Rights will not prevent a takeover of Duke Energy. However, the existence of the Rights may cause substantial dilution to a person or group that acquires 15% or more of the Common Stock unless the Board of Directors first redeems those Rights.

Certain Anti-Takeover Matters

Duke Energy's Articles and By-Laws include a number of provisions that may have the effect of encouraging persons considering unsolicited tender offers or other unilateral takeover proposals to negotiate with the Board of Directors rather than pursue non-negotiated takeover attempts. Those provisions include:

Classified Board of Directors; Removal of Directors; Vacancies

Duke Energy's Articles provide for a Board of Directors divided into three classes, with one class being elected each year to serve for a three-year term. As a result, at least two annual meetings of shareholders may be required for shareholders to change a majority of the Board of Directors. Duke Energy's shareholders may remove directors only for cause. Vacancies and newly created directorships on the Board of Directors may be filled only by the affirmative vote of a majority of the directors remaining in office, and no decrease in the number of directors may shorten the term of an incumbent director. The classification of directors and the inability of shareholders to remove directors without cause and to fill vacancies and newly created directorships on the Board of Directors will make it more difficult to change the composition of the Board of Directors, but will promote continuity of existing management.

Advance Notice Requirements

Duke Energy's By-Laws establish advance notice procedures with regard to shareholder proposals relating to the nomination of persons for election as directors or new business to be brought before annual meetings of shareholders. These procedures provide that shareholders must give timely notice of such proposals in writing to the Secretary of Duke Energy. Generally, to be timely with respect to an annual meeting of shareholders, notice must be received at Duke Energy's principal executive offices not less than 90 days nor more than

120 days prior to the first anniversary date of the annual meeting for the preceding year. The notice must contain certain information specified in the By-Laws.



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Special Meetings of Shareholders

Neither the Articles nor the By-Laws of Duke Energy give shareholders the right to call a special meeting of shareholders. The By-Laws provide that special meetings of shareholders may be called only by the Board of Directors or the Chairman of the Board.

Amendment of Charter and By-Laws

Duke Energy's Articles require the approval of not less than 80% of the voting power of all outstanding shares of Common Stock to amend provisions relating to the minimum and maximum size of the Board of Directors, the classification of the Board of Directors, the removal of directors, the filling of vacancies and newly created directorships on the Board of Directors and the requirement that a decrease in the number of directors constituting the Board of Directors may not shorten the term of any incumbent director. Duke Energy's Articles also require the affirmative vote of the holders of at least a majority of the combined voting power of the then outstanding shares of stock of all classes entitled to vote generally in the election of directors, voting together as a single class, for the shareholders to adopt, amend or repeal any provisions in the By-Laws. This voting requirement also applies to any amendment or repeal of this provision or the adoption of any provision inconsistent with it. These amendment provisions will make it more difficult to dilute the anti-takeover effects of Duke Energy's Articles and By-Laws.

Serial Preferred Stock

Serial Preferred Stock can be, and has been, used by corporations specifically for anti-takeover purposes. For example, shares of Serial Preferred Stock can be privately placed with purchasers who support a board of directors in opposing a tender offer or other hostile takeover bid, or can be issued to dilute the stock ownership and voting power of a third party seeking a merger or other extraordinary corporate transaction. Under these and similar circumstances, the Serial Preferred Stock can serve to perpetuate incumbent management and can adversely affect shareholders who may want to participate in the tender offer or other transaction.

Duke Energy's Board of Directors has adopted resolutions that state that the Serial Preferred Stock:

a) not be used for the principal purpose of acting as an anti-takeover device without shareholder approval; and

b) not be given supermajority voting rights except possibly with respect to proposed amendments to the Articles of Incorporation altering materially existing provisions of the Serial Preferred Stock or creating, or increasing the authorized amount of, any class of stock ranking, as to dividend or assets, prior to the Serial Preferred Stock.

DESCRIPTION OF THE STOCK PURCHASE CONTRACTS
AND THE STOCK PURCHASE UNITS

Duke Energy may issue stock purchase contracts representing contracts obligating holders to purchase from Duke Energy, and Duke Energy to sell to the holders, a specified number of shares of Common Stock (or a range of numbers of shares pursuant to a predetermined formula) at a future date or dates. The price per share of Common Stock may be fixed at the time the stock purchase contracts are issued or may be determined by reference to a specific formula set forth in the stock purchase contracts.

The stock purchase contracts may be issued separately or as a part of units, often known as stock purchase units, consisting of a stock purchase contract and either:

- o Senior Notes, Junior Subordinated Notes or other debt securities of Duke Energy or one of its subsidiaries;
- o debt obligations of third parties, including U.S. Treasury securities; or
- o Preferred Securities or trust preferred securities issued by trusts, all of whose common securities are owned by Duke Energy or by subsidiaries of Duke Energy,

securing the holder's obligations to purchase the Common Stock under the stock purchase contracts.


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The stock purchase contracts may require Duke Energy to make periodic payments to the holders of the stock purchase units or vice versa, and such payments may be unsecured or prefunded on some basis. The stock purchase contracts may require holders to secure their obligations in a specified manner and in certain circumstances Duke Energy may deliver newly issued prepaid stock purchase contracts, often known as prepaid securities, upon release to a holder of any collateral securing such holder's obligations under the original stock purchase contract.

The applicable prospectus supplement will describe the terms of any stock purchase contracts or stock purchase units and, if applicable, prepaid securities. The description in the applicable prospectus supplement will not contain all of the information that you may find useful. For more information, you should review the stock purchase contracts, the collateral arrangements and depositary arrangements, if applicable, relating to such stock purchase contracts or stock purchase units and, if applicable, the prepaid securities and the document pursuant to which the prepaid securities will be issued. These documents will be filed with the SEC promptly after the offering of such stock purchase contracts or stock purchase units and, if applicable, prepaid securities.

## DESCRIPTION OF THE PREFERRED SECURITIES

Each Trust may issue only one series of Preferred Securities. The Trust Agreement of each Trust will authorize the Administrative Trustees to issue the Preferred Securities of that Trust on behalf of that Trust. For additional information you should refer to the applicable Trust Agreement. The form of Trust Agreement is an exhibit to the registration statement, of which this prospectus is a part.

The prospectus supplement for a particular series of Preferred Securities being offered will disclose the specific terms related to the offering, including the price or prices at which the Preferred Securities to be offered will be issued. Those terms will include some or all of the following:

- o the title of the series;
- o the number of Preferred Securities of the series;
- o the yearly distribution rate, or the method of determining that rate, and

the date or dates on which distributions will be payable;

o the date or dates, or method of determining the date or dates, from which distributions will be cumulative;

o the amount that will be paid out of the assets of the Trust to the holders of the Preferred Securities upon the voluntary or involuntary dissolution, winding-up or termination of the Trust;

o any obligation that the Trust has to purchase or redeem the Preferred Securities, and the price at which, the period within which, and the terms and conditions upon which the Trust will purchase or redeem them;

o any voting rights of the Preferred Securities that are in addition to those legally required, including any right that the holders of the Preferred Securities have to approve certain actions under or amendments to the Trust Agreement;

o any right that the Trust has to defer distributions on the Preferred Securities in the event that Duke Energy extends the interest payment period on the related Junior Subordinated Notes; and

o any other rights, preferences, privileges, limitations or restrictions upon the Preferred Securities of the series.

Duke Energy will guarantee each series of Preferred Securities to the extent described below under the caption "Description of the Guarantees."

The applicable prospectus supplement will describe any material United States federal income tax considerations that apply to the Preferred Securities.

DESCRIPTION OF THE GUARANTEES

Duke Energy will execute the Guarantees from time to time for the benefit of the holders of the Preferred Securities of the respective Trusts. JPMorgan Chase Bank will act as Guarantee Trustee under



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each Guarantee. The Guarantee Trustee will hold each Guarantee for the benefit of the holders of the Preferred Securities to which it relates.

The following description of the Guarantees is only a summary and is not intended to be comprehensive. The form of Guarantee is an exhibit to the registration statement, of which this prospectus is a part.

General

Duke Energy will irrevocably and unconditionally agree under each Guarantee to pay the Guarantee Payments that are defined below, to the extent specified in that Guarantee, to the holders of the Preferred Securities to which the Guarantee relates, to the extent that the Guarantee Payments are not paid by or on behalf of the related Trust. Duke Energy is required to pay the Guarantee Payments to the extent specified in the relevant Guarantee regardless of any defense, right of set-off or counterclaim that Duke Energy may have or may assert against any person.

The following payments and distributions on the Preferred Securities of a Trust are Guarantee Payments:

o any accrued and unpaid distributions required to be paid on the Preferred Securities of the Trust, but only to the extent that the Trust has funds legally and immediately available for those distributions;

o the redemption price for any Preferred Securities that the Trust calls for redemption, including all accrued and unpaid distributions to the redemption date, but only to the extent that the Trust has funds legally and immediately available for the payment; and

o upon a dissolution, winding-up or termination of the Trust, other than in connection with the distribution of Junior Subordinated Notes to the holders of Trust Securities of the Trust or the redemption of all the Preferred Securities of the Trust, the lesser of:

  o the sum of the liquidation amount and all accrued and unpaid distributions on the Preferred Securities of the Trust to the payment date, to the extent that the Trust has funds legally and immediately available for the payment; and

  o the amount of assets of the Trust remaining available for distribution to holders of the Preferred Securities of the Trust in liquidation of the Trust.

Duke Energy may satisfy its obligation to make a Guarantee Payment by making that payment directly to the holders of the related Preferred Securities or by causing the Trust to make the payment to those holders.

Each Guarantee will be a full and unconditional guarantee, subject to certain subordination provisions, of the Guarantee Payments with respect to the related Preferred Securities from the time of issuance of those Preferred Securities, except that the Guarantee will apply to the payment of distributions and other payments on the Preferred Securities only when the Trust has sufficient funds legally and immediately available to make those distributions or other payments.

IF DUKE ENERGY DOES NOT MAKE THE REQUIRED PAYMENTS ON THE JUNIOR SUBORDINATED NOTES THAT THE PROPERTY TRUSTEE HOLDS UNDER A TRUST, THAT TRUST WILL NOT MAKE THE RELATED PAYMENTS ON ITS PREFERRED SECURITIES.

Subordination

Duke Energy's obligations under each Guarantee will be unsecured obligations of Duke Energy. Those obligations will rank:

o subordinate and junior in right of payment to all of Duke Energy's other liabilities, other than obligations or liabilities that rank equal in priority or subordinate by their terms;

o equal in priority with Duke Energy's Preferred Stock and Preferred Stock A and similar guarantees; and

o senior to Duke Energy's Common Stock.

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Duke Energy has Preferred Stock and Preferred Stock A outstanding that will rank equal in priority with the Guarantees and has Common Stock outstanding that will rank junior to the Guarantees.

Each Guarantee will be a guarantee of payment and not of collection. This means that the guaranteed party may institute a legal proceeding directly against Duke Energy, as guarantor, to enforce its rights under the Guarantee without first instituting a legal proceeding against any other person or entity.

The terms of the Preferred Securities will provide that each holder of the Preferred Securities, by accepting those Preferred Securities, agrees to the subordination provisions and other terms of the related Guarantee.

Amendments and Assignment

Duke Energy may amend each Guarantee without the consent of any holder of the Preferred Securities to which that Guarantee relates if the amendment does not materially and adversely affect the rights of those holders. Duke Energy may otherwise amend each Guarantee with the approval of the holders of at least 66 2/3% of the outstanding Preferred Securities to which that Guarantee relates.

Termination

Each Guarantee will terminate and be of no further effect when:

o the redemption price of the Preferred Securities to which the Guarantee relates is fully paid;

o Duke Energy distributes the related Junior Subordinated Notes to the holders of those Preferred Securities; or

o the amounts payable upon liquidation of the related Trust are fully paid.

Each Guarantee will remain in effect or will be reinstated if at any time any holder of the related Preferred Securities must restore payment of any sums paid to that holder with respect to those Preferred Securities or under that Guarantee.

Events of Default

An event of default will occur under any Guarantee if Duke Energy fails to perform any of its payment obligations under that Guarantee. The holders of a majority of the Preferred Securities of any series may waive any such event of default and its consequences on behalf of all of the holders of the Preferred Securities of that series. The Guarantee Trustee is obligated to enforce the Guarantee for the benefit of the holders of the Preferred Securities of a series if an event of default occurs under the related Guarantee.

The holders of a majority of the Preferred Securities to which a Guarantee relates have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Guarantee Trustee with respect to that Guarantee or to direct the exercise of any trust or power that the Guarantee Trustee holds under that Guarantee. Any holder of the related Preferred Securities may institute a legal proceeding directly against Duke Energy to enforce that holder's rights under the Guarantee without first instituting a legal proceeding against the Guarantee Trustee or any other person or entity.

Concerning the Guarantee Trustee

JPMorgan Chase Bank will be the Guarantee Trustee. It is also the Property Trustee, the Subordinated Indenture Trustee, the Senior Indenture Trustee and the Bond Trustee. Duke Energy and certain of its affiliates maintain deposit accounts and banking relationships with JPMorgan Chase Bank. JPMorgan Chase Bank also serves as trustee or agent under other indentures and agreements pursuant to which securities of Duke Energy and certain of its affiliates are outstanding.

The Guarantee Trustee will perform only those duties that are specifically set forth in each Guarantee unless an event of default under the Guarantee occurs and is continuing. In case an event of default occurs and is continuing, the Guarantee Trustee will exercise the same degree of care as a prudent individual would exercise in the conduct of his or her own affairs. Subject to those provisions, the Guarantee Trustee is under no obligation to exercise any of its powers under any Guarantee at the request of any holder of

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the related Preferred Securities unless that holder offers reasonable indemnity to the Guarantee Trustee against the costs, expenses and liabilities which it might incur as a result.

Agreements as to Expenses and Liabilities

Duke Energy will enter into an Agreement as to Expenses and Liabilities under each Trust Agreement. Each Agreement as to Expenses and Liabilities will provide that Duke Energy will, with certain exceptions, irrevocably and unconditionally guarantee the full payment of any indebtedness, expenses or liabilities of the related Trust to each person or entity to whom that Trust becomes indebted or liable. The exceptions are the obligations of the Trust to pay to the holders of the related Preferred Securities or other similar interests in that Trust the amounts due to the holders under the terms of those Preferred Securities or those similar interests.

PLAN OF DISTRIBUTION

Duke Energy and the Trusts may sell securities to one or more underwriters or dealers for public offering and sale by them, or it may sell the securities to investors directly or through agents. The prospectus supplement relating to the securities being offered will set forth the terms of the offering and the method of distribution and will identify any firms acting as underwriters, dealers or agents in connection with the offering, including:

o the name or names of any underwriters;

o the purchase price of the securities and the proceeds to Duke Energy or the Trusts from the sale;

o any underwriting discounts and other items constituting underwriters' compensation;

o any public offering price;

o any discounts or concessions allowed or reallowed or paid to dealers; and

o any securities exchange or market on which the securities may be listed.

Only those underwriters identified in the prospectus supplement are deemed to be underwriters in connection with the securities offered in the prospectus supplement.

Duke Energy and the Trusts may distribute the securities from time to time in one or more transactions at a fixed price or prices, which may be changed, or at prices determined as the prospectus supplement specifies. Duke Energy may sell securities through forward contracts or similar arrangements. In connection with the sale of securities, underwriters, dealers or agents may be deemed to have received compensation from Duke Energy in the form of underwriting discounts or commissions and also may receive commissions from securities purchasers for whom they may act as agent. Underwriters may sell the securities to or through dealers, and such dealers may receive compensation in the form of discounts, concessions or commissions from the underwriters or commissions from the purchasers for whom they may act as agent.

Duke Energy may sell the securities directly or through agents it designates from time to time. Any agent involved in the offer or sale of the securities covered by this prospectus, other than at the market offerings of common stock, will be named in a prospectus supplement relating to such securities. At the market offerings of common stock may be made by agents. Commissions payable by Duke Energy to agents will be set forth in a prospectus supplement relating to the securities being offered. Unless otherwise indicated in a prospectus supplement, any such agents will be acting on a best-efforts basis for the period of their appointment.

Some of the underwriters, dealers or agents and some of their affiliates who participate in the securities distribution may engage in other transactions with, and perform other services for, Duke Energy and its subsidiaries or affiliates in the ordinary course of business.

Any underwriting or other compensation which Duke Energy pays to underwriters or agents in connection with the securities offering, and any discounts, concessions or commissions which underwriters allow to dealers, will be set forth in the applicable prospectus supplement. Underwriters, dealers and agents participating in the securities distribution may be deemed to be underwriters, and any discounts and

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commissions they receive and any profit they realize on the resale of the securities may be deemed to be underwriting discounts and commissions under the Securities Act of 1933. Underwriters, and their controlling persons, and agents may be entitled, under agreements entered into with Duke Energy and the Trusts, to indemnification against certain civil liabilities, including liabilities under the Securities Act of 1933.

EXPERTS

The consolidated financial statements and the related financial statement schedule incorporated in this prospectus by reference from Duke Energy's Annual Report on Form 10-K for the year ended December 31, 2001 have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report, which is incorporated herein by reference, and have been so incorporated in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

VALIDITY OF THE SECURITIES

Edward M. Marsh, Jr., Esq., who is Duke Energy's Deputy General Counsel and Assistant Secretary, and Simpson Thacher & Bartlett, New York, New York, will issue opinions about the validity of the securities offered by Duke Energy in the applicable prospectus supplement for Duke Energy. Richards, Layton & Finger, P.A., Special Delaware counsel, will issue opinions about the validity of the Preferred Securities offered in the applicable prospectus supplement for the Trusts. Counsel named in the applicable prospectus supplement will issue opinions about the validity of the securities offered by Duke Energy for any underwriters.

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WHERE YOU CAN FIND MORE INFORMATION

Duke Energy files annual, quarterly and current reports and other information with the SEC. You may read and copy any documents that are filed at SEC Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549.

You may also obtain copies of these documents at prescribed rates from the Public Reference Section of the SEC at its Washington address.

Please call the SEC at 1-800-SEC-0330 for further information. Duke Energy's filings are also available to the public through:

o the SEC web site at http://www.sec.gov; and

o The New York Stock Exchange
20 Broad Street
New York, New York 10005.

Information about Duke Energy is also available on its web site at http://www.duke-energy.com. Such web site is not a part of this prospectus.

The SEC allows Duke Energy to "incorporate by reference" the information Duke Energy files with it, which information incorporated by reference is considered to be part of this prospectus and any accompanying prospectus supplement, and later information that Duke Energy files with the SEC will automatically update and supersede that information as well as the information included in this prospectus and any accompanying prospectus supplement. Duke Energy incorporates by reference the documents listed below and any future filings made with the SEC under Sections 13(a), 13(c), 14, or 15(d) of the Securities Exchange Act of 1934 filed prior to the termination of this offering:

o Duke Energy's annual report on Form 10-K for the year ended December 31, 2001;

o Duke Energy's quarterly reports on Form 10-Q for the quarters ended March 31, 2002 and June 30, 2002; and

o Duke Energy's current reports on Form 8-K filed on March 29, 2002 and April 15, 2002.

Duke Energy will provide without charge a copy of these filings, other than any exhibits unless the exhibits are specifically incorporated by reference into this prospectus. You may request your copy by writing Duke Energy at the following address or telephoning one of the following numbers:

Investor Relations Department
Duke Energy Corporation
P.O. Box 1005
Charlotte, North Carolina 28201
(704) 382-3853 or (800) 488-3853 (toll-free)

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**DUKE ENERGY OHIO, INC.**
Case No. 08-709-EL-AIR
Supplemental Information (C)(4)

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Most recent federal and/or state regulatory agency report (FERC Form 1, FERC Form 2, FCC Form M, PUCO annual report).

**Response:** See Attached FERC Form 1.

**Sponsoring Witness:** Peggy A. Laub

| THIS FILING IS | |
|---|---|
| Item 1: [X] An Initial (Original) Submission | OR [ ] Resubmission No. ____ |

Form 1 Approved
OMB No. 1902-0021
(Expires 7/31/2008)
Form 1-F Approved
OMB No. 1902-0029
(Expires 6/30/2007)
Form 3-Q Approved
OMB No. 1902-0205
(Expires 6/30/2007)

# FERC FINANCIAL REPORT
# FERC FORM No. 1: Annual Report of Major Electric Utilities, Licensees and Others and Supplemental Form 3-Q: Quarterly Financial Report

These reports are mandatory under the Federal Power Act, Sections 3, 4(a), 304 and 309, and 18 CFR 141.1 and 141.400. Failure to report may result in criminal fines, civil penalties and other sanctions as provided by law. The Federal Energy Regulatory Commission does not consider these reports to be of confidential nature

| Exact Legal Name of Respondent (Company) | Year/Period of Report |
|---|---|
| Duke Energy Ohio, Inc. | End of 2007/Q4 |

Deloitte.

Deloitte & Touche LLP
1100 Carillon Building
227 West Trade Street
Charlotte, NC 28202
USA

Tel: +1 704 887 1500
Fax: +1 704 887 1570
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

Duke Energy Ohio, Inc.

We have audited the balance sheet – regulatory basis of Duke Energy Ohio, Inc. (the "Company") as of December 31, 2007, and the related statements of income – regulatory basis; retained earnings – regulatory basis; cash flows – regulatory basis; and accumulated other comprehensive income, comprehensive income, and hedging activities – regulatory basis for the year ended December 31, 2007, included on pages 110 through 123 of the accompanying Federal Energy Regulatory Commission Form 1. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards as established by the Auditing Standards Board (United States) and in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed on page 123, these financial statements were prepared in accordance with the accounting requirements of the Federal Energy Regulatory Commission as set forth in its applicable Uniform System of Accounts and published accounting releases, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, such regulatory-basis financial statements present fairly, in all material respects, the assets, liabilities, and proprietary capital of Duke Energy Ohio, Inc. as of December 31, 2007, and the results of its operations and its cash flows for the year ended December 31, 2007 in accordance with the accounting requirements of the Federal Energy Regulatory Commission as set forth in its applicable Uniform System of Accounts and published accounting releases.

This report is intended solely for the information and use of the board of directors and management of Duke Energy Ohio, Inc. and for filing with the Federal Energy Regulatory Commission and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte + Touche LLP

April 17, 2008

## FERC FORM NO. 1/3-Q:
## REPORT OF MAJOR ELECTRIC UTILITIES, LICENSEES AND OTHER

**IDENTIFICATION**

| | |
|---|---|
| 01 Exact Legal Name of Respondent<br>Duke Energy Ohio, Inc. | 02 Year/Period of Report<br>End of 2007/Q4 |
| 03 Previous Name and Date of Change *(if name changed during year)*<br>/ / | |
| 04 Address of Principal Office at End of Period *(Street, City, State, Zip Code)*<br>139 East Fouth Street, Cincinnati, Ohio 45202 | |
| 05 Name of Contact Person<br>Misty Roddey | 06 Title of Contact Person<br>Accounting Manager |
| 07 Address of Contact Person *(Street, City, State, Zip Code)*<br>526 South Church Street, Charlotte, NC 28202 | |

| | | |
|---|---|---|
| 08 Telephone of Contact Person, *Including Area Code*<br>(704) 373-5872 | 09 This Report Is<br>(1) [X] An Original (2) [ ] A Resubmission | 10 Date of Report *(Mo, Da, Yr)*<br>/ / |

**ANNUAL CORPORATE OFFICER CERTIFICATION**

The undersigned officer certifies that:

I have examined this report and to the best of my knowledge, information, and belief all statements of fact contained in this report are correct statements of the business affairs of the respondent and the financial statements, and other financial information contained in this report, conform in all material respects to the Uniform System of Accounts.

| | | |
|---|---|---|
| 01 Name<br>David L. Hauser<br>02 Title<br>Group Executive & CFO | 03 Signature<br>David L Hauser<br>David L. Hauser | 04 Date Signed *(Mo, Da, Yr)*<br>/ / 4/17/08 |

Title 18, U.S.C. 1001 makes it a crime for any person to knowingly and willingly to make to any Agency or Department of the United States any false, fictitious or fraudulent statements as to any matter within its jurisdiction.

| Name of Respondent | This Report Is: | Date of Report (Mo, Da, Yr) | Year/Period of Report |
|---|---|---|---|
| Duke Energy Ohio, Inc. | (1) [X] An Original<br>(2) [ ] A Resubmission | / / | End of 2007/Q4 |

## LIST OF SCHEDULES (Electric Utility)

Enter in column (c) the terms "none," "not applicable," or "NA," as appropriate, where no information or amounts have been reported for certain pages. Omit pages where the respondents are "none," "not applicable," or "NA".

| Line No. | Title of Schedule (a) | Reference Page No. (b) | Remarks (c) |
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| 1 | General Information | 101 | |
| 2 | Control Over Respondent | 102 | |
| 3 | Corporations Controlled by Respondent | 103 | |
| 4 | Officers | 104 | |
| 5 | Directors | 105 | |
| 6 | Important Changes During the Year | 108-109 | |
| 7 | Comparative Balance Sheet | 110-113 | |
| 8 | Statement of Income for the Year | 114-117 | |
| 9 | Statement of Retained Earnings for the Year | 118-119 | |
| 10 | Statement of Cash Flows | 120-121 | |
| 11 | Notes to Financial Statements | 122-123 | |
| 12 | Statement of Accum Comp Income, Comp Income, and Hedging Activities | 122(a)(b) | |
| 13 | Summary of Utility Plant & Accumulated Provisions for Dep, Amort & Dep | 200-201 | |
| 14 | Nuclear Fuel Materials | 202-203 | N/A |
| 15 | Electric Plant in Service | 204-207 | |
| 16 | Electric Plant Leased to Others | 213 | N/A |
| 17 | Electric Plant Held for Future Use | 214 | |
| 18 | Construction Work in Progress-Electric | 216 | |
| 19 | Accumulated Provision for Depreciation of Electric Utility Plant | 219 | |
| 20 | Investment of Subsidiary Companies | 224-225 | |
| 21 | Materials and Supplies | 227 | |
| 22 | Allowances | 228-229 | |
| 23 | Extraordinary Property Losses | 230 | N/A |
| 24 | Unrecovered Plant and Regulatory Study Costs | 230 | N/A |
| 25 | Transmission Service and Generation Interconnection Study Costs | 231 | N/A |
| 26 | Other Regulatory Assets | 232 | |
| 27 | Miscellaneous Deferred Debits | 233 | |
| 28 | Accumulated Deferred Income Taxes | 234 | |
| 29 | Capital Stock | 250-251 | |
| 30 | Other Paid-in Capital | 253 | |
| 31 | Capital Stock Expense | 254 | N/A |
| 32 | Long-Term Debt | 256-257 | |
| 33 | Reconciliation of Reported Net Income with Taxable Inc for Fed Inc Tax | 261 | |
| 34 | Taxes Accrued, Prepaid and Charged During the Year | 262-263 | |
| 35 | Accumulated Deferred Investment Tax Credits | 266-267 | |
| 36 | Long-Term Debt | 269 | |
| | | | |

| Name of Respondent<br>Duke Energy Ohio, Inc. | This Report Is:<br>(1) [X] An Original<br>(2) [ ] A Resubmission | Date of Report<br>(Mo, Da, Yr)<br>/ / | Year/Period of Report<br>End of 2007/Q4 |
|---|---|---|---|

LIST OF SCHEDULES (Electric Utility) (continued)

Enter in column (c) the terms "none," "not applicable," or "NA," as appropriate, where no information or amounts have been reported for certain pages. Omit pages where the respondents are "none," "not applicable," or "NA".

LIST OF SCHEDULES (Electric Utility) (continued)

Enter in column (c) the terms "none," "not applicable," or "NA," as appropriate, where no information or amounts have been reported for certain pages. Omit pages where the respondents are "none," "not applicable," or "NA".

| Line No. | Title of Schedule (a) | Reference Page No. (b) | Remarks (c) |
|---|---|---|---|
| 67 | Substations | 426-427 | |
| 68 | Footnote Data | 450 | |

Stockholders' Reports Check appropriate box:

[ ] Four copies will be submitted

[X] No annual report to stockholders is prepared

| Name of Respondent | This Report Is: | Date of Report (Mo, Da, Yr) | Year/Period of Report |
|---|---|---|---|
| Duke Energy Ohio, Inc. | (1) [X] An Original<br>(2) [ ] A Resubmission | / / | End of 2007/Q4 |

## GENERAL INFORMATION

1. Provide name and title of officer having custody of the general corporate books of account and address of office where the general corporate books are kept, and address of office where any other corporate books of account are kept, if different from that where the general corporate books are kept.

Corporate Books:
Steven K. Young, Senior Vice President & Controller
526 South Church Street
Charlotte, NC 28202

Other Corporate Books of Account:
139 East Fourht Street, Rm 202
Cincinnati, OH 45202

2. Provide the name of the State under the laws of which respondent is incorporated, and date of incorporation. If incorporated under a special law, give reference to such law. If not incorporated, state that fact and give the type of organization and the date organized.

Ohio
April 3, 1837

3. If at any time during the year the property of respondent was held by a receiver or trustee, give (a) name of receiver or trustee, (b) date such receiver or trustee took possession, (c) the authority by which the receivership or trusteeship was created, and (d) date when possession by receiver or trustee ceased.

Not Applicable

4. State the classes or utility and other services furnished by respondent during the year in each State in which the respondent operated.

State of Ohio - Gas and Electric

5. Have you engaged as the principal accountant to audit your financial statements an accountant who is not the principal accountant for your previous year's certified financial statements?

(1) [ ] Yes...Enter the date when such independent accountant was initially engaged:
(2) [X] No

| Name of Respondent | This Report is: | Date of Report (Mo, Da, Yr) | Year/Period of Report |
|---|---|---|---|
| Duke Energy Ohio, Inc. | (1) X An Original<br>(2) _ A Resubmission | / / | 2007/Q4 |

FOOTNOTE DATA

***Schedule Page: 101 Line No.: 1 Column: Item 2***

The Respondent was Incorporated April 3, 1837, as the Cincinnati Gas, Light, and Coke Company. The name was changed to The Cincinnati Gas & Electric Company in 1901. The name was changed to Duke Energy Ohio in 2006.

| Name of Respondent | This Report Is: | Date of Report (Mo, Da, Yr) | Year/Period of Report |
|---|---|---|---|
| Duke Energy Ohio, Inc. | (1) [X] An Original<br>(2) [ ] A Resubmission | / / | End of 2007/Q4 |

## CONTROL OVER RESPONDENT

1. If any corporation, business trust, or similar organization or a combination of such organizations jointly held control over the repondent at the end of the year, state name of controlling corporation or organization, manner in which control was held, and extent of control. If control was in a holding company organization, show the chain of ownership or control to the main parent company or organization. If control was held by a trustee(s), state name of trustee(s), name of beneficiary or beneficiearies for whom trust was maintained, and purpose of the trust.

On April 3, 2006, Cinergy Corp. became a wholly owned subsidiary of Duke Energy Corporation. Cinergy Corp. is the parent company of Duke Energy Ohio (formerly The Cincinnati Gas & Electric Company).

| Name of Respondent | This Report is: | Date of Report (Mo, Da, Yr) | Year/Period of Report |
|---|---|---|---|
| Duke Energy Ohio, Inc. | (1) [X] An Original<br>(2) [ ] A Resubmission | / / | End of 2007/Q4 |

## CORPORATIONS CONTROLLED BY RESPONDENT

1. Report below the names of all corporations, business trusts, and similar organizations, controlled directly or indirectly by respondent at any time during the year. If control ceased prior to end of year, give particulars (details) in a footnote.
2. If control was by other means than a direct holding of voting rights, state in a footnote the manner in which control was held, naming any intermediaries involved.
3. If control was held jointly with one or more other interests, state the fact in a footnote and name the other interests.

Definitions
1. See the Uniform System of Accounts for a definition of control.
2. Direct control is that which is exercised without interposition of an intermediary.
3. Indirect control is that which is exercised by the interposition of an intermediary which exercises direct control.
4. Joint control is that in which neither interest can effectively control or direct action without the consent of the other, as where the voting control is equally divided between two holders, or each party holds a veto power over the other. Joint control may exist by mutual agreement or understanding between two or more parties who together have control within the meaning of the definition of control in the Uniform System of Accounts, regardless of the relative voting rights of each party.

| Line No. | Name of Company Controlled (a) | Kind of Business (b) | Percent Voting Stock Owned (c) | Footnote Ref. (d) |
|---|---|---|---|---|
| 1 | DUKE ENERGY KENTUCKY, INC. | PUBLIC UTILITY | 100 | |
| 2 | MIAMI POWER CORPORATION | TRANSMISSION OF ELECTRIC | 100 | |
| 3 | KO TRANSMISSION COMPANY | TRANSPORTATION OF ENERGY | 100 | |
| 4 | TRI-STATE IMPROVEMENT COMPANY | REAL ESTATE | 100 | |
| 5 | CINERGY POWER INVESTMENTS, INC. | INACTIVE | 100 | |
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| Name of Respondent | This Report Is: | Date of Report (Mo, Da, Yr) | Year/Period of Report |
|---|---|---|---|
| Duke Energy Ohio, Inc. | (1) [X] An Original<br>(2) [ ] A Resubmission | / / | End of 2007/Q4 |

## OFFICERS

1. Report below the name, title and salary for each executive officer whose salary is $50,000 or more. An "executive officer" of a respondent includes its president, secretary, treasurer, and vice president in charge of a principal business unit, division or function (such as sales, administration or finance), and any other person who performs similar policy making functions.
2. If a change was made during the year in the incumbent of any position, show name and total remuneration of the previous incumbent, and the date the change in incumbency was made.

| Line No. | Title (a) | Name of Officer (b) | Salary for Year (c) |
|---|---|---|---|
| 1 | Chief Executive Officer, effective 3/14/2007 | James E. Rogers | |
| 2 | | | |
| 3 | Group Executive and Chief Nuclear Officer, effective | H. Brewerton Barron, Jr. | 425,256 |
| 4 | 3/14/2007 | | |
| 5 | | | |
| 6 | Vice President and Treasurer, effective 11/15/2007 | Stephen G. De May | 268,152 |
| 7 | | | |
| 8 | Vice President, through 3/14/2007; Senior Vice | Lynn J. Good | 401,700 |
| 9 | President, effective 3/14/2007-11/15/2007; and | | |
| 10 | Treasurer,through 11/15/2007 | | |
| 11 | | | |
| 12 | Group Executive and Chief Financial Officer, effective | David L. Hauser | 577,500 |
| 13 | 3/14/2007 | | |
| 14 | | | |
| 15 | Senior Vice President and Corporate Secretary, | Julia S. Janson | 287,532 |
| 16 | effective 3/14/2007 | | |
| 17 | | | |
| 18 | Group Executive and Chief Legal Officer, effective | Marc E. Manly | 556,008 |
| 19 | 3/14/2007 | | |
| 20 | | | |
| 21 | Group Vice President - Regulated Fossil Hydro | William R. Mc Collum, Jr. | 396,000 |
| 22 | Generation, through 3/14/07; Group Executive and | | |
| 23 | and Chief Regulated Generation Officer, effective | | |
| 24 | 3/14/2007 -3/30/2007 | | |
| 25 | | | |
| 26 | | | |
| 27 | Group Executive and Chief Administrative Officer, | Christopher C. Rolfe | 369,600 |
| 28 | effective 3/14/2007 | | |
| 29 | | | |
| 30 | Group Executive, effective 3/14/2007 ; Chief Strategy | B. Keith Trent | 429,528 |
| 31 | and Policy Officer, effective 3/14/2007-6/29/2007; | | |
| 32 | Chief Strategy, Policy and Regulatory Officer, | | |
| 33 | effective 6/29/2007 | | |
| 34 | | | |
| 35 | Group Executive & Chief Commercial Officer, US | James L. Turner | 589,956 |
| 36 | Franchised Electric & Gas, through 3/14/2007; | | |
| 37 | Chief Operating Officer, effective 6/29/2007 | | |
| 38 | | | |
| 39 | Senior Vice President and Controller, effective | Steven K. Young | 277,200 |
| 40 | 3/14/2007 | | |
| 41 | | | |
| 42 | Vice President, Tax , through 3/14/07; Senior Vice | Keith G. Butler | 294,996 |
| 43 | President, Tax, effective 3/14/07 | | |
| 44 | | | |

| Name of Respondent | This Report Is: | Date of Report (Mo, Da, Yr) | Year/Period of Report |
|---|---|---|---|
| Duke Energy Ohio, Inc. | (1) [X] An Original<br>(2) [ ] A Resubmission | / / | End of 2007/Q4 |

## OFFICERS

1. Report below the name, title and salary for each executive officer whose salary is $50,000 or more. An "executive officer" of a respondent includes its president, secretary, treasurer, and vice president in charge of a principal business unit, division or function (such as sales, administration or finance), and any other person who performs similar policy making functions.
2. If a change was made during the year in the incumbent of any position, show name and total remuneration of the previous incumbent, and the date the change in incumbency was made.

| Line No. | Title (a) | Name of Officer (b) | Salary for Year (c) |
|---|---|---|---|
| 1 | Senior Vice President, Rates and Regulatory | Myron L. Caldwell | 258,744 |
| 2 | Accounting, effective 3/14/07 | | |
| 3 | | | |
| 4 | Senior Vice President, Strategy and Planning, effective | Douglas F. Esamann | 304,320 |
| 5 | 6/29/2007 | | |
| 6 | Group Vice President, Power Delivery, through 3/14/07; | Theopolis Holeman | 326,976 |
| 7 | Senior Vice President, Power Delivery, effective | | |
| 8 | 3/14/07 | | |
| 9 | | | |
| 10 | Vice President and Controller, through 3/14/07; | Dwight L. Jacobs | 210,036 |
| 11 | Vice President, US Franchised Electric and Gas | | |
| 12 | Accounting, effective 4/13/07 | | |
| 13 | | | |
| 14 | President - Duke Energy Ohio, effective 3/14/07 | Sandra P. Meyer | 315,000 |
| 15 | | | |
| 16 | Chief Technology Officer and Vice President, | David W. Mohler | 196,368 |
| 17 | effective 3/14/07 | | |
| 18 | | | |
| 19 | Chief Information Officer and Senior Vice President, | A. R. Mullinax | 360,000 |
| 20 | effective 3/14/07 | | |
| 21 | | | |
| 22 | Group Vice President, General Counsel and Secretary, | Paul R. Newton | 267,804 |
| 23 | US Franchised Electric and Gas, through 3/14/07; | | |
| 24 | Senior Vice President, Legal and Assistant | | |
| 25 | Secretary, effective 3/14/07 | | |
| 26 | | | |
| 27 | Chief Procurement Officer and Vice President, | Ronald R. Reising | 290,796 |
| 28 | effective 3/14/07 | | |
| 29 | | | |
| 30 | Chief Communications Officer and Senior Vice | Cathy S. Roche | 209,448 |
| 31 | President, effective 3/14/07 | | |
| 32 | | | |
| 33 | Group Vice President, Engineering and Techincal | John J. Roebel | 270,012 |
| 34 | Services through 3/14/07; Senior Vice President, | | |
| 35 | Engineering and Techincal Services, effective 3/14/07 | | |
| 36 | | | |
| 37 | Group Executive and Chief Operating Officer, US | Thomas C. O'Connor | 589,956 |
| 38 | Franchised Electric and Gas, through 3/14/2007 | | |
| 39 | | | |
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| Name of Respondent | This Report Is: | Date of Report (Mo, Da, Yr) | Year/Period of Report |
|---|---|---|---|
| Duke Energy Ohio, Inc. | (1) [X] An Original<br>(2) [ ] A Resubmission | / / | End of 2007/Q4 |

## DIRECTORS

1. Report below the information called for concerning each director of the respondent who held office at any time during the year. Include in column (a), abbreviated titles of the directors who are officers of the respondent.
2. Designate members of the Executive Committee by a triple asterisk and the Chairman of the Executive Committee by a double asterisk.

| Line No. | Name (and Title) of Director (a) | Principal Business Address (b) |
|---|---|---|
| 1 | David L. Hauser (Group Executive & CFO) | 526 South Church Street, Charlotte, NC 28201 |
| 2 | William J. Mc Collum (Group Executive & Chief Regulated | 526 South Church Street, Charlotte, NC 28201 |
| 3 | Generation Officer) | |
| 4 | Sandra P. Meyer (President) | 139 E. Fourth Street, Cincinnati, OH 45202 |
| 5 | James E. Rogers (Chief Executive Officer) | 526 South Church Street, Charlotte, NC 28201 |
| 6 | James L. Turner (Group Executive & COO) | 526 South Church Street, Charlotte, NC 28201 |
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| Name of Respondent | This Report Is: | Date of Report | Year/Period of Report |
| --- | --- | --- | --- |
| Duke Energy Ohio, Inc. | (1) [X] An Original<br>(2) [ ] A Resubmission | / / | End of 2007/Q4 |

## IMPORTANT CHANGES DURING THE QUARTER/YEAR

Give particulars (details) concerning the matters indicated below. Make the statements explicit and precise, and number them in accordance with the inquiries. Each inquiry should be answered. Enter "none," "not applicable," or "NA" where applicable. If information which answers an inquiry is given elsewhere in the report, make a reference to the schedule in which it appears.

1. Changes in and important additions to franchise rights: Describe the actual consideration given therefore and state from whom the franchise rights were acquired. If acquired without the payment of consideration, state that fact.
2. Acquisition of ownership in other companies by reorganization, merger, or consolidation with other companies: Give names of companies involved, particulars concerning the transactions, name of the Commission authorizing the transaction, and reference to Commission authorization.
3. Purchase or sale of an operating unit or system: Give a brief description of the property, and of the transactions relating thereto, and reference to Commission authorization, if any was required. Give date journal entries called for by the Uniform System of Accounts were submitted to the Commission.
4. Important leaseholds (other than leaseholds for natural gas lands) that have been acquired or given, assigned or surrendered: Give effective dates, lengths of terms, names of parties, rents, and other condition. State name of Commission authorizing lease and give reference to such authorization.
5. Important extension or reduction of transmission or distribution system: State territory added or relinquished and date operations began or ceased and give reference to Commission authorization, if any was required. State also the approximate number of customers added or lost and approximate annual revenues of each class of service. Each natural gas company must also state major new continuing sources of gas made available to it from purchases, development, purchase contract or otherwise, giving location and approximate total gas volumes available, period of contracts, and other parties to any such arrangements, etc.
6. Obligations incurred as a result of issuance of securities or assumption of liabilities or guarantees including issuance of short-term debt and commercial paper having a maturity of one year or less. Give reference to FERC or State Commission authorization, as appropriate, and the amount of obligation or guarantee.
7. Changes in articles of incorporation or amendments to charter: Explain the nature and purpose of such changes or amendments.
8. State the estimated annual effect and nature of any important wage scale changes during the year.
9. State briefly the status of any materially important legal proceedings pending at the end of the year, and the results of any such proceedings culminated during the year.
10. Describe briefly any materially important transactions of the respondent not disclosed elsewhere in this report in which an officer, director, security holder reported on Page 106, voting trustee, associated company or known associate of any of these persons was a party or in which any such person had a material interest.
11. (Reserved.)
12. If the important changes during the year relating to the respondent company appearing in the annual report to stockholders are applicable in every respect and furnish the data required by Instructions 1 to 11 above, such notes may be included on this page.
13. Describe fully any changes in officers, directors, major security holders and voting powers of the respondent that may have occurred during the reporting period.
14. In the event that the respondent participates in a cash management program(s) and its proprietary capital ratio is less than 30 percent please describe the significant events or transactions causing the proprietary capital ratio to be less than 30 percent, and the extent to which the respondent has amounts loaned or money advanced to its parent, subsidiary, or affiliated companies through a cash management program(s). Additionally, please describe plans, if any to regain at least a 30 percent proprietary ratio.

PAGE 108 INTENTIONALLY LEFT BLANK
SEE PAGE 109 FOR REQUIRED INFORMATION.

1. None
2. See Notes 1, 2 and 4 of the "Notes to Financial Statements".
3. See Note 3 of the "Notes to Financial Statements".
4. None
5. Feeder 5863 added .57 miles of 69kv transmission line completed 1/24/2007. Work order C4925. no additional revenue or customers added.

Feeder 6962 added .18 miles of 69kv transmission line completed 4/16/2007. Work order C3712. no additional revenue or customers added.

Feeder 3860 added 4.16 miles of 69kv transmission line completed 10/18/2007. Work order C5273. no additional revenue or customers added.

Feeder 3265 removed .35 miles of 69 kv transmission lilne completed 2/28/2007. Work order C1017. no additional revenue or customers added.

New Feeder 13803 purchased from AEP added 24.06 miles of 138kv line of transmission. Completed 12/18/2007. No work order available. no additional revenue or customers added.

Feeder 13803 purchased from AEP added 4.76 miles of 138kv line of transmission. Completed 12/18/2007. No work order available. No additional revenue or customers added.

Feeder 3283 added 5.29 miles of 138kv line of transmission. Completed 12/18/2007. No work order available. No additional revenue or customers added. The line is De-Energized at this time.

6. No obligations have been incurred or assumed by respondent as guarantor. For details on respondent issuances and redemption of long-term and other short-term debt, see Note 13 of the "Notes to Financial Statements".
7. None
8. Employees bargained for by the United Steelworkers Locals 12049 and 5541-06 received a 3.5 percent wage increase effective May 15, 2007. Employees bargained for by the International Brotherhood of Electrical Workers Local 1347 received a 3 percent wage increase effective April 1, 2007. The manual and technical employees and the full-time clerical employees bargained for by the Utility Workers Union of America Local 600 received a 3 percent and 2.5 percent increase, respectively, effective April 2, 2007. Changes due to the above and wage scale adjustments during the year resulted in an estimated annual wage increase of $3,588,508. Changes in supervisory, administrative, and professional employees resulted in an estimated annual wage increase of $508,000.
9. See Notes 13 and 15 of the "Notes to Financial Statements".
10. None
11. Reserved
12. N/A
13. Duke Energy Ohio, Inc. Officer and/or Director Changes:

**Resignations**

*Effective 3/14/2007:*
Sandra P. Meyer - Director
Myron L. Caldwell - Group Vice President and Chief Financial Officer
Donna T. Council - General Manager, Cash Management and Assistant Treasurer
Curtis H. Davis - Vice President - Commercial Generation
Stephen G. De May - General Manager, Financing (still retains Assistant Treasurer title)
Lynn J. Good - Vice President
Theopolis Holeman - Group Vice President, Power Delivery
Dwight L. Jacobs - Vice President
Dwight L. Jacobs - Controller
William R. McCollum, Jr. - Vice President
Paul R. Newton - Group Vice President, General Counsel & Secretary, US Franchised Electric & Gas
Thomas C. O'Connor - Vice President
John J. Roebel - Group Vice President - Engineering & Technical Services
James L. Turner - Chief Commercial Officer, US Franchised Electric & Gas (still retains Group Executive title)
Charles Whitlock - Vice President
F. Wayne Wiesen - Vice President

*Effective 6/29/2007:*
V. Nelson Peeler - Vice President, Performance Support

*Effective 7/31/2007:*
Paul H. Barry, Senior Vice President and Chief Development Officer

*Effective 11/15/2007:*
Lynn J. Good - Senior Vice President and Treasurer
Stephen G. De May - Assistant Treasurer

**Appointments**
*Effective 3/14/2007:*
David L. Hauser - Director
James E. Rogers - Director
James E. Rogers - Group Executive Officer
Henry B. Barron, Jr. - Group Executive and Chief Nuclear Officer
David L. Hauser - Group Executive and Chief Financial Officer
Marc E. Manly - Group Executive and Chief Legal Officer
William R. McCollum, Jr. - Group Executive and Chief Regulated Generation Officer
Christopher C. Rolfe - Group Executive and Chief Administrative Officer
B. Keith Trent - Group Executive and Chief Strategy and Policy Officer
David W. Mohler - Vice President and Chief Technology Officer
Ronald Reising - Vice President and Chief Procurement Officer
Paul H. Barry - Senior Vice President and Chief Development Officer
Keith G. Butler - Senior Vice President, Tax

Lynn J. Good - Senior Vice President (in addition to her Treasurer title)
Julia S. Janson - Senior Vice President and Corporate Secretary
A.R. Mullinax - Senior Vice President and Chief Information Officer
Cathy S. Roche - Senior Vice President and Chief Communications Officer
Steven K. Young - Senior Vice President and Controller
Myron L. Caldwell - Senior Vice President, Rates and Regulatory Accounting
Theopolis Holeman - Senior Vice President, Power Delivery
Paul R. Newton - Senior Vice President, Legal and Assistant Secretary
F. Wayne Wiesen - Senior Vice President, Legal (in addition to his Assistant Secretary title)
John J. Roebel - Senior Vice President, Engineering and Technical Servics
Todd W. Arnold - Senior Vice President, Customer Service
Patty K. Walker - Senior Vice President, Gas Operations
Curtis H. Davis - Senior Vice President, Midwest Generation Operations
Charles R. Whitlock - Senior Vice President, Commercial Asset Management
Dave L. Celona - Vice President, Government and Regulatory Affairs
James E. Mehring - Vice President, Field Operations
Lawrence G. Eiser - Vice President, Call Center Operations
R. Scott Henry - Vice President, System Operations
V. Nelson Peeler - Vice President, Performance Support
Ronald C. Snead - Vice President, Asset Management
James B. Gainer - Vice President, Federal Regulatory Policy
Kay E. Pashos - Vice President, Regulatory Strategy
Barry C. Wood - Vice President, Business Relations and Development
Sherwood L. Love - Assistant Treasurer
M. Alan Carrick - Assistant Treasurer

*Effective 4/13/2007:*
Dwight L. Jacobs - Vice President, FE&G Accouting

*Effective 6/29/2007:*
Douglas F. Esamann - Senior Vice President, Strategy and Planning
Sue C. Harrington - Assistant Secretary
V. Nelson Peeler - Vice President and Project Director, Enterprise Asset Management Initiative
Theodore E. Schultz - Vice President, Energy Efficiency
James L. Turner - Chief Operating Officer

*Effective 11/15/2007:*
Stephen G. De May - Vice President and Treasurer

14. The respondent's proprietary capital ratio is currently less than 30 percent due to purchase accounting adjustments and the transfer of a significant amount of assets from Duke Energy North America at the merger. There are currently no plans to regain at least a 30 percent proprietary capital ratio.

| Name of Respondent | This Report Is: | Date of Report | Year/Period of Report |
| --- | --- | --- | --- |
| Duke Energy Ohio, Inc. | (1) [X] An Original<br>(2) [ ] A Resubmission | (Mo, Da, Yr)<br>/ / | End of 2007/Q4 |

## COMPARATIVE BALANCE SHEET (ASSETS AND OTHER DEBITS)

| Line No. | Title of Account (a) | Ref. Page No. (b) | Current Year End of Quarter/Year Balance (c) | Prior Year End Balance 12/31 (d) |
| --- | --- | --- | --- | --- |
| 1 | **UTILITY PLANT** | | | |
| 2 | Utility Plant (101-106, 114) | 200-201 | 8,765,866,619 | 8,309,868,075 |
| 3 | Construction Work in Progress (107) | 200-201 | 543,990,746 | 523,748,367 |
| 4 | TOTAL Utility Plant (Enter Total of lines 2 and 3) | | 9,309,857,365 | 8,833,616,442 |
| 5 | (Less) Accum. Prov. for Depr. Amort. Depl. (108, 110, 111, 115) | 200-201 | 2,933,111,018 | 2,756,147,871 |
| 6 | Net Utility Plant (Enter Total of line 4 less 5) | | 6,376,746,347 | 6,077,468,571 |
| 7 | Nuclear Fuel in Process of Ref., Conv.,Enrich., and Fab. (120.1) | 202-203 | 0 | 0 |
| 8 | Nuclear Fuel Materials and Assemblies-Stock Account (120.2) | | 0 | 0 |
| 9 | Nuclear Fuel Assemblies in Reactor (120.3) | | 0 | 0 |
| 10 | Spent Nuclear Fuel (120.4) | | 0 | 0 |
| 11 | Nuclear Fuel Under Capital Leases (120.6) | | 0 | 0 |
| 12 | (Less) Accum. Prov. for Amort. of Nucl. Fuel Assemblies (120.5) | 202-203 | 0 | 0 |
| 13 | Net Nuclear Fuel (Enter Total of lines 7-11 less 12) | | 0 | 0 |
| 14 | Net Utility Plant (Enter Total of lines 6 and 13) | | 6,376,746,347 | 6,077,468,571 |
| 15 | Utility Plant Adjustments (116) | 122 | 0 | 0 |
| 16 | Gas Stored Underground - Noncurrent (117) | | 0 | 0 |
| 17 | **OTHER PROPERTY AND INVESTMENTS** | | | |
| 18 | Nonutility Property (121) | | 5,435,733 | 1,525,911 |
| 19 | (Less) Accum. Prov. for Depr. and Amort. (122) | | 543,364 | 1,926 |
| 20 | Investments in Associated Companies (123) | | 0 | 0 |
| 21 | Investment in Subsidiary Companies (123.1) | 224-225 | 568,027,341 | 532,886,028 |
| 22 | (For Cost of Account 123.1, See Footnote Page 224, line 42) | | | |
| 23 | Noncurrent Portion of Allowances | 228-229 | 330,140,359 | 442,031,647 |
| 24 | Other Investments (124) | | 792,878 | 447,093 |
| 25 | Sinking Funds (125) | | 0 | 0 |
| 26 | Depreciation Fund (126) | | 0 | 0 |
| 27 | Amortization Fund - Federal (127) | | 0 | 0 |
| 28 | Other Special Funds (128) | | 0 | 0 |
| 29 | Special Funds (Non Major Only) (129) | | 0 | 0 |
| 30 | Long-Term Portion of Derivative Assets (175) | | 25,334,021 | 43,368,328 |
| 31 | Long-Term Portion of Derivative Assets – Hedges (176) | | 0 | 0 |
| 32 | TOTAL Other Property and Investments (Lines 18-21 and 23-31) | | 929,186,968 | 1,020,257,081 |
| 33 | **CURRENT AND ACCRUED ASSETS** | | | |
| 34 | Cash and Working Funds (Non-major Only) (130) | | 0 | 0 |
| 35 | Cash (131) | | 23,143,368 | 37,660,233 |
| 36 | Special Deposits (132-134) | | 61,963,146 | 30,257,039 |
| 37 | Working Fund (135) | | 17,169 | 16,738 |
| 38 | Temporary Cash Investments (136) | | 0 | 0 |
| 39 | Notes Receivable (141) | | 0 | 0 |
| 40 | Customer Accounts Receivable (142) | | 15,264,555 | 21,786,325 |
| 41 | Other Accounts Receivable (143) | | 69,368,327 | 99,008,418 |
| 42 | (Less) Accum. Prov. for Uncollectible Acct.-Credit (144) | | 3,020,731 | 4,663,774 |
| 43 | Notes Receivable from Associated Companies (145) | | 159,533,631 | 112,573,898 |
| 44 | Accounts Receivable from Assoc. Companies (146) | | 74,297,835 | 65,142,967 |
| 45 | Fuel Stock (151) | 227 | 69,934,265 | 67,914,269 |
| 46 | Fuel Stock Expenses Undistributed (152) | 227 | 0 | 0 |
| 47 | Residuals (Elec) and Extracted Products (153) | 227 | 0 | 0 |
| 48 | Plant Materials and Operating Supplies (154) | 227 | 56,698,540 | 50,011,420 |
| 49 | Merchandise (155) | 227 | 0 | 0 |
| 50 | Other Materials and Supplies (156) | 227 | 0 | 0 |
| 51 | Nuclear Materials Held for Sale (157) | 202-203/227 | 0 | 0 |
| 52 | Allowances (158.1 and 158.2) | 228-229 | 357,179,550 | 482,228,661 |

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| Duke Energy Ohio, Inc. | (1) [X] An Original<br>(2) [ ] A Resubmission | (Mo, Da, Yr)<br>/ / | End of 2007/Q4 |

## COMPARATIVE BALANCE SHEET (ASSETS AND OTHER DEBITS)(Continued)

| Line No. | Title of Account<br>(a) | Ref. Page No.<br>(b) | Current Year End of Quarter/Year Balance<br>(c) | Prior Year End Balance 12/31<br>(d) |
|---|---|---|---|---|
| 53 | (Less) Noncurrent Portion of Allowances | | 330,140,359 | 442,031,647 |
| 54 | Stores Expense Undistributed (163) | 227 | 249,800 | 2,164,124 |
| 55 | Gas Stored Underground - Current (164.1) | | 58,112,204 | 68,319,017 |
| 56 | Liquefied Natural Gas Stored and Held for Processing (164.2-164.3) | | 0 | 0 |
| 57 | Prepayments (165) | | 38,907,670 | 65,940,398 |
| 58 | Advances for Gas (166-167) | | 0 | 0 |
| 59 | Interest and Dividends Receivable (171) | | 0 | 0 |
| 60 | Rents Receivable (172) | | 0 | 0 |
| 61 | Accrued Utility Revenues (173) | | 0 | 0 |
| 62 | Miscellaneous Current and Accrued Assets (174) | | 6,542,000 | 8,866,999 |
| 63 | Derivative Instrument Assets (175) | | 51,408,973 | 120,016,065 |
| 64 | (Less) Long-Term Portion of Derivative Instrument Assets (175) | | 25,334,021 | 43,368,328 |
| 65 | Derivative Instrument Assets - Hedges (176) | | 0 | 0 |
| 66 | (Less) Long-Term Portion of Derivative Instrument Assets - Hedges (176 | | 0 | 0 |
| 67 | Total Current and Accrued Assets (Lines 34 through 66) | | 684,125,922 | 741,842,822 |
| 68 | **DEFERRED DEBITS** | | | |
| 69 | Unamortized Debt Expenses (181) | | 9,086,309 | 8,016,923 |
| 70 | Extraordinary Property Losses (182.1) | 230 | 0 | 0 |
| 71 | Unrecovered Plant and Regulatory Study Costs (182.2) | 230 | 0 | 0 |
| 72 | Other Regulatory Assets (182.3) | 232 | 496,790,823 | 619,826,457 |
| 73 | Prelim. Survey and Investigation Charges (Electric) (183) | | 1,189,438 | 678,727 |
| 74 | Preliminary Natural Gas Survey and Investigation Charges 183.1) | | 0 | 0 |
| 75 | Other Preliminary Survey and Investigation Charges (183.2) | | 0 | 0 |
| 76 | Clearing Accounts (184) | | -273,124 | 317,208 |
| 77 | Temporary Facilities (185) | | -304,401 | -1,068,794 |
| 78 | Miscellaneous Deferred Debits (186) | 233 | 2,371,275,478 | 2,450,697,957 |
| 79 | Def. Losses from Disposition of Utility Plt. (187) | | 0 | 0 |
| 80 | Research, Devel. and Demonstration Expend. (188) | 352-353 | 0 | 0 |
| 81 | Unamortized Loss on Reaquired Debt (189) | | 7,210,883 | 8,088,010 |
| 82 | Accumulated Deferred Income Taxes (190) | 234 | 14,619,398 | 48,071,177 |
| 83 | Unrecovered Purchased Gas Costs (191) | | -4,352,528 | -6,777,447 |
| 84 | Total Deferred Debits (lines 69 through 83) | | 2,895,242,276 | 3,127,850,218 |
| 85 | TOTAL ASSETS (lines 14-16, 32, 67, and 84) | | 10,885,301,513 | 10,967,418,692 |

| Name of Respondent | This Report is: | Date of Report (mo, da, yr) | Year/Period of Report |
|---|---|---|---|
| Duke Energy Ohio, Inc. | (1) [x] An Original<br>(2) [ ] A Rresubmission | / / | end of 2007/Q4 |

## COMPARATIVE BALANCE SHEET (LIABILITIES AND OTHER CREDITS)

| Line No. | Title of Account (a) | Ref. Page No. (b) | Current Year End of Quarter/Year Balance (c) | Prior Year End Balance 12/31 (d) |
|---|---|---|---|---|
| 1 | PROPRIETARY CAPITAL | | | |
| 2 | Common Stock Issued (201) | 250-251 | 762,136,231 | 762,136,231 |
| 3 | Preferred Stock Issued (204) | 250-251 | 0 | 0 |
| 4 | Capital Stock Subscribed (202, 205) | 252 | 0 | 0 |
| 5 | Stock Liability for Conversion (203, 206) | 252 | 0 | 0 |
| 6 | Premium on Capital Stock (207) | 252 | 0 | 0 |
| 7 | Other Paid-In Capital (208-211) | 253 | 5,569,933,157 | 5,601,303,731 |
| 8 | Installments Received on Capital Stock (212) | 252 | 0 | 0 |
| 9 | (Less) Discount on Capital Stock (213) | 254 | 0 | 0 |
| 10 | (Less) Capital Stock Expense (214) | 254 | 0 | 0 |
| 11 | Retained Earnings (215, 215.1, 216) | 118-119 | 193,271,061 | 53,218,068 |
| 12 | Unappropriated Undistributed Subsidiary Earnings (216.1) | 118-119 | 33,600,045 | 1,178,700 |
| 13 | (Less) Reaquired Capital Stock (217) | 250-251 | 0 | 0 |
| 14 | Noncorporate Proprietorship (Non-major only) (218) | | 0 | 0 |
| 15 | Accumulated Other Comprehensive Income (219) | 122(a)(b) | -24,853,793 | -38,638,226 |
| 16 | Total Proprietary Capital (lines 2 through 15) | | 6,534,086,701 | 6,379,198,504 |
| 17 | LONG-TERM DEBT | | | |
| 18 | Bonds (221) | 256-257 | 226,800,000 | 226,800,000 |
| 19 | (Less) Reaquired Bonds (222) | 256-257 | 0 | 0 |
| 20 | Advances from Associated Companies (223) | 256-257 | 0 | 0 |
| 21 | Other Long-Term Debt (224) | 256-257 | 1,391,270,887 | 1,344,000,000 |
| 22 | Unamortized Premium on Long-Term Debt (225) | | 8,601,986 | 10,601,918 |
| 23 | (Less) Unamortized Discount on Long-Term Debt-Debit (226) | | 48,504,143 | 50,976,589 |
| 24 | Total Long-Term Debt (lines 18 through 23) | | 1,578,168,730 | 1,530,425,329 |
| 25 | OTHER NONCURRENT LIABILITIES | | | |
| 26 | Obligations Under Capital Leases - Noncurrent (227) | | 38,832,770 | 38,467,871 |
| 27 | Accumulated Provision for Property Insurance (228.1) | | 0 | 0 |
| 28 | Accumulated Provision for Injuries and Damages (228.2) | | 0 | 2,499,119 |
| 29 | Accumulated Provision for Pensions and Benefits (228.3) | | 124,791,934 | 119,758,132 |
| 30 | Accumulated Miscellaneous Operating Provisions (228.4) | | 5,812,706 | 5,889,477 |
| 31 | Accumulated Provision for Rate Refunds (229) | | 0 | 0 |
| 32 | Long-Term Portion of Derivative Instrument Liabilities | | 23,427,587 | 43,431,952 |
| 33 | Long-Term Portion of Derivative Instrument Liabilities - Hedges | | 8,445,936 | 915,090 |
| 34 | Asset Retirement Obligations (230) | | 25,303,644 | 32,577,548 |
| 35 | Total Other Noncurrent Liabilities (lines 26 through 34) | | 226,614,577 | 241,539,189 |
| 36 | CURRENT AND ACCRUED LIABILITIES | | | |
| 37 | Notes Payable (231) | | 0 | 0 |
| 38 | Accounts Payable (232) | | 320,506,223 | 293,643,206 |
| 39 | Notes Payable to Associated Companies (233) | | 161,207,999 | 231,473,073 |
| 40 | Accounts Payable to Associated Companies (234) | | 234,282,462 | 83,411,187 |
| 41 | Customer Deposits (235) | | 19,993,785 | 16,556,550 |
| 42 | Taxes Accrued (236) | 262-263 | 153,942,350 | 290,949,648 |
| 43 | Interest Accrued (237) | | 28,124,144 | 24,010,429 |
| 44 | Dividends Declared (238) | | 0 | 0 |
| 45 | Matured Long-Term Debt (239) | | 0 | 0 |

| Name of Respondent | This Report is: | Date of Report (mo, da, yr) | Year/Period of Report |
|---|---|---|---|
| Duke Energy Ohio, Inc. | (1) [X] An Original<br>(2) [ ] A Rresubmission | / / | end of 2007/Q4 |

## COMPARATIVE BALANCE SHEET (LIABILITIES AND OTHER CREDITS)(continued)

| Line No. | Title of Account (a) | Ref. Page No. (b) | Current Year End of Quarter/Year Balance (c) | Prior Year End Balance 12/31 (d) |
|---|---|---|---|---|
| 46 | Matured Interest (240) | | 0 | 0 |
| 47 | Tax Collections Payable (241) | | 405,838 | 613,948 |
| 48 | Miscellaneous Current and Accrued Liabilities (242) | | 41,589,181 | 66,655,488 |
| 49 | Obligations Under Capital Leases-Current (243) | | 5,529,270 | 4,067,119 |
| 50 | Derivative Instrument Liabilities (244) | | 44,008,305 | 111,463,035 |
| 51 | (Less) Long-Term Portion of Derivative Instrument Liabilities | | 23,427,587 | 43,431,952 |
| 52 | Derivative Instrument Liabilities - Hedges (245) | | 20,649,042 | 915,090 |
| 53 | (Less) Long-Term Portion of Derivative Instrument Liabilities-Hedges | | 8,445,936 | 915,090 |
| 54 | Total Current and Accrued Liabilities (lines 37 through 53) | | 998,365,076 | 1,079,411,731 |
| 55 | DEFERRED CREDITS | | | |
| 56 | Customer Advances for Construction (252) | | 4,191,422 | 5,129,655 |
| 57 | Accumulated Deferred Investment Tax Credits (255) | 266-267 | 10,723,668 | 12,264,589 |
| 58 | Deferred Gains from Disposition of Utility Plant (256) | | 0 | 0 |
| 59 | Other Deferred Credits (253) | 269 | 197,090,434 | 360,449,580 |
| 60 | Other Regulatory Liabilities (254) | 278 | 34,095,939 | 6,855,548 |
| 61 | Unamortized Gain on Reaquired Debt (257) | | 653,373 | 694,857 |
| 62 | Accum. Deferred Income Taxes-Accel. Amort.(281) | 272-277 | 0 | 41,838 |
| 63 | Accum. Deferred Income Taxes-Other Property (282) | | 1,187,518,736 | 1,180,029,342 |
| 64 | Accum. Deferred Income Taxes-Other (283) | | 113,792,857 | 171,378,530 |
| 65 | Total Deferred Credits (lines 56 through 64) | | 1,548,066,429 | 1,736,843,939 |
| 66 | TOTAL LIABILITIES AND STOCKHOLDER EQUITY (lines 16, 24, 35, 54 and 65) | | 10,885,301,513 | 10,967,418,692 |

| Name of Respondent<br>Duke Energy Ohio, Inc. | This Report Is:<br>(1) [X] An Original<br>(2) [ ] A Resubmission | Date of Report<br>(Mo, Da, Yr)<br>/ / | Year/Period of Report<br>End of 2007/Q4 |
|---|---|---|---|

## STATEMENT OF INCOME

Quarterly

1. Enter in column (d) the balance for the reporting quarter and in column (e) the balance for the same three month period for the prior year.
2. Report in column (f) the quarter to date amounts for electric utility function; in column (h) the quarter to date amounts for gas utility, and in (j) the quarter to date amounts for other utility function for the current year quarter.
3. Report in column (g) the quarter to date amounts for electric utility function; in column (i) the quarter to date amounts for gas utility, and in (k) the quarter to date amounts for other utility function for the prior year quarter.
4. If additional columns are needed place them in a footnote.

Annual or Quarterly if applicable

5. Do not report fourth quarter data in columns (e) and (f)
6. Report amounts for accounts 412 and 413, Revenues and Expenses from Utility Plant Leased to Others, in another utility columnin a similar manner to a utility department. Spread the amount(s) over lines 2 thru 26 as appropriate. Include these amounts in columns (c) and (d) totals.
7. Report amounts in account 414, Other Utility Operating Income, in the same manner as accounts 412 and 413 above.
8. Report data for lines 8, 10 and 11 for Natural Gas companies using accounts 404.1, 404.2, 404.3, 407.1 and 407.2.

| Line No. | Title of Account<br>(a) | (Ref.) Page No.<br>(b) | Total Current Year to Date Balance for Quarter/Year<br>(c) | Total Prior Year to Date Balance for Quarter/Year<br>(d) | Current 3 Months Ended Quarterly Only No 4th Quarter<br>(e) | Prior 3 Months Ended Quarterly Only No 4th Quarter<br>(f) |
|---|---|---|---|---|---|---|
| 1 | UTILITY OPERATING INCOME | | | | | |
| 2 | Operating Revenues (400) | 300-301 | 3,416,395,891 | 8,413,258,882 | | |
| 3 | Operating Expenses | | | | | |
| 4 | Operation Expenses (401) | 320-323 | 2,190,995,693 | 7,414,281,409 | | |
| 5 | Maintenance Expenses (402) | 320-323 | 144,325,247 | 100,367,564 | | |
| 6 | Depreciation Expense (403) | 336-337 | 204,208,347 | 180,410,204 | | |
| 7 | Depreciation Expense for Asset Retirement Costs (403.1) | 336-337 | 94,042 | 335,324 | | |
| 8 | Amort. & Depl. of Utility Plant (404-405) | 336-337 | 29,596,985 | 28,503,739 | | |
| 9 | Amort. of Utility Plant Acq. Adj. (406) | 336-337 | 20,727,144 | 17,109,162 | | |
| 10 | Amort. Property Losses, Unrecov Plant and Regulatory Study Costs (407) | | | | | |
| 11 | Amort. of Conversion Expenses (407) | | | | | |
| 12 | Regulatory Debits (407.3) | | 104,331,753 | 81,204,016 | | |
| 13 | (Less) Regulatory Credits (407.4) | | 1,478,095 | -6,510,644 | | |
| 14 | Taxes Other Than Income Taxes (408.1) | 262-263 | 234,034,879 | 219,975,481 | | |
| 15 | Income Taxes - Federal (409.1) | 262-263 | 131,288,158 | 206,590,878 | | |
| 16 | - Other (409.1) | 262-263 | 16,283,886 | 34,397,897 | | |
| 17 | Provision for Deferred Income Taxes (410.1) | 234, 272-277 | 62,410,832 | -23,107,001 | | |
| 18 | (Less) Provision for Deferred Income Taxes-Cr. (411.1) | 234, 272-277 | 57,643,463 | 106,405,770 | | |
| 19 | Investment Tax Credit Adj. - Net (411.4) | 266 | -1,540,921 | -1,776,541 | | |
| 20 | (Less) Gains from Disp. of Utility Plant (411.6) | | | 312,496 | | |
| 21 | Losses from Disp. of Utility Plant (411.7) | | | | | |
| 22 | (Less) Gains from Disposition of Allowances (411.8) | | -7,097,497 | -2,634,177 | | |
| 23 | Losses from Disposition of Allowances (411.9) | | | | | |
| 24 | Accretion Expense (411.10) | | 414,062 | 539,258 | | |
| 25 | TOTAL Utility Operating Expenses (Enter Total of lines 4 thru 24) | | 3,085,146,046 | 8,161,257,945 | | |
| 26 | Net Util Oper Inc (Enter Tot line 2 less 25) Carry to Pg117,line 27 | | 331,249,845 | 252,000,937 | | |

| Name of Respondent<br>Duke Energy Ohio, Inc. | This Report Is:<br>(1) [X] An Original<br>(2) [ ] A Resubmission | Date of Report<br>(Mo, Da, Yr)<br>/ / | Year/Period of Report<br>End of 2007/Q4 |
|---|---|---|---|

STATEMENT OF INCOME FOR THE YEAR (Continued)

9. Use page 122 for important notes regarding the statement of income for any account thereof.
10. Give concise explanations concerning unsettled rate proceedings where a contingency exists such that refunds of a material amount may need to be made to the utility's customers or which may result in material refund to the utility with respect to power or gas purchases. State for each year effected the gross revenues or costs to which the contingency relates and the tax effects together with an explanation of the major factors which affect the rights of the utility to retain such revenues or recover amounts paid with respect to power or gas purchases.
11 Give concise explanations concerning significant amounts of any refunds made or received during the year resulting from settlement of any rate proceeding affecting revenues received or costs incurred for power or gas purches, and a summary of the adjustments made to balance sheet, income, and expense accounts.
12. If any notes appearing in the report to stokholders are applicable to the Statement of Income, such notes may be included at page 122.
13. Enter on page 122 a concise explanation of only those changes in accounting methods made during the year which had an effect on net income, including the basis of allocations and apportionments from those used in the preceding year. Also, give the appropriate dollar effect of such changes.
14. Explain in a footnote if the previous year's/quarter's figures are different from that reported in prior reports.
15. If the columns are insufficient for reporting additional utility departments, supply the appropriate account titles report the information in a footnote to this schedule.

| ELECTRIC UTILITY | | GAS UTILITY | | OTHER UTILITY | | |
|---|---|---|---|---|---|---|
| Current Year to Date (in dollars) (g) | Previous Year to Date (in dollars) (h) | Current Year to Date (in dollars) (i) | Previous Year to Date (in dollars) (j) | Current Year to Date (in dollars) (k) | Previous Year to Date (in dollars) (l) | Line No. |
| | | | | | | 1 |
| 2,829,859,980 | 7,867,380,722 | 586,535,911 | 545,878,160 | | | 2 |
| | | | | | | 3 |
| 1,736,976,539 | 6,945,225,225 | 454,019,154 | 469,056,184 | | | 4 |
| 138,378,705 | 94,771,618 | 5,946,542 | 5,595,946 | | | 5 |
| 174,443,470 | 152,419,865 | 29,764,877 | 27,990,339 | | | 6 |
| 94,042 | 335,324 | | | | | 7 |
| 26,840,492 | 25,536,719 | 2,756,493 | 2,967,020 | | | 8 |
| 20,727,144 | 17,109,162 | | | | | 9 |
| | | | | | | 10 |
| | | | | | | 11 |
| 104,211,589 | 81,111,695 | 120,164 | 92,321 | | | 12 |
| 1,478,095 | -6,510,644 | | | | | 13 |
| 179,693,697 | 166,277,936 | 54,341,182 | 53,697,545 | | | 14 |
| 124,555,273 | 232,246,976 | 6,732,885 | -25,656,098 | | | 15 |
| 16,291,377 | 34,206,478 | -7,491 | 191,419 | | | 16 |
| 44,371,772 | -31,734,214 | 18,039,060 | 8,627,213 | | | 17 |
| 38,639,145 | 107,935,344 | 19,004,318 | -1,529,574 | | | 18 |
| -1,318,357 | -1,548,555 | -222,564 | -227,986 | | | 19 |
| | 312,496 | | | | | 20 |
| | | | | | | 21 |
| -7,097,497 | -2,634,177 | | | | | 22 |
| | | | | | | 23 |
| 414,062 | 539,258 | | | | | 24 |
| 2,532,660,062 | 7,617,394,468 | 552,485,984 | 543,863,477 | | | 25 |
| 297,199,918 | 249,986,254 | 34,049,927 | 2,014,683 | | | 26 |

| Name of Respondent | This Report Is: | Date of Report (Mo, Da, Yr) | Year/Period of Report |
|---|---|---|---|
| Duke Energy Ohio, Inc. | (1) [X] An Original<br>(2) [ ] A Resubmission | / / | End of 2007/Q4 |

## STATEMENT OF INCOME FOR THE YEAR (continued)

| Line No. | Title of Account<br>(a) | (Ref.) Page No.<br>(b) | TOTAL Current Year<br>(c) | TOTAL Previous Year<br>(d) | Current 3 Months Ended Quarterly Only No 4th Quarter<br>(e) | Prior 3 Months Ended Quarterly Only No 4th Quarter<br>(f) |
|---|---|---|---|---|---|---|
| 27 | Net Utility Operating Income (Carried forward from page 114) | | 331,249,845 | 252,000,937 | | |
| 28 | Other Income and Deductions | | | | | |
| 29 | Other Income | | | | | |
| 30 | Nonutilty Operating Income | | | | | |
| 31 | Revenues From Merchandising, Jobbing and Contract Work (415) | | 2,044,506 | 2,853,853 | | |
| 32 | (Less) Costs and Exp. of Merchandising, Job. & Contract Work (416) | | 1,105,774 | 3,019,967 | | |
| 33 | Revenues From Nonutility Operations (417) | | 100,236,168 | 296,720,923 | | |
| 34 | (Less) Expenses of Nonutility Operations (417.1) | | 99,916,166 | 295,543,725 | | |
| 35 | Nonoperating Rental Income (418) | | -19,170 | 5,765 | | |
| 36 | Equity in Earnings of Subsidiary Companies (418.1) | 119 | 32,191,994 | 11,174,148 | | |
| 37 | Interest and Dividend Income (419) | | 25,330,355 | 23,426,770 | | |
| 38 | Allowance for Other Funds Used During Construction (419.1) | | 3,389,364 | 2,273,585 | | |
| 39 | Miscellaneous Nonoperating Income (421) | | -857,587,568 | -1,039,395,336 | | |
| 40 | Gain on Disposition of Property (421.1) | | | 8,805 | | |
| 41 | TOTAL Other Income (Enter Total of lines 31 thru 40) | | -795,436,291 | -1,001,495,179 | | |
| 42 | Other Income Deductions | | | | | |
| 43 | Loss on Disposition of Property (421.2) | | 836,768 | 12,517 | | |
| 44 | Miscellaneous Amortization (425) | 340 | | | | |
| 45 | Donations (426.1) | 340 | 255,458 | 215,702 | | |
| 46 | Life Insurance (426.2) | | 142,218 | -646,328 | | |
| 47 | Penalties (426.3) | | 162,539 | 15,369 | | |
| 48 | Exp. for Certain Civic, Political & Related Activities (426.4) | | 535,934 | 401,874 | | |
| 49 | Other Deductions (426.5) | | -792,079,748 | -1,006,496,216 | | |
| 50 | TOTAL Other Income Deductions (Total of lines 43 thru 49) | | -790,146,831 | -1,006,497,082 | | |
| 51 | Taxes Applic. to Other Income and Deductions | | | | | |
| 52 | Taxes Other Than Income Taxes (408.2) | 262-263 | 1,522,336 | 663,732 | | |
| 53 | Income Taxes-Federal (409.2) | 262-263 | -10,942,676 | -17,356,208 | | |
| 54 | Income Taxes-Other (409.2) | 262-263 | -3,530,597 | -6,852,524 | | |
| 55 | Provision for Deferred Inc. Taxes (410.2) | 234, 272-277 | 1,393,135 | 13,833,207 | | |
| 56 | (Less) Provision for Deferred Income Taxes-Cr. (411.2) | 234, 272-277 | 4,763,867 | -1,333,918 | | |
| 57 | Investment Tax Credit Adj.-Net (411.5) | | | -391,812 | | |
| 58 | (Less) Investment Tax Credits (420) | | | | | |
| 59 | TOTAL Taxes on Other Income and Deductions (Total of lines 52-58) | | -16,321,669 | -8,769,687 | | |
| 60 | Net Other Income and Deductions (Total of lines 41, 50, 59) | | 11,032,209 | 13,771,590 | | |
| 61 | Interest Charges | | | | | |
| 62 | Interest on Long-Term Debt (427) | | 87,601,716 | 91,075,338 | | |
| 63 | Amort. of Debt Disc. and Expense (428) | | 3,190,827 | 2,464,619 | | |
| 64 | Amortization of Loss on Reaquired Debt (428.1) | | 877,127 | 991,700 | | |
| 65 | (Less) Amort. of Premium on Debt-Credit (429) | | 1,999,931 | 2,056,696 | | |
| 66 | (Less) Amortization of Gain on Reaquired Debt-Credit (429.1) | | 41,484 | 41,484 | | |
| 67 | Interest on Debt to Assoc. Companies (430) | 340 | 10,344,219 | 7,249,902 | | |
| 68 | Other Interest Expense (431) | 340 | 9,449,705 | 11,262,644 | | |
| 69 | (Less) Allowance for Borrowed Funds Used During Construction-Cr. (432) | | 30,683,688 | 17,792,778 | | |
| 70 | Net Interest Charges (Total of lines 62 thru 69) | | 78,738,491 | 93,153,245 | | |
| 71 | Income Before Extraordinary Items (Total of lines 27, 60 and 70) | | 263,543,563 | 172,619,282 | | |
| 72 | Extraordinary Items | | | | | |
| 73 | Extraordinary Income (434) | | | | | |
| 74 | (Less) Extraordinary Deductions (435) | | | 3,030,361 | | |
| 75 | Net Extraordinary Items (Total of line 73 less line 74) | | | -3,030,361 | | |
| 76 | Income Taxes-Federal and Other (409.3) | 262-263 | | -1,170,628 | | |
| 77 | Extraordinary Items After Taxes (line 75 less line 76) | | | -1,859,733 | | |
| 78 | Net Income (Total of line 71 and 77) | | 263,543,563 | 170,759,549 | | |

| Name of Respondent | This Report Is: | Date of Report (Mo, Da, Yr) | Year/Period of Report |
|---|---|---|---|
| Duke Energy Ohio, Inc. | (1) [X] An Original<br>(2) [ ] A Resubmission | / / | End of 2007/Q4 |

## STATEMENT OF RETAINED EARNINGS

1. Do not report Lines 49-53 on the quarterly version.
2. Report all changes in appropriated retained earnings, unappropriated retained earnings, year to date, and unappropriated undistributed subsidiary earnings for the year.
3. Each credit and debit during the year should be identified as to the retained earnings account in which recorded (Accounts 433, 436 - 439 inclusive). Show the contra primary account affected in column (b)
4. State the purpose and amount of each reservation or appropriation of retained earnings.
5. List first account 439, Adjustments to Retained Earnings, reflecting adjustments to the opening balance of retained earnings. Follow by credit, then debit items in that order.
6. Show dividends for each class and series of capital stock.
7. Show separately the State and Federal income tax effect of items shown in account 439, Adjustments to Retained Earnings.
8. Explain in a footnote the basis for determining the amount reserved or appropriated. If such reservation or appropriation is to be recurrent, state the number and annual amounts to be reserved or appropriated as well as the totals eventually to be accumulated.
9. *If any notes appearing in the report to stockholders are applicable to this statement, include them on pages 122-123.*

| Line No. | Item (a) | Contra Primary Account Affected (b) | Current Quarter/Year Year to Date Balance (c) | Previous Quarter/Year Year to Date Balance (d) |
|---|---|---|---|---|
| | UNAPPROPRIATED RETAINED EARNINGS (Account 216) | | | |
| 1 | Balance-Beginning of Period | | 53,218,068 | 458,508,646 |
| 2 | *Changes* | | | |
| 3 | Adjustments to Retained Earnings (Account 439) | | | |
| 4 | | | | |
| 5 | March 31, 2006 Balance transferred from income | | | 106,367,334 |
| 6 | | | | |
| 7 | | | | |
| 8 | | | | |
| 9 | TOTAL Credits to Retained Earnings (Acct. 439) | | | 106,367,334 |
| 10 | | | | |
| 11 | FAS158 Remeasurement | | -2,019,862 | |
| 12 | Purchase Accounting Adjustment | | | ( 462,455,414) |
| 13 | March 31, 2006 Dividends Declared - Preferred Stock Balance | | | ( 164,436) |
| 14 | March 31, 2006 Dividends Declared - Common Stock Balance | | | ( 102,256,130) |
| 15 | TOTAL Debits to Retained Earnings (Acct. 439) | | -2,019,862 | ( 564,875,980) |
| 16 | Balance Transferred from Income (Account 433 less Account 418.1) | | 231,351,569 | 53,218,068 |
| 17 | Appropriations of Retained Earnings (Acct. 436) | | | |
| 18 | | | | |
| 19 | | | | |
| 20 | | | | |
| 21 | | | | |
| 22 | TOTAL Appropriations of Retained Earnings (Acct. 436) | | | |
| 23 | Dividends Declared-Preferred Stock (Account 437) | | | |
| 24 | | | | |
| 25 | | | | |
| 26 | | | | |
| 27 | | | | |
| 28 | | | | |
| 29 | TOTAL Dividends Declared-Preferred Stock (Acct. 437) | | | |
| 30 | Dividends Declared-Common Stock (Account 438) | | | |
| 31 | Payable to Cinergy Corp | 238 | -89,278,714 | |
| 32 | | | | |
| 33 | | | | |
| 34 | | | | |
| 35 | | | | |
| 36 | TOTAL Dividends Declared-Common Stock (Acct. 438) | | -89,278,714 | |
| 37 | Transfers from Acct 216.1, Unapprop. Undistrib. Subsidiary Earnings | | | |
| 38 | Balance - End of Period (Total 1,9,15,16,22,29,36,37) | | 193,271,061 | 53,218,068 |
| | APPROPRIATED RETAINED EARNINGS (Account 215) | | | |

| Name of Respondent | This Report Is: | Date of Report (Mo, Da, Yr) | Year/Period of Report |
|---|---|---|---|
| Duke Energy Ohio, Inc. | (1) [X] An Original<br>(2) [ ] A Resubmission | / / | End of 2007/Q4 |

## STATEMENT OF RETAINED EARNINGS

1. Do not report Lines 49-53 on the quarterly version.
2. Report all changes in appropriated retained earnings, unappropriated retained earnings, year to date, and unappropriated undistributed subsidiary earnings for the year.
3. Each credit and debit during the year should be identified as to the retained earnings account in which recorded (Accounts 433, 436 - 439 inclusive). Show the contra primary account affected in column (b)
4. State the purpose and amount of each reservation or appropriation of retained earnings.
5. List first account 439, Adjustments to Retained Earnings, reflecting adjustments to the opening balance of retained earnings. Follow by credit, then debit items in that order.
6. Show dividends for each class and series of capital stock.
7. Show separately the State and Federal income tax effect of items shown in account 439, Adjustments to Retained Earnings.
8. Explain in a footnote the basis for determining the amount reserved or appropriated. If such reservation or appropriation is to be recurrent, state the number and annual amounts to be reserved or appropriated as well as the totals eventually to be accumulated.
9. If any notes appearing in the report to stockholders are applicable to this statement, include them on pages 122-123.

| Line No. | Item (a) | Contra Primary Account Affected (b) | Current Quarter/Year Year to Date Balance (c) | Previous Quarter/Year Year to Date Balance (d) |
|---|---|---|---|---|
| 39 | | | | |
| 40 | | | | |
| 41 | | | | |
| 42 | | | | |
| 43 | | | | |
| 44 | | | | |
| 45 | TOTAL Appropriated Retained Earnings (Account 215) | | | |
| | APPROP. RETAINED EARNINGS - AMORT. Reserve, Federal (Account 215.1) | | | |
| 46 | TOTAL Approp. Retained Earnings-Amort. Reserve, Federal (Acct. 215.1) | | | |
| 47 | TOTAL Approp. Retained Earnings (Acct. 215, 215.1) (Total 45,46) | | | |
| 48 | TOTAL Retained Earnings (Acct. 215, 215.1, 216) (Total 38, 47) (216.1) | | 193,271,061 | 53,218,068 |
| | UNAPPROPRIATED UNDISTRIBUTED SUBSIDIARY EARNINGS (Account | | | |
| | *Report only on an Annual Basis, no Quarterly* | | | |
| 49 | Balance-Beginning of Year (Debit or Credit) | | 1,178,700 | 198,744,917 |
| 50 | Equity in Earnings for Year (Credit) (Account 418.1) | | 32,191,994 | 11,174,148 |
| 51 | (Less) Dividends Received (Debit) | | | |
| 52 | See footnote | | 229,351 | ( 208,740,365) |
| 53 | Balance-End of Year (Total lines 49 thru 52) | | 33,600,045 | 1,178,700 |

| Name of Respondent | This Report is: | Date of Report | Year/Period of Report |
|---|---|---|---|
| Duke Energy Ohio, Inc. | (1) X An Original<br>(2) _ A Resubmission | (Mo, Da, Yr)<br>/ / | 2007/Q4 |

FOOTNOTE DATA

***Schedule Page: 118 Line No.: 5 Column: d***

In connection with the Duke Energy merger, Duke Energy acquired all of the outstanding common stock of Cinergy. The merger has been accounted for under the purchase method of accounting with Duke Energy treated as the acquirer for accounting purposes. As a result, the assets and liabilities of Cinergy were recorded at their respective fair values as of the merger consummation date. Purchase accounting impacts, including goodwill recognition, have been "pushed down" to Cinergy and Duke Energy Ohio resulting in the assets and liabilities of Cinergy and Duke Energy Ohio being recorded at their respective fair values as of April 3, 2006. For accounting purposes, the effective date of the merger was April 1, 2006. As a result of the application of the purchase method of accounting, the elimination of retained earnings and other comprehensive income were recorded in Duke Energy Ohio's Balance Sheet as of April 1, 2006. Therefore, "Balance Transferred from Income", "Dividends Declared", and "Balance - End of Period" only reflect activity for the periods April 2006 through December 2006.

***Schedule Page: 118 Line No.: 52 Column: c***

Adjustments to intercompany transactions with subsidiaries.

***Schedule Page: 118 Line No.: 52 Column: d***

Purchase Accounting adjustment

| Name of Respondent | This Report Is: | Date of Report (Mo, Da, Yr) | Year/Period of Report |
|---|---|---|---|
| Duke Energy Ohio, Inc. | (1) [X] An Original<br>(2) [ ] A Resubmission | / / | End of 2007/Q4 |

## STATEMENT OF CASH FLOWS

(1) Codes to be used:(a) Net Proceeds or Payments;(b)Bonds, debentures and other long-term debt; (c) Include commercial paper; and (d) Identify separately such items as investments, fixed assets, intangibles, etc.
(2) Information about noncash investing and financing activities must be provided in the Notes to the Financial statements. Also provide a reconciliation between "Cash and Cash Equivalents at End of Period" with related amounts on the Balance Sheet.
(3) Operating Activities - Other: Include gains and losses pertaining to operating activities only. Gains and losses pertaining to investing and financing activities should be reported in those activities. Show in the Notes to the Financials the amounts of interest paid (net of amount capitalized) and income taxes paid.
(4) Investing Activities: Include at Other (line 31) net cash outflow to acquire other companies. Provide a reconciliation of assets acquired with liabilities assumed in the Notes to the Financial Statements. Do not include on this statement the dollar amount of leases capitalized per the USofA General Instruction 20; instead provide a reconciliation of the dollar amount of leases capitalized with the plant cost.

| Line No. | Description (See Instruction No. 1 for Explanation of Codes)<br>(a) | Current Year to Date Quarter/Year<br>(b) | Previous Year to Date Quarter/Year<br>(c) |
|---|---|---|---|
| 1 | Net Cash Flow from Operating Activities: | | |
| 2 | Net Income (Line 78(c) on page 117) | 263,543,563 | 170,759,549 |
| 3 | Noncash Charges (Credits) to Income: | | |
| 4 | Depreciation and Depletion | 204,302,389 | 180,745,528 |
| 5 | Amortization of | | |
| 6 | Plant items | 50,324,129 | 45,612,901 |
| 7 | Amort of debt discount, premium, expense, loss on reacquired debt | 2,026,539 | 1,358,139 |
| 8 | Deferred Income Taxes (Net) | 1,396,637 | -114,345,646 |
| 9 | Investment Tax Credit Adjustment (Net) | -1,540,921 | -2,168,353 |
| 10 | Net (Increase) Decrease in Receivables | -16,893,217 | 227,949,010 |
| 11 | Net (Increase) Decrease in Inventory | 3,414,021 | -26,424,973 |
| 12 | Net (Increase) Decrease in Allowances Inventory | 125,054,640 | 57,453,103 |
| 13 | Net Increase (Decrease) in Payables and Accrued Expenses | -11,570,055 | -283,653,541 |
| 14 | Net (Increase) Decrease in Other Regulatory Assets | 110,048,634 | 93,380,647 |
| 15 | Net Increase (Decrease) in Other Regulatory Liabilities | 1,044,310 | |
| 16 | (Less) Allowance for Other Funds Used During Construction | 3,389,364 | 2,273,585 |
| 17 | (Less) Undistributed Earnings from Subsidiary Companies | 32,421,345 | 11,174,148 |
| 18 | Other (provide details in footnote): | -14,635,165 | 131,547,210 |
| 19 | | | |
| 20 | | | |
| 21 | | | |
| 22 | Net Cash Provided by (Used in) Operating Activities (Total 2 thru 21) | 680,704,795 | 468,765,841 |
| 23 | | | |
| 24 | Cash Flows from Investment Activities: | | |
| 25 | Construction and Acquisition of Plant (including land): | | |
| 26 | Gross Additions to Utility Plant (less nuclear fuel) | -521,368,590 | -467,264,015 |
| 27 | Gross Additions to Nuclear Fuel | | |
| 28 | Gross Additions to Common Utility Plant | -11,808,042 | -7,856,683 |
| 29 | Gross Additions to Nonutility Plant | | |
| 30 | (Less) Allowance for Other Funds Used During Construction | -3,389,364 | -2,273,585 |
| 31 | Other (provide details in footnote): | | |
| 32 | | | |
| 33 | | | |
| 34 | Cash Outflows for Plant (Total of lines 26 thru 33) | -529,787,268 | -472,847,113 |
| 35 | | | |
| 36 | Acquisition of Other Noncurrent Assets (d) | | |
| 37 | Proceeds from Disposal of Noncurrent Assets (d) | | |
| 38 | | | |
| 39 | Investments in and Advances to Assoc. and Subsidiary Companies | | |
| 40 | Contributions and Advances from Assoc. and Subsidiary Companies | | |
| 41 | Disposition of Investments in (and Advances to) | | |
| 42 | Associated and Subsidiary Companies | | |
| 43 | | | |
| 44 | Purchase of Investment Securities (a) | | |
| 45 | Proceeds from Sales of Investment Securities (a) | | |
| | | | |

| Name of Respondent | This Report Is: | Date of Report (Mo, Da, Yr) | Year/Period of Report |
|---|---|---|---|
| Duke Energy Ohio, Inc. | (1) [X] An Original<br>(2) [ ] A Resubmission | / / | End of 2007/Q4 |

## STATEMENT OF CASH FLOWS

(1) Codes to be used:(a) Net Proceeds or Payments;(b)Bonds, debentures and other long-term debt; (c) Include commercial paper; and (d) Identify separately such items as investments, fixed assets, intangibles, etc.
(2) Information about noncash investing and financing activities must be provided in the Notes to the Financial statements. Also provide a reconciliation between "Cash and Cash Equivalents at End of Period" with related amounts on the Balance Sheet.
(3) Operating Activities - Other: Include gains and losses pertaining to operating activities only. Gains and losses pertaining to investing and financing activities should be reported in those activities. Show in the Notes to the Financials the amounts of interest paid (net of amount capitalized) and income taxes paid.
(4) Investing Activities: Include at Other (line 31) net cash outflow to acquire other companies. Provide a reconciliation of assets acquired with liabilities assumed in the Notes to the Financial Statements. Do not include on this statement the dollar amount of leases capitalized per the USofA General Instruction 20; instead provide a reconciliation of the dollar amount of leases capitalized with the plant cost.

| Line No. | Description (See Instruction No. 1 for Explanation of Codes) (a) | Current Year to Date Quarter/Year (b) | Previous Year to Date Quarter/Year (c) |
|---|---|---|---|
| 46 | Loans Made or Purchased | | |
| 47 | Collections on Loans | | |
| 48 | | | |
| 49 | Net (Increase) Decrease in Receivables | | |
| 50 | Net (Increase ) Decrease in Inventory | | |
| 51 | Net (Increase) Decrease in Allowances Held for Speculation | | |
| 52 | Net Increase (Decrease) in Payables and Accrued Expenses | | |
| 53 | Other (provide details in footnote): | | 31,504,373 |
| 54 | Other investments | -351,314 | 15,000 |
| 55 | Withdrawal, issuance, redemption of restricted funds held in trust | -30,766,078 | 30,315,222 |
| 56 | Net Cash Provided by (Used in) Investing Activities | | |
| 57 | Total of lines 34 thru 55) | -560,904,660 | -411,012,518 |
| 58 | | | |
| 59 | Cash Flows from Financing Activities: | | |
| 60 | Proceeds from Issuance of: | | |
| 61 | Long-Term Debt (b) | 191,848,505 | |
| 62 | Preferred Stock | | |
| 63 | Common Stock | | |
| 64 | Other (provide details in footnote): | | |
| 65 | Contribution from parent | 25,800,000 | 179,760,975 |
| 66 | Net Increase in Short-Term Debt (c) | | |
| 67 | Other (provide details in footnote): | | |
| 68 | | | |
| 69 | | | |
| 70 | Cash Provided by Outside Sources (Total 61 thru 69) | 217,648,505 | 179,760,975 |
| 71 | | | |
| 72 | Payments for Retirement of: | | |
| 73 | Long-term Debt (b) | -146,700,000 | -76,720,663 |
| 74 | Preferred Stock | | -20,484,900 |
| 75 | Common Stock | | |
| 76 | Other (provide details in footnote): | | |
| 77 | | | |
| 78 | Net Decrease in Short-Term Debt (c) | -70,265,074 | |
| 79 | | | |
| 80 | Dividends on Preferred Stock | | -164,436 |
| 81 | Dividends on Common Stock | -135,000,000 | -102,256,130 |
| 82 | Net Cash Provided by (Used in) Financing Activities | | |
| 83 | (Total of lines 70 thru 81) | -134,316,569 | -19,865,154 |
| 84 | | | |
| 85 | Net Increase (Decrease) in Cash and Cash Equivalents | | |
| 86 | (Total of lines 22,57 and 83) | -14,516,434 | 37,888,169 |
| 87 | | | |
| 88 | Cash and Cash Equivalents at Beginning of Period | 37,676,971 | -211,198 |
| 89 | | | |
| 90 | Cash and Cash Equivalents at End of period | 23,160,537 | 37,676,971 |
| | | | |

| Name of Respondent | This Report is: | Date of Report (Mo, Da, Yr) | Year/Period of Report |
|---|---|---|---|
| Duke Energy Ohio, Inc. | (1) X An Original<br>(2) _ A Resubmission | / / | 2007/Q4 |

FOOTNOTE DATA

**Schedule Page: 120 Line No.: 18 Column: b**

| | |
|---|---|
| Special deposits | (940,029) |
| Prepayments | 29,155,110 |
| Miscellaneous current and accrued assets | 2,324,999 |
| Preliminary survey and investigation charges | (510,711) |
| Clearing accounts | 590,332 |
| Temporary facilities | (764,393) |
| Miscellaneous deferred debits | 84,905,233 |
| Unrecovered purchased gas costs | (2,424,919) |
| Accumulated other comprehensive income | 13,784,433 |
| Obligations under capital leases - noncurrent | 2,364,899 |
| Accumulated provisions | 6,434,526 |
| Derivative instrument liabilities - hedges | 19,733,952 |
| Customer advances for construction | (938,233) |
| Other deferred credits | (82,856,157) |
| Contribution to pension plan | (82,064,148) |
| Derivative instruments | 1,152,362 |
| Net utility plant and nonutility property | (6,515,409) |
| Cost of removal | (5,225,793) |
| Debt expenses | (1,787,768) |
| Deferred income taxes-OCI | 8,946,549 |
| Total Other | (14,635,165) |

**Schedule Page: 120 Line No.: 18 Column:**

| | |
|---|---|
| Special deposits | (2,261,183) |
| Prepayments | (6,778,994) |
| Miscellaneous current and accrued assets | 109,273,609 |
| Preliminary survey and investigation charges | (286,150) |
| Clearing accounts | (214,878) |
| Temporary facilities | 472,500 |
| Miscellaneous deferred debits | 69,911,819 |
| Unrecovered purchased gas costs | 6,450,305 |
| Accumulated other comprehensive income | 26,562,965 |
| Obligations under capital leases - noncurrent | 4,466,370 |
| Accumulated provisions | (9,724,806) |
| Derivative instrument liabilities - hedges | (2,242,090) |
| Customer advances for construction | 221,563 |
| Other deferred credits | (26,570,302) |
| Derivative instruments | (35,425,088) |
| Net utility plant and nonutility property | 7,173,291 |
| Cost of removal | (6,238,771) |
| Debt expenses | 852,605 |
| Donated capital - Tax sharing | 15,641,580 |
| Deferred income taxes-OCI | (22,767,496) |
| Loss on sales of equity investments and other assets | 3,030,361 |
| Total Other | 131,547,210 |

**Schedule Page: 120 Line No.: 53 Column:**

| | |
|---|---|
| Proceeds from sale of trading business to Fortis | 31,504,373 |

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## NOTES TO FINANCIAL STATEMENTS

1. Use the space below for important notes regarding the Balance Sheet, Statement of Income for the year, Statement of Retained Earnings for the year, and Statement of Cash Flows, or any account thereof. Classify the notes according to each basic statement, providing a subheading for each statement except where a note is applicable to more than one statement.
2. Furnish particulars (details) as to any significant contingent assets or liabilities existing at end of year, including a brief explanation of any action initiated by the Internal Revenue Service involving possible assessment of additional income taxes of material amount, or of a claim for refund of income taxes of a material amount initiated by the utility. Give also a brief explanation of any dividends in arrears on cumulative preferred stock.
3. For Account 116, Utility Plant Adjustments, explain the origin of such amount, debits and credits during the year, and plan of disposition contemplated, giving references to Commission orders or other authorizations respecting classification of amounts as plant adjustments and requirements as to disposition thereof.
4. Where Accounts 189, Unamortized Loss on Reacquired Debt, and 257, Unamortized Gain on Reacquired Debt, are not used, give an explanation, providing the rate treatment given these items. See General Instruction 17 of the Uniform System of Accounts.
5. Give a concise explanation of any retained earnings restrictions and state the amount of retained earnings affected by such restrictions.
6. If the notes to financial statements relating to the respondent company appearing in the annual report to the stockholders are applicable and furnish the data required by instructions above and on pages 114-121, such notes may be included herein.
7. For the 3Q disclosures, respondent must provide in the notes sufficient disclosures so as to make the interim information not misleading. Disclosures which would substantially duplicate the disclosures contained in the most recent FERC Annual Report may be omitted.
8. For the 3Q disclosures, the disclosures shall be provided where events subsequent to the end of the most recent year have occurred which have a material effect on the respondent. Respondent must include in the notes significant changes since the most recently completed year in such items as: accounting principles and practices; estimates inherent in the preparation of the financial statements; status of long-term contracts; capitalization including significant new borrowings or modifications of existing financing agreements; and changes resulting from business combinations or dispositions. However were material contingencies exist, the disclosure of such matters shall be provided even though a significant change since year end may not have occurred.
9. Finally, if the notes to the financial statements relating to the respondent appearing in the annual report to the stockholders are applicable and furnish the data required by the above instructions, such notes may be included herein.

PAGE 122 INTENTIONALLY LEFT BLANK
SEE PAGE 123 FOR REQUIRED INFORMATION.

This FERC Form 1 represents the financial statements of Duke Energy Ohio, Inc. at December 31, 2007. Duke Energy Ohio's financial statements have been prepared in conformity with the requirements of the Federal Energy Regulatory Commission as set forth in its applicable Uniform System of Accounts and published accounting releases, which is a comprehensive basis of accounting other than generally accepted accounting principles. The following areas represent the significant differences between the Uniform System of Accounts and generally accepted accounting principles: (1) the presentation of significant non-cash transactions, (2) the presentation of current and non-current portions of long-term debt, preferred stock and other liabilities, (3) the presentation of majority-owned subsidiaries (4) the presentation of business segments, (5) the presentation of extraordinary deductions, (6) the presentation of removal costs, and (7) the presentation of deferred gains related to emission allowance transactions.

Generally accepted accounting principles require that the current and non-current portions of long-term debt, preferred stock and other liabilities be appropriately identified and reported on the Balance Sheet. FERC requires that these items be reported as set forth in the Uniform System of Accounts and published accounting releases, which does not recognize any segregation between the current and non-current portions of these items for reporting purposes.

Generally accepted accounting principles require that majority-owned subsidiaries be consolidated for financial reporting purposes.

Generally accepted accounting principles require that public business enterprises report certain information about operating segments in complete sets of financial statements of the enterprise and certain information about their products and services, which are not included for FERC reporting purposes. The item reported differently due to these guidelines is the non-current portion of profits from wholesale power sales to be shared with customers, reported as a deferred credit per GAAP and as a current liability per FERC.

FERC requires that losses of unusual nature and infrequent occurrence, which would significantly distort the current year's income, be recorded as extraordinary deductions.

Generally accepted accounting principles require that removal costs for property that does not have an associated legal retirement obligation be presented as a liability on the Balance Sheet. These costs are presented as accumulated depreciation on the Balance Sheet for FERC reporting purposes. The portion of accumulated depreciation related to removal costs was $167 million at December 31, 2007 and $154 million at December 31, 2006.

On May 25, 2007, in Docket No. AI07-2-000, the FERC issued accounting and financial reporting guidance related to the implementation of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109" (FIN 48). Duke Energy Ohio is reflecting this guidance beginning with the 2007 FERC Form 1 filed in 2008, as required.

Duke Energy Ohio's Notes to Financial Statements have been prepared in conformity with generally accepted accounting principles. Accordingly, certain footnotes are not reflective of Duke Energy Ohio's Financial Statements contained herein.

## 1. Summary of Significant Accounting Policies

**Nature of Operations.** Duke Energy Ohio, Inc. (Duke Energy Ohio), an Ohio corporation organized in 1837, is a wholly-owned subsidiary of Cinergy Corp. (Cinergy). Duke Energy Ohio is a combination electric and gas public utility company that provides service in the southwestern portion of Ohio. Duke Energy Ohio's principal lines of business include generation, transmission and distribution of electricity, the sale of and/or transportation of natural gas, and energy marketing. In October 2006, Cinergy and Duke Energy Ohio completed the sale of Duke Energy Ohio's trading contracts to Fortis Bank S.A./N.V. (Fortis), a Benelux-based financial services group.

On April 3, 2006, Duke Energy Corporation (Old Duke Energy) and Cinergy merged into wholly-owned subsidiaries of Duke Energy Holding Corp. (Duke Energy HC), resulting in Duke Energy HC becoming the parent entity. In connection with the closing of the merger transactions, Duke Energy HC changed its name to Duke Energy Corporation (New Duke Energy or Duke Energy) and Old Duke Energy converted into a limited liability company named Duke Power Company LLC (subsequently renamed Duke Energy Carolinas, LLC effective October 1, 2006). As a result of the merger transactions, each outstanding share of Cinergy common stock was converted into 1.56 shares of common stock of New Duke Energy, which resulted in the issuance of approximately 313 million shares of Duke Energy common stock. See Note 2 for additional information regarding the merger. Both Old Duke Energy and New Duke Energy are referred to as Duke Energy herein. Duke Energy is a public registrant trading on the New York Stock Exchange under DUK.

As a result of Duke Energy's merger with Cinergy, Duke Energy Ohio entered into a tax sharing agreement with Duke Energy, where the separate return method is used to allocate tax expenses and benefits to the subsidiaries whose investments or results of operations provide these tax expenses and benefits. The accounting for income taxes essentially represents the income taxes that Duke Energy Ohio would incur if Duke Energy Ohio were a separate company filing its own tax return as a C-Corporation. The current tax sharing agreement Duke Energy Ohio has with Duke Energy is substantially the same as the tax sharing agreement between Duke Energy Ohio and Cinergy prior to the merger.

These Financial Statements represent stand-alone financial statements of Duke Energy Ohio. Accordingly, they do not reflect consolidation of any majority-owned subsidiaries where Duke Energy Ohio has control. These Financial Statements also reflect Duke Energy Ohio's proportionate share of certain generation and transmission facilities.

**Use of Estimates.** To conform to generally accepted accounting principles (GAAP) in the United States, management makes estimates and assumptions that affect the amounts reported in the Financial Statements and Notes. Although these estimates are based on management's best available knowledge at the time, actual results could differ.

**Cash and Cash Equivalents.** All highly liquid investments with original maturities of three months or less at the date of purchase are considered cash equivalents.

**Restricted Funds Held in Trust.** At December 31, 2007 and 2006, Duke Energy Ohio had approximately $62 million and $30 million, respectively, of restricted cash related primarily to proceeds from debt issuances that are held in trust, primarily for the purpose of funding future environmental expenditures.

**Inventory.** Inventory consists primarily of coal held for electric generation, materials and supplies, and natural gas held in storage for transmission and sales commitments. Inventory is recorded primarily using the average cost method.

**Components of Inventory**

| | December 31, 2007 | December 31, 2006 |
|---|---|---|
| | (in millions) | |
| **Inventory** | | |
| Gas held in storage | $ 60 | $ 71 |
| Fuel for use in electric generation | 68 | 65 |
| Materials and supplies | 57 | 52 |
| Total Inventory | $ 185 | $ 188 |

**Cost-Based Regulation.** Duke Energy Ohio accounts for certain of its regulated operations under the provisions of SFAS No. 71. The economic effects of regulation can result in a regulated company recording assets for costs that have been or are expected to be approved for recovery from customers in a future period or recording liabilities for amounts that are expected to be returned to customers in the rate-setting process in a period different from the period in which the amounts would be recorded by an unregulated enterprise. Accordingly, Duke Energy Ohio records assets and liabilities that result from the regulated ratemaking process that would not be recorded under GAAP for non-regulated entities. Management continually assesses whether regulatory assets are probable of future recovery by considering factors such as applicable regulatory changes, recent rate orders applicable to other regulated entities and the status of any pending or potential deregulation legislation. Additionally, management continually assesses whether any regulatory liabilities have been incurred. Based on this continual assessment, management believes the existing regulatory assets are probable of recovery and that no regulatory liabilities, other than those recorded, have been incurred. These regulatory assets and liabilities are primarily classified in the Balance Sheets as Regulatory Assets and Deferred Debits, and Deferred Credits and Other Liabilities. Duke Energy Ohio periodically evaluates the applicability of SFAS No. 71, and considers factors such as regulatory changes and the impact of competition. If cost-based regulation ends or competition increases, Duke Energy Ohio may have to reduce its asset balances to reflect a market basis less than cost and write-off their associated regulatory assets and liabilities. *(For further information see Note 4.)*

The state of Ohio passed comprehensive electric deregulation legislation in 1999, and in 2000, the Public Utilities Commission of Ohio (PUCO) approved a stipulation agreement relating to Duke Energy Ohio's transition plan creating a Regulatory Transition Charge (RTC) designed to recover Duke Energy Ohio's generation-related regulatory assets and transition costs over a ten-year period beginning January 1, 2001. Accordingly, application of SFAS No. 71 was discontinued for the generation portion of Duke Energy Ohio's business. Duke Energy Ohio has a RTC balance of approximately $239 million and $331 million as of December 31, 2007 and 2006, respectively, which is classified in Other Regulatory Assets and Deferred Debits on the Balance Sheets.

Duke Energy Ohio operates under the Rate Stabilization Plan (RSP), a market based standard service offer (MBSSO) which was approved by the PUCO in November 2004, and which provides price certainty through December 31, 2008. In March 2005, the Office of the Ohio Consumers' Counsel (OCC) appealed the PUCO's approval of the MBSSO and in November 2006, the Ohio Supreme Court remanded the PUCO's order approving the MBSSO for further evidentiary support and explanation, and to require Duke Energy Ohio to disclose certain confidential commercial agreements between an affiliate of Duke Energy Ohio and certain Duke Energy Ohio customers which had been previously requested by the OCC. Duke Energy Ohio has complied with the disclosure order and on October 24, 2007, the PUCO issued its order in response to the remand. On February 15, 2008, Duke Energy Ohio filed a notice of appeal with the Ohio Supreme Court challenging a portion of PUCO's order on remand issued in October 2007 (see Note 4). The MBSSO consists of the following discrete charges:

- Annually Adjusted Component—intended to provide cost recovery primarily for environmental compliance expenditures. This component is avoidable (or by-passable) for the first 25% of residential load and 50% of non-residential load to switch to an alternative electric service provider.
- Infrastructure Maintenance Fund Charge—intended to compensate Duke Energy Ohio for committing its physical capacity. This charge is unavoidable (or non-by-passable).
- System Reliability Tracker—intended to provide actual cost recovery for capacity purchases, purchased power, reserve capacity, and related market costs for purchases to meet capacity needs. This charge is non-by-passable for residential load and by-passable for non-residential load under certain circumstances.
- Rate Stabilization Charge—intended to compensate Duke Energy Ohio for maintaining a fixed price through 2008. This charge is by-passable by the first 25% of residential load and 50% of non-residential load to switch.
- Generation Prices and Fuel Recovery—A market price has been established for generation service. A component of the market price is a fuel cost recovery mechanism that is adjusted quarterly for fuel, emission allowances, and certain purchased power costs, that exceed the amount originally included in the rates frozen in the Duke Energy Ohio transition plan. These new prices were applied to non-residential customers beginning January 1, 2005 and to residential customers beginning January 1, 2006.
- Transmission Cost Recovery—A transmission cost recovery mechanism was established beginning January 1, 2005 for non-residential customers and beginning January 1, 2006 for residential customers. The transmission cost recovery mechanism is designed to permit Duke Energy Ohio to recover certain Midwest Independent Transition System Operator, Inc. (Midwest ISO) charges, all Federal Energy Regulatory Commission (FERC) approved transmission costs, and all congestion costs allocable to retail ratepayers that are provided service by Duke Energy Ohio.

Excluding Duke Energy Ohio's deregulated generation-related assets and liabilities, as of December 31, 2007, Duke Energy Ohio continues to meet the criteria to apply SFAS No. 71.

**Energy Purchases and Fuel Costs.** As part of the PUCO's November 2004 approval of Duke Energy Ohio's RSP, a cost tracking recovery mechanism was established to recover costs of retail fuel and emission allowances that exceed the amount originally included in the rates frozen in the Duke Energy Ohio transition plan. This mechanism was effective January 1, 2005 for non-residential customers and January 1, 2006 for residential customers. Also, Duke Energy Ohio began utilizing a tracking mechanism approved by the PUCO for the recovery of system reliability capacity costs related to certain specified purchases of power. This mechanism was effective January 1, 2005 for non-residential customers and January 1, 2006 for residential customers. Because Duke Energy Ohio does not apply SFAS No. 71 to its generation operations, differences between fuel costs billed and costs incurred are not recorded as regulatory assets or liabilities.

**Accounting for Risk Management and Hedging Activities and Financial Instruments.** Duke Energy Ohio uses a number of different derivative and non-derivative instruments in connection with its commodity price and interest rate risk management activities, including swaps, futures, forwards and options. All derivative instruments not designated and qualifying for the normal purchases and normal sales exception under SFAS No. 133, *"Accounting for Derivative Instruments and Hedging Activities"*, as amended, (SFAS No. 133), are recorded on the Balance Sheets at their fair value. Cash inflows and outflows related to derivative instruments, except those that contain financing elements and those related to other investing activities, are a component of operating cash flows in the accompanying Statements of Cash Flows. Cash inflows and outflows related to derivative instruments containing financing elements are a component of financing cash flows in the accompanying Statements of Cash Flows while cash inflows and outflows from derivatives related to investing activities are a component of investing cash flows in the accompanying Statements of Cash Flows.

Duke Energy Ohio designates all energy commodity derivatives as either trading or non-trading. Gains and losses for all derivative contracts that do not represent physical delivery contracts are reported on a net basis in the Statements of Operations. For each of Duke Energy Ohio's physical delivery contracts that are derivatives, the accounting model and presentation of gains and losses, or revenue and expense in the Statements of Operations is shown below.

| Classification of Contract | Duke Energy Ohio Accounting Model | Presentation of Gains & Losses or Revenue & Expense |
|---|---|---|
| *Trading derivatives* | Mark-to-market(a) | Net basis in Non-regulated electric and other |
| *Non-trading derivatives:* | | |
| Cash flow hedge | Accrual(b) | Gross basis in the same Statement of Operations category as the related hedged item |
| Fair value hedge | Accrual(b) | Gross basis in the same Statement of Operations category as the related hedged item |
| Normal purchase or sale | Accrual(b) | Gross basis upon settlement in the corresponding Statement of Operations category based on commodity type |
| Undesignated | Mark-to-market(a) | Net basis in the related Statement of Operations category for interest rate and commodity derivatives |

(a) An accounting term used by Duke Energy Ohio to refer to derivative contracts for which an asset or liability is recognized at fair value and the change in the fair value of that asset or liability is recognized in the Statements of Operations. This term is applied to trading and undesignated non-trading derivative contracts. As this term is not explicitly defined within GAAP, Duke Energy Ohio's application of this term could differ from that of other companies.

(b) An accounting term used by Duke Energy Ohio to refer to contracts for which there is generally no recognition in the Statements of Operations for any changes in fair value until the service is provided, the associated delivery period occurs or there is hedge ineffectiveness. As discussed further below, this term is applied to derivative contracts that are accounted for as cash flow hedges, fair value hedges, and normal purchases or sales, as well as to non-derivative contracts used for commodity risk management purposes. As this term is not explicitly defined within GAAP, Duke Energy Ohio's application of this term could differ from that of other companies.

Where Duke Energy Ohio's derivative instruments are subject to a master netting agreement and the criteria FASB Interpretation (FIN) No. 39, *"Offsetting of Amounts Related to Certain Contracts—an Interpretation of Accounting Principles Board (APB) Opinion No. 10 and FASB Statement No. 105"* (FIN 39), are met, Duke Energy Ohio presents its derivative assets and liabilities, and accompanying receivables and payables, separately on a net basis in the accompanying Balance Sheets.

*Cash Flow and Fair Value Hedges.* Qualifying energy commodity and other derivatives may be designated as either a hedge of a forecasted transaction or future cash flows (cash flow hedge) or a hedge of a recognized asset, liability or firm commitment (fair value hedge). For all contracts accounted for as a hedge, Duke Energy Ohio prepares formal documentation of the hedge in accordance with SFAS No. 133. In addition, at inception and at least every three months thereafter, Duke Energy Ohio formally assesses whether the hedge contract is highly effective in offsetting changes in cash flows or fair values of hedged items. Duke Energy Ohio documents hedging activity by transaction type (futures/swaps) and risk management strategy (commodity price risk/interest rate risk).

Changes in the fair value of a derivative designated and qualified as a cash flow hedge, to the extent effective, are included in the Statements of Common Stockholder's Equity and Comprehensive Income as Accumulated Other Comprehensive Loss (AOCI) until earnings are affected by the hedged item. Duke Energy Ohio discontinues hedge accounting prospectively when it has determined that a derivative no longer qualifies as an effective hedge, or when it is no longer probable that the hedged forecasted transaction will occur. When hedge accounting is discontinued because the derivative no longer qualifies as an effective hedge, the derivative is subject to the Mark-to-Market model of accounting (MTM Model) prospectively. Gains and losses related to discontinued hedges that were previously accumulated in AOCI will remain in AOCI until the underlying contract is reflected in earnings; unless it is probable that the hedged forecasted transaction will not occur at which time associated deferred amounts in AOCI are immediately recognized in current earnings.

For derivatives designated as fair value hedges, Duke Energy Ohio recognizes the gain or loss on the derivative instrument, as well as the offsetting loss or gain on the hedged item in earnings, to the extent effective, in the current period. All derivatives designated and accounted for as hedges are classified in the same category as the item being hedged in the Statements of Cash Flows. In addition, all components of each derivative gain or loss are included in the assessment of hedge effectiveness.

*Normal Purchases and Normal Sales.* As appropriate, Duke Energy Ohio applies the normal purchase and normal sales exception to certain contracts. If contracts cease to meet this exception, the fair value of the contracts is recognized on the Balance Sheets and the contracts are accounted for using the MTM Model unless immediately designated as a cash flow or fair value hedge.

*Valuation.* When available, quoted market prices or prices obtained through external sources are used to measure a contract's fair value. For contracts with a delivery location or duration for which quoted market prices are not available, fair value is determined based on internally developed valuation techniques or models. For derivatives recognized under the MTM Model, valuation adjustments are also recognized in the Statements of Operations.

**Goodwill.** Duke Energy Ohio evaluates goodwill for potential impairment under the guidance of SFAS No. 142, "*Goodwill and Other Intangible Assets*" (SFAS No. 142). Under this provision, goodwill is subject to an annual test for impairment. Duke Energy Ohio has designated August 31 as the date it performs the annual review for goodwill impairment for its reporting units. Under the provisions of SFAS No. 142, Duke Energy Ohio performs the annual review for goodwill impairment at the reporting unit level, which Duke Energy Ohio has determined to be an operating segment.

Impairment testing of goodwill consists of a two-step process. The first step involves a comparison of the determined fair value of a reporting unit with its carrying amount. If the carrying amount of the reporting unit exceeds its fair value, the second step of the process involves a comparison of the fair value and carrying value of the goodwill of that reporting unit. If the carrying value of the goodwill of a reporting unit exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to the excess. Additional impairment tests are performed between the annual reviews if events or changes in circumstances make it more likely than not that the fair value of a reporting unit is below its carrying amount.

Duke Energy Ohio primarily uses a discounted cash flow analysis to determine fair value. Key assumptions in the determination of fair value include the use of an appropriate discount rate, estimated future cash flows and estimated run rates of operation, maintenance, and general and administrative costs. In estimating cash flows, Duke Energy Ohio incorporates expected growth rates, regulatory stability and ability to renew contracts as well as other factors into its revenue and expense forecasts.

**Property, Plant and Equipment.** Recorded balances for property, plant and equipment existing as of April 3, 2006 were adjusted to reflect fair values as of that date. Due to rate setting and recovery provisions currently in place for regulated operations, the fair values of property plant and equipment of the regulated operations were considered to approximate their carrying values as of the date of Duke Energy's merger with Cinergy. Accumulated depreciation was not reset to zero as of the merger date for the regulated property, plant and equipment due primarily to regulatory reporting implications. Unregulated property, plant and equipment were recorded at respective fair values and accumulated deprecation was reset to zero as of the merger date. Otherwise, property, plant and equipment are stated at the lower of historical cost less accumulated depreciation or fair value, if impaired. Duke Energy Ohio capitalizes all construction-related direct labor and material costs, as well as indirect construction costs. Indirect costs include general engineering, taxes and the cost of funds used during construction. The cost of renewals and betterments that extend the useful life of property, plant and equipment are also capitalized. The cost of repairs, replacements and major maintenance projects, which do not extend the useful life or increase the expected output of property, plant and equipment, is expensed as incurred. Depreciation is generally computed over the asset's estimated useful life using the straight-line method. The composite weighted-average depreciation rates were 2.6% for 2007 and 2.7% for 2006. Also, see "Allowance for Funds Used During Construction (AFUDC)," discussed below.

When Duke Energy Ohio retires its regulated property, plant and equipment, it charges the original cost plus the cost of retirement, less salvage value, to accumulated depreciation and amortization. When it sells entire regulated operating units, or retires or sells non-regulated properties, the cost is removed from the property account and the related accumulated depreciation and amortization accounts are reduced. Any gain or loss is recorded in earnings, unless otherwise required by the applicable regulatory body.

Duke Energy Ohio recognizes asset retirement obligations (ARO's) in accordance with SFAS No. 143, "*Accounting For Asset Retirement Obligations*" (SFAS No. 143), for legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or normal use of the asset and FIN No. 47, "*Accounting for Conditional Asset Retirement Obligations*" (FIN 47), for conditional ARO's. The term conditional asset retirement obligation as used in SFAS No. 143 and FIN 47 refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. Thus, the timing and (or) method of settlement may be conditional on a future event. Both SFAS No. 143 and FIN 47 require that the fair value of a liability for an ARO be recognized in the period in which it is incurred, if a reasonable estimate of fair value can be made. The fair value of the liability is added to the carrying amount of the associated asset. This additional carrying amount is then depreciated over the estimated useful life of the asset. See Note 7 for further information.

**Unamortized Debt Premium, Discount and Expense.** Premiums, discounts and expenses incurred with the issuance of outstanding long-term debt are amortized over the terms of the debt issues. Any call premiums or unamortized expenses associated with refinancing higher-cost debt obligations to finance regulated assets and operations are amortized consistent with regulatory treatment of those items, where appropriate. The amortization expense is recorded in continuing operations as interest expense in the Statements of Operations. The amortization expense is reflected as Depreciation and amortization within Net cash provided by operating activities on the Statements of Cash Flows.

**Loss Contingencies.** Duke Energy Ohio is involved in certain legal and environmental matters that arise in the normal course of business. Loss contingencies are accounted for under SFAS No. 5, "*Accounting for Contingencies,*" (SFAS No. 5). Under SFAS No. 5, contingent losses are recorded when it is determined that it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. When a range of the probable loss exists and no amount within the range is a better estimate than any other amount, Duke Energy Ohio records a loss contingency at the minimum amount in the range. Unless otherwise required by GAAP, legal fees are expensed as incurred. See Note 15 for further information.

**Environmental Expenditures.** Duke Energy Ohio expenses environmental expenditures related to conditions caused by past operations that do not generate current or future revenues. Environmental expenditures related to operations that generate current or future revenues are expensed or capitalized, as appropriate. Liabilities are recorded on an undiscounted basis when the necessity for environmental remediation becomes probable and the costs can be reasonably estimated, or when other potential environmental liabilities are reasonably estimable and probable.

**Revenue Recognition and Unbilled Revenue.** Revenues on sales of electricity and gas are recognized when either the service is provided or the product is delivered. Unbilled revenues are estimated by applying an average revenue per kilowatt hour or per thousand cubic feet (Mcf) for all customer classes to the number of estimated kilowatt hours or Mcf's delivered but not billed. The amount of unbilled revenues can vary significantly period to period as a result of factors including seasonality, weather, customer usage patterns and customer mix. Unbilled revenues for Commercial Power, which are recorded as Receivables in Duke Energy Ohio's Balance Sheet at December 31, 2007 and 2006, were approximately $38 million and $56 million, respectively. The receivables for unbilled revenues for Franchised Electric and Gas ($120 million and $110 million at December 31, 2007 and 2006, respectively) are included in the sales of accounts receivable to Cinergy Receivables Company, LLC (Cinergy Receivables). See Note 11 for additional information.

**Allowance for Funds Used During Construction (AFUDC).** AFUDC, which represents the estimated debt and equity costs of capital funds necessary to finance the construction of new regulated facilities, consists of two components, an equity component and an interest component. The equity component is a non-cash item. AFUDC is capitalized as a component of Property, Plant and Equipment cost, with offsetting credits to the Statements of Operations. After construction is completed, Duke Energy Ohio is permitted to recover these costs through inclusion in the rate base and in the depreciation provision. The total amount of AFUDC included within income from continuing operations in the Statements of Operations was $32 million in 2007, which consisted of an after-tax equity component of $3 million and a before-tax interest expense component of $29 million. The total amount of AFUDC included within income from continuing operations in the Statements of Operations in2006 was $19 million, which consisted of an after-tax equity component of $2 million and a before-tax interest expense component of $16 million.

**Accounting For Purchases and Sales of Emission Allowances.** Duke Energy Ohio recognizes emission allowances in earnings as they are consumed or sold. Gains or losses on sales of emission allowances for non-regulated businesses are presented on a net basis in (Losses) Gains on Sales of Other Assets and Other, net, in the accompanying Statements of Operations. For regulated businesses that provide for direct recovery of emission allowances, any gains or losses on sales of recoverable emission allowances are included in the rate structure of the regulated entity and are deferred as a regulatory asset or liability. Future rates charged to retail customers are impacted by any gain or loss on sales of recoverable emission allowances and, therefore, as the recovery of the gain or loss is recognized in operating revenues, the regulatory asset or liability related to the emission allowance activity is recognized as a component of Fuel Used in Electric Generation and Purchased Power in the Statements of Operations. Purchases and sales of emission allowances are presented gross as investing activities on the Statements of Cash Flows.

**Income Taxes.** As a result of Duke Energy's merger with Cinergy, Duke Energy Ohio entered into a tax sharing agreement with Duke Energy, where the separate return method is used to allocate tax expenses and benefits to the subsidiaries whose investments or results of operations provide these tax expenses or benefits. The accounting for income taxes essentially represents the income taxes that Duke Energy Ohio would incur if Duke Energy Ohio were a separate company filing its own tax return as a C-Corporation. The current tax sharing agreement Duke Energy Ohio has with Duke Energy is substantially the same as the tax sharing agreement between Duke Energy Ohio and Cinergy prior to the merger. Deferred income taxes have been provided for temporary differences between the GAAP and tax carrying amounts of assets and liabilities. These differences create taxable or tax-deductible amounts for future periods. Investment tax credits have been deferred and are being amortized over the estimated useful lives of the related properties.

Management evaluates and records uncertain tax positions in accordance with FIN 48, "*Accounting For Uncertainty in Income Taxes – an Interpretation of FASB Statement 109*," (FIN 48), which was adopted by Duke Energy Ohio on January 1, 2007. Duke Energy Ohio records unrecognized tax benefits for positions taken or expected to be taken on tax returns, including the decision to exclude certain income or transactions from a return, when a more-likely-than-not threshold is met for a tax position and management believes that the position will be sustained upon examination by the taxing authorities. Management evaluates each position based solely on the technical merits and facts and circumstances of the position, assuming the position will be examined by a taxing authority having full knowledge of all relevant information. In accordance with FIN 48, Duke Energy Ohio records the largest amount of the unrecognized tax benefit that is greater than 50% likely of being realized upon settlement or effective settlement. Management considers a tax position effectively settled for the purpose of recognizing previously unrecognized tax benefits when the following conditions exist: (i) the taxing authority has completed its examination procedures, including all appeals and administrative reviews that the taxing authority is required and expected to perform for the tax positions, (ii) Duke Energy Ohio does not intend to appeal or litigate any aspect of the tax position included in the completed examination, and (iii) it is remote that the taxing authority would examine or reexamine any aspect of the tax position. See Note 6 for further information.

Duke Energy Ohio records, as it relates to taxes, interest expense as Interest Expense and interest income and penalties in Other Income and Expenses, net, in the Statements of Operations.

**Excise Taxes.** Certain excise taxes levied by state or local governments are collected by Duke Energy Ohio from its customers. These taxes, which are required to be paid regardless of Duke Energy Ohio's ability to collect from the customer, are accounted for on a gross basis. When Duke Energy Ohio acts as an agent, and the tax is not required to be remitted if it is not collected from the customer, the taxes are accounted for on a net basis. Duke Energy Ohio's excise taxes accounted for on a gross basis and recorded as revenues in the accompanying Statements of Operations at December 31, 2007 and 2006 was $116 million and $115 million, respectively.

**Reclassifications and Revisions.** Certain prior period amounts have been reclassified to conform to the presentation for the current period.

**New Accounting Standards.** The following new accounting standards were adopted by Duke Energy Ohio during the year ended December 31, 2007 and the impact of such adoption, if applicable, has been presented in the accompanying Financial Statements:

*SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments—an amendment of FASB Statements No. 133 and 140" (SFAS No. 155).* In February 2006, the FASB issued SFAS No. 155, which amends SFAS No. 133, "*Accounting for Derivative Instruments and Hedging Activities*" and SFAS No. 140, "*Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*" (SFAS No. 140). SFAS No. 155 allows financial instruments that have embedded derivatives to be accounted for at fair value at acquisition, at issuance, or when a previously recognized financial instrument is subject to a remeasurement (new basis) event, on an instrument-by-instrument basis, in cases in which a derivative would otherwise have to be bifurcated. SFAS No. 155 was effective for Duke Energy Ohio for all financial instruments acquired, issued, or subject to remeasurement after January 1, 2007, and for certain hybrid financial instruments that had been bifurcated prior to the effective date, for which the effect is to be reported as a cumulative-effect adjustment to beginning retained earnings. The adoption of SFAS No. 155 did not have a material impact on Duke Energy Ohio's results of operations, cash flows or financial position.

*SFAS No. 156, "Accounting for Servicing of Financial Assets—an amendment of FASB Statement No. 140" (SFAS No. 156).* In March 2006, the FASB issued SFAS No. 156, which amends SFAS No. 140. SFAS No. 156 requires recognition of a servicing asset or liability when an entity enters into arrangements to service financial instruments in certain situations. Such servicing assets or servicing liabilities are required to be initially measured at fair value, if practicable. SFAS No. 156 also allows an entity to subsequently measure its servicing assets or servicing liabilities using either an amortization method or a fair value method. SFAS No. 156 was effective for Duke Energy Ohio as of January 1, 2007, and must be applied prospectively, except that where an entity elects to remeasure separately recognized existing arrangements and reclassify certain available-for-sale securities to trading securities, any effects must be reported as a cumulative-effect adjustment to retained earnings. The adoption of SFAS No. 156 did not have a material impact on Duke Energy Ohio's results of operations, cash flows or financial position.

*SFAS No. 158, "Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)" (SFAS No. 158).* In October 2006, the FASB issued SFAS No. 158, which changes the recognition and disclosure provisions and measurement date requirements for an employer's accounting for defined benefit pension and other postretirement plans. The recognition and disclosure provisions require an employer to (1) recognize the funded status of a benefit plan—measured as the difference between plan assets at fair value and the benefit obligation—in its statement of financial position, (2) recognize as a component of other comprehensive loss, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost, and (3) disclose in the notes to financial statements certain additional information. SFAS No. 158 does not change the amounts recognized in the income statement as net periodic benefit cost. Duke Energy Ohio recognized the funded status of its defined benefit pension and other postretirement plans and provided the required additional disclosures as of December 31, 2006. The adoption of SFAS No. 158 recognition and disclosure provisions resulted in an increase in total assets of approximately $12 million (consisting of an increase in regulatory assets of $10 million and an increase in deferred tax assets of $2 million), an increase in total liabilities of approximately $14 million and a decrease in AOCI, net of tax, of approximately $2 million as of December 31, 2006.

Under the measurement date requirements of SFAS No. 158, an employer is required to measure defined benefit plan assets and obligations as of the date of the employer's fiscal year-end statement of financial position (with limited exceptions). Historically, Duke Energy Ohio has measured its plan assets and obligations up to three months prior to the fiscal year-end, as allowed under the authoritative accounting literature. Duke Energy Ohio adopted the change in measurement date effective January 1, 2007 by remeasuring plan assets and benefit obligations as of that date, pursuant to the transition requirements of SFAS No. 158. Net periodic benefit cost of approximately $3 million for the three-month period between September 30, 2006 and December 31, 2006 was recognized, net of tax, as a separate adjustment of retained earnings as of January 1, 2007. Additionally, in the first quarter of 2007, the changes in plan assets and plan obligations between the September 30, 2006 and December 31, 2006 measurement dates not related to net periodic benefit cost was required to be recognized, net of tax, as a separate adjustment of the opening balance of AOCI and regulatory assets. This adjustment was not material. During the second quarter of 2007, Duke Energy Ohio completed these calculations. The finalization of these actuarial calculations resulted in a $2 million adjustment to AOCI and an immaterial adjustment to regulatory assets.

The adoption of SFAS No. 158 did not have a material impact on Duke Energy Ohio's results of operations or cash flows.

*FIN No. 48.* In July 2006, the FASB issued FIN 48, which provides guidance on accounting for income tax positions about which Duke Energy Ohio has concluded there is a level of uncertainty with respect to the recognition of a tax benefit in Duke Energy Ohio's financial statements. FIN 48 prescribes the minimum recognition threshold a tax position is required to meet. Tax positions are defined very broadly and include not only tax deductions and credits but also decisions not to file in a particular jurisdiction, as well as the taxability of transactions. Duke Energy Ohio adopted FIN 48 effective January 1, 2007. See Note 6 for additional information.

*FASB Staff Position (FSP) No. FIN 48-1, Definition of "Settlement" in FASB Interpretation No. 48 (FSP No. FIN 48-1).* In May, 2007, the FASB staff issued FSP No. FIN 48-1 which clarifies the conditions under FIN 48 that should be met for a tax position to be considered effectively settled with the taxing authority.

Duke Energy Ohio's adoption of FIN 48 as of January 1, 2007 was consistent with the guidance in this FSP.

The following new accounting standard was adopted by Duke Energy Ohio during the year ended December 31, 2006 and the impact of such adoption, if applicable, has been presented in the accompanying Financial Statements:

*Staff Accounting Bulletin (SAB) No. 108, "Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements" (SAB No. 108).* In September 2006 the Securities and Exchange Commission (SEC) issued SAB No. 108, which provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. Traditionally, there have been two widely-recognized approaches for quantifying the effects of financial statement misstatements. The income statement approach focuses primarily on the impact of a misstatement on the income statement—including the reversing effect of prior year misstatements—but its use can lead to the accumulation of misstatements in the balance sheet. The balance sheet approach, on the other hand, focuses primarily on the effect of correcting the period-end balance sheet with less emphasis on the reversing effects of prior year errors on the income statement. The SEC staff believes that registrants should quantify errors using both a balance sheet and an income statement approach (a "dual approach") and evaluate whether either approach results in quantifying a misstatement that, when all relevant quantitative and qualitative factors are considered, is material.

SAB No. 108 was effective for Duke Energy Ohio's year ending December 31, 2006. SAB No. 108 permits existing public companies to initially apply its provisions either by (i) restating prior financial statements as if the "dual approach" had always been used or (ii), under certain circumstances, recording the cumulative effect of initially applying the "dual approach" as adjustments to the carrying values of assets and liabilities as of January 1, 2006 with an offsetting adjustment recorded to the opening balance of retained earnings. Duke Energy Ohio has historically used a dual approach for quantifying identified financial statement misstatements. Therefore, the adoption of SAB No. 108 did not have a material impact on Duke Energy Ohio's results of operations, cash flows or financial position.

The following new accounting standards have been issued, but have not yet been adopted by Duke Energy Ohio as of December 31, 2007:

*SFAS No. 157, "Fair Value Measurements" (SFAS No. 157).* In September 2006, the FASB issued SFAS No. 157, which defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements. The application of SFAS No. 157 may change Duke Energy Ohio's current practice for measuring fair values under other accounting pronouncements that require fair value measurements. For Duke Energy Ohio, SFAS No. 157 is effective as of January 1, 2008. In February 2008, the FASB issued FSP No. 157-2, which delays the effective date of SFAS No. 157 for one year for nonfinancial assets and liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. Duke Energy Ohio does not expect to report any material cumulative-effect adjustment to beginning retained earnings as is required by SFAS No. 157 for certain limited matters. Duke Energy Ohio continues to monitor additional proposed interpretative guidance regarding the application of SFAS No. 157. To date, no matters have been identified regarding implementation of SFAS No. 157 that would have any material impact on Duke Energy Ohio's results of operations or financial position.

*SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" (SFAS No. 159).* In February 2007, the FASB issued SFAS No. 159, which permits entities to choose to measure many financial instruments and certain other items at fair value. For Duke Energy Ohio, SFAS No. 159 is effective as of January 1, 2008 and will have no impact on amounts presented for periods prior to the effective date. Duke Energy Ohio does not currently have any financial assets or financial liabilities for which the provisions of SFAS No. 159 have been elected. However, in the future, Duke Energy Ohio may elect to measure certain financial instruments at fair value in accordance with this standard.

*SFAS No. 141 (revised 2007), "Business Combinations" (SFAS No. 141R).* In December 2007, the FASB issued SFAS No. 141R, which replaces SFAS No. 141, "*Business Combinations*." SFAS No. 141R retains the fundamental requirements in SFAS No. 141 that the acquisition method of accounting be used for all business combinations and that an acquirer be identified for each business combination. This statement also establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling (minority) interests in an acquiree, and any goodwill acquired in a business combination or gain recognized from a bargain purchase. For Duke Energy Ohio, SFAS No. 141R must be applied prospectively to business combinations for which the acquisition date occurs on or after January 1, 2009. The impact to Duke Energy Ohio of applying SFAS No. 141R for periods subsequent to implementation will be dependent upon the nature of any transactions within the scope of SFAS No. 141R.

## 2. Duke Energy/Cinergy Merger

Duke Energy Ohio consolidates assets and liabilities from acquisitions as of the purchase date, and includes earnings from acquisitions in consolidated earnings after the purchase date. Assets acquired and liabilities assumed are recorded at estimated fair values on the date of acquisition. The purchase price minus the estimated fair value of the acquired assets and liabilities meeting the definition of a business as defined in EITF Issue No. 98-3, "*Determining Whether a Nonmonetary Transaction Involves Receipt of Productive Assets or of a Business*" (EITF 98-3), is recorded as goodwill. The allocation of the purchase price may be adjusted if additional, requested information is received during the allocation period, which generally does not exceed one year from the consummation date, however, it may be longer for certain income tax items.

On April 3, 2006, the merger between Duke Energy and Cinergy was consummated (see Note 1 for additional information on the merger). For accounting purposes, the effective date of the merger was April 1, 2006. The merger combined the Duke Energy and Cinergy regulated franchises as well as deregulated generation in the midwestern United States (Midwest).

Based on the market price of Duke Energy common stock during the period, including the two trading days before, through the two trading days after, May 9, 2005, the date Duke Energy and Cinergy announced the merger, the transaction was valued at approximately $9,115 million and resulted in goodwill recorded at Duke Energy Ohio of approximately $2,348 million.

As discussed in Note 1 above, purchase accounting impacts, including goodwill recognition, have been "pushed down" to Duke Energy Ohio, resulting in the assets and liabilities of Duke Energy Ohio being recorded at their respective fair values as of April 3, 2006. The following unaudited pro forma financial results for Duke Energy Ohio are presented as if the merger with Duke Energy had occurred at the beginning of the periods presented:

**Unaudited Pro Forma Results (Predecessor)**

| | Three Months Ended March 31, 2006 (in millions) |
|---|---|
| Operating revenues | $ 841 |
| Income from continuing operations | 86 |
| Net income | 86 |
| Earnings available for common stockholder | 86 |

Additionally, pro forma results do not include any significant transactions completed by Duke Energy Ohio other than the impact of Cinergy's merger with Duke Energy.

Prior to consummation of the merger, certain regulatory approvals were received from the state utility commissions and the FERC. See Note 4 for a discussion of the regulatory impacts of the merger.

## 3. Transfer of Generating Assets and Dispositions

**Transfer of Certain Duke Energy Generating Assets to Duke Energy Ohio.** In April 2006, Duke Energy contributed to Duke Energy Ohio its ownership interest in five plants, representing a mix of combined cycle and peaking plants, with a combined capacity of 3,600 megawatts (MW). The transaction was effective in April 2006 and was accounted for at Duke Energy's net book value for these assets. The entities holding these generating plants, which were indirect subsidiaries of Duke Energy, were first distributed to Duke Energy, which then contributed them to Cinergy which, in turn, contributed them to Duke Energy Ohio. In the final step, the entities were then merged into Duke Energy Ohio.

The following unaudited pro forma financial results for Duke Energy Ohio are presented as if the contribution of the Duke Energy generating assets to Duke Energy Ohio had occurred at the beginning of the periods presented:

**Unaudited Pro Forma Results (Predecessor)**

***Three Months* Ended March 31, 2006**

**(in millions)**

| | | |
|---|---|---|
| Operating revenues | $ | 847 |
| Income from continuing operations | | 104 |
| Net income | | 104 |
| Earnings available for common stockholder | | 104 |

These pro forma results do not include any significant transactions completed by Duke Energy Ohio other than the impact of the transfer of the ownership interest in the five plants as discussed above. As part of this transaction, Duke Energy agreed to reimburse Duke Energy Ohio, on a quarterly basis, through April 2016 in the event of certain cash shortfalls related to the performance of the five plants. Based on the assessment of the performance of the five plants on a quarterly basis during 2007, Duke Energy Ohio did not incur any qualifying shortfalls related to the performance of the five plants and thus no cash reimbursement was required from Duke Energy. During the third quarter of 2006, Duke Energy reimbursed Duke Energy Ohio $1.9 million for certain cash shortfalls that occurred during the second quarter of 2006. However, as a result of the calculation pertaining to the third quarter 2006 performance of the five plants, the $1.9 million received by Duke Energy Ohio from Duke Energy was returned to Duke Energy during the fourth quarter of 2006. Duke Energy Ohio accounts for any payments from or return of payments to Duke Energy in Common Stockholder's Equity as an adjustment to Additional paid-in capital.

**Dispositions.** For the year ended December 31, 2007 and December 31, 2006, the sale of emission allowances resulted in approximately $29 million and $238 million, respectively, in proceeds and net pre-tax (losses) gains of ($7) million and ($2) million, respectively, recorded in (Losses) Gains on Sales of Other Assets and Other, net on the Statements of Operations. These amounts primarily relate to Commercial Power's sales of emission allowances.

**Transfer of Generating Assets from Duke Energy Ohio to Kentucky.** In January 2006, Duke Energy Ohio contributed 100 percent of its ownership interest in one generating unit and one peaking plant with a combined capacity of 727 MWs and its 69 percent interest in another generating station with an owned capacity of 414 MWs to Duke Energy Kentucky, its wholly owned subsidiary. The transaction was effective as of January 1, 2006 at a net book value of approximately $140 million.

## 4. Regulatory Matters

**Regulatory Assets and Liabilities.** Duke Energy Ohio's regulated operations are subject to SFAS No. 71. Accordingly, Duke Energy Ohio records assets and liabilities that result from the regulated ratemaking process that would not be recorded under GAAP for non-regulated entities. See Note 1 for further information.

### Duke Energy Ohio's Regulatory Assets and Liabilities:

| | As of December 31, 2007 | As of December 31, 2006 | Recover/Refund Period Ends |
|---|---|---|---|
| | (In millions) | | |
| *Regulatory Assets*[a] | | | |
| Regulatory Transition Charges (RTC)[b] | $ 239 | $ 331 | 2011 |
| Accrued pension and postretirement[b][h] | 107 | 116 | (g) |
| Net regulatory asset related to income taxes | 90 | 96 | (e) |
| Capital-related distribution costs[b] | 22 | 29 | (i) |
| Unamortized costs of reacquiring debt[l] | 7 | 8 | (e) |
| Vacation accrual[j] | 8 | 11 | 2008 |
| Deferred operating expense[b][c] | 7 | 6 | 2066 |
| Hedge costs and other deferrals[b] | 5 | 7 | 2033 |
| Other[b] | 4 | 5 | (g) |
| Total Regulatory Assets | $ 489 | $ 609 | |
| *Regulatory Liabilities*[a] | | | |
| Removal costs[c][d] | $ 150 | $ 131 | (f) |
| Accrued pension and postretirement[d] | 27 | — | (g) |
| Other[k] | 5 | 7 | (g) |
| Total Regulatory Liabilities | $ 182 | $ 138 | |

(a) All regulatory assets and liabilities are excluded from rate base unless otherwise noted.

(b) Included in Other Regulatory Assets and Deferred Debits on the Balance Sheets.

(c) Included in rate base.

(d) Included in Other Deferred Credits and Other Liabilities on the Balance Sheets.

(e) Recovery/refund is over the life of the associated asset or liability.

(f) Liability is extinguished over the lives of the associated assets.

(g) Recovery/Refund period currently unknown.

(h) The 2006 amount includes $31 million related to adoption of SFAS No. 158 (see Note 16) and $116 million related to impacts of purchase accounting as a result of Duke Energy's merger with Cinergy (see Note 2).

(i) Recovered via revenue rider or 2010.

(j) Included in Other Current Assets on the Balance Sheets.

(k) Included in Accounts Payable or Other Deferred Credits and Other Liabilities on the Balance Sheets.

(l) Included in Deferred Debt Expense on the Balance Sheets.

***Regulatory Merger Approvals.*** As discussed in Note 1 and Note 2, on April 3, 2006, the merger between Duke Energy and Cinergy was consummated to create a newly formed company, Duke Energy Holding Corp. (subsequently renamed Duke Energy Corporation). As a condition to the merger approval, the PUCO required that certain merger related savings be shared with consumers in Ohio. The commissions also required Duke Energy Ohio to meet additional conditions. Key elements of these conditions include:

- The PUCO required that Duke Energy Ohio provide (i) a rate reduction of approximately $15 million for one year to facilitate economic development in a time of increasing rates and market prices and (ii) a reduction of approximately $21 million to its gas and electric consumers in Ohio for one year, with both credits beginning January 1, 2006. During the first quarter of 2007, Duke Energy Ohio had completed its merger related rate reductions and filed a report with the PUCO to terminate the merger credit riders. Approximately $2 million and $34 million of these rate reductions were passed through to customers during the years ended December 31, 2007 and 2006, respectively.

**Franchised Electric and Gas.** *Rate Related Information.* The PUCO approves rates and market prices for retail electric and gas services within the state of Ohio, except that non-regulated sellers of gas and electric generation also are allowed to operate in Ohio (see "Commercial Power" below). The FERC approves rates for electric sales to wholesale customers served under cost-based rates.

*Duke Energy Ohio Electric Rate Filings.* Duke Energy Ohio operates under a RSP, a MBSSO approved by the PUCO in November 2004. In March 2005, the Office of the OCC appealed the PUCO's approval of the MBSSO to the Supreme Court of Ohio and the Court issued its decision in November 2006. It upheld the MBSSO in virtually every respect but remanded to the PUCO on two issues. The Court ordered the PUCO to support a certain portion of its order with reasoning and record evidence and to require Duke Energy Ohio to disclose certain confidential commercial agreements with other parties previously requested by the OCC. Duke Energy Ohio has complied with the disclosure order.

In October 2007, the PUCO issued its ruling in response to the Supreme Court's decision. The PUCO affirmed the MBSSO, with certain modifications, and maintained the current price. The ruling provides for continuation of the existing rate components, including the recovery of costs related to new pollution control equipment and capacity costs associated with power purchase contracts to meet customer demand, but provided customers an enhanced opportunity to avoid certain pricing components if they are served by a competitive supplier. The ruling also rescinded the requirement that Duke Energy Ohio transfer its generating assets to an exempt wholesale generator (EWG) and required Duke Energy Ohio to retain ownership for the remainder of the RSP period. The ruling also incorrectly implied that Duke Energy Ohio's nonresidential RTC will terminate at the end of 2008. On November 23, 2007, Duke Energy Ohio filed an application for rehearing on the portions of the PUCO's ruling relating to (1) whether certain pricing components may be avoided by customers, (2) the right to transfer generating assets, and (3) the termination date of the RTC. On December 19, 2007, the PUCO issued its Entry on Rehearing granting in part and denying in part Duke Energy Ohio's Application for Rehearing. Among other things, the Commission modified and clarified the applicability of various rate riders during customer shopping situations. It also clarified that the residential RTC terminates at the end of 2008 and that the nonresidential RTC terminates at the end of 2010 and agreed to give further consideration to whether Duke Energy Ohio may transfer its generating assets to an EWG.

On February 15, 2008, Duke Energy Ohio filed a notice of appeal with the Ohio Supreme Court challenging a portion of the PUCO's decision on remand regarding Duke Energy Ohio's RSP. The October 2007 order permits non-residential customers to avoid certain charges associated with the costs of Duke Energy Ohio standing ready to serve such customers if they return after being served by another supplier. Duke Energy Ohio believes the PUCO exceeded its authority in modifying the charges that may be avoided, resulting in Duke Energy Ohio having to subsidize Ohio's competitive electric market. Duke Energy Ohio has asked the Supreme Court to reverse the PUCO ruling and require that non-residential customers pay the charges associated with Duke Energy Ohio standing ready to serve them should they return from a competitive suppler. The OCC also has filed a notice of appeal challenging the PUCO's October 2007 decision as unlawful and unreasonable. Pending the Ohio Supreme Court's consideration of its appeal, the OCC has requested that the PUCO stay implementation of the Infrastructure Maintenance Fund charge approved in the October 2007 order to be collected from customers. At this time, Duke Energy Ohio cannot predict whether the Ohio Supreme Court will reverse the PUCO's decision or whether the PUCO will grant the OCC's request for a stay. However, Duke Energy Ohio does not anticipate the resolution of this matter will have a material impact on its results of operations, cash flows or financial position.

In August 2006, Duke Energy Ohio filed an application with the PUCO to amend its MBSSO through 2010. The proposal provides for continued electric system reliability, a simplified market price structure and clear price signals for customers, while helping to maintain a stable revenue stream for Duke Energy Ohio. On November 30, 2007, due to new legislation pending in the Ohio General Assembly regarding the pricing of competitive retail generation services, Duke Energy Ohio requested PUCO approval to withdraw its application to amend its MBSSO. Upon approval of the new legislation, Duke Energy Ohio will likely seek approval of a new generation pricing formula.

Duke Energy Ohio's MBSSO includes a fuel clause, System Reliability Tracker to recover reserve capacity costs and an Annually Adjusted Component (AAC) to recover changes in environmental, tax and homeland security costs. These price components are audited annually by the PUCO. In April 2007 Duke Energy Ohio entered into a settlement resolving all open issues identified in the 2006 audits and application to amend the 2007 AAC market price with some of the parties. After an evidentiary hearing, the PUCO issued its order approving the partial settlement on November 20, 2007.

*Duke Energy Ohio Gas Rate Case.* In July 2007, Duke Energy Ohio filed an application with the PUCO for an increase in its base rates for gas service. Duke Energy Ohio sought an increase of approximately $34 million in revenue, or approximately 5.7%, to be effective in the spring of 2008. The application also requests approval to continue tracker recovery of costs associated with an accelerated gas main replacement program. The PUCO accepted the application for filing in September 2007. On February 28, 2008, Duke Energy Ohio reached a settlement agreement with the PUCO Staff and all of the intervening parties on its request for an increase in natural gas base rates. The settlement calls for an annual revenue increase of $18.2 million overall, or 3 percent, and will permit continued recovery of costs through 2018 for Duke Energy Ohio's accelerated main replacement program. The parties, however, did not agree on one aspect of Duke Energy Ohio's proposed rate design. That issue and the settlement agreement were presented to the PUCO in an evidentiary hearing on March 5-6, 2008, for consideration and approval.

*Energy Efficiency.* On July 11, 2007, the PUCO approved Duke Energy Ohio's Demand Side Management/ Energy Efficiency Program (DSM Program). The DSM Program consists of ten residential and two commercial programs. Implementation of the programs has begun. The programs were first proposed in 2006 and were endorsed by the Duke Energy Community Partnership, which is a collaborative group made up of representatives of organizations interested in energy conservation, efficiency and assistance to low-income customers. The programs costs will be recovered through a cost recovery mechanism that will be adjusted annually to reflect the previous year's activity. Duke Energy Ohio is permitted to recover lost revenues, program costs and shared savings (once the programs reach 65% of the targeted savings level) through the cost recovery mechanism based upon impact studies to be provided to the Staff of the PUCO.

*New Legislation.* On September 25, 2007, at the request of the Governor of Ohio, the Ohio Senate introduced a bill (SB 221) that proposes a comprehensive change to Ohio's 1999 electric energy industry restructuring legislation. If enacted, SB 221 would expand the PUCO's authority over generation to: implement the state's revised energy policy; regulate electric distribution utility prices for standard service; and permit the PUCO to implement rules for advanced energy portfolio and energy efficiency standards, greenhouse gas emission reporting requirements, and pilot project carbon sequestration activities in conjunction with other state agencies. Under SB 221, electric distribution utilities have the ability to apply for PUCO approval of one of two generation pricing alternatives – a market option, or an Electric Security Plan (ESP) option. The market option is based upon a competitive bidding process. The ESP option will allow for the recovery of specified costs. The PUCO, however, would have authority to disallow the market option and compel the ESP option. SB 221, if enacted, would limit the ability of a utility to transfer its dedicated generating assets to an EWG absent PUCO approval. SB 221 passed the Ohio Senate on October 31, 2007, and is currently pending before the Ohio House of Representatives.

On February 21, 2008, new legislation (HB 487) that would establish annual alternative energy benchmarks for electric distribution utilities and electric service companies, and energy efficiency standards for electric distribution utilities, was also introduced in the Ohio House of Representatives. Under this legislation, specified portions of the electricity supply of such utilities and companies must be generated from advanced energy or renewable energy resources, including specifically, solar resources. The legislation provides for the PUCO to annually review a utility's or company's compliance and to impose penalties for non-compliance with the benchmarks. HB 487 also establishes policies regarding the geologic storage of carbon dioxide and requires the reporting of greenhouse gas emissions. HB 487 is currently pending in the Ohio House of Representatives. At this time, Duke Energy Ohio is not able to estimate the impact these legislative initiatives might have on its results of operations, cash flows, or financial position.

*Other.* In April 2005, the PUCO issued an order opening a statewide investigation into riser leaks in gas pipeline systems throughout Ohio. The investigation followed four explosions since 2000 caused by gas riser leaks, including an April 2000 explosion in Duke Energy Ohio's service area. In November 2006, the PUCO Staff released an expert report, which concluded that certain types of risers are prone to leaks under various conditions, including over-tightening during initial installation. Duke Energy Ohio has approximately 87,000 of these risers on its distribution system. If the PUCO orders natural gas companies to replace all of these risers, Duke Energy Ohio estimates a replacement cost of approximately $40 million. As part of the rate case filed in July 2007 (see "Duke Energy Ohio Gas Rate Case" above), Duke Energy Ohio requested approval from the PUCO to accelerate its riser replacement program. The riser replacement program is contained in the settlement reached with all interveners and will be completed at the end of 2012.

In December 2005, the PUCO initiated an investigation into implementing certain provisions of the Energy Policy Act of 2005, including whether to adopt a statewide standard for implementing smart metering. After an investigation, the PUCO issued a March 2007 order requiring all electric utilities to offer tariffs to all customer classes which are differentiated, at a minimum, based on on-peak and off-peak wholesale price periods. The PUCO noted that time-of-use meters should be available for customers subscribing to these tariffs. The order instructed PUCO Staff to conduct workshop meetings to study the costs/benefits of deploying smart metering. These workshop meetings are in progress. At this time, Duke Energy Ohio cannot predict the outcome of this proceeding.

*FERC Issues Electric Reliability Standards.* Consistent with reliability provisions of the Energy Policy Act of 2005, on July 20, 2006, FERC issued its Final Rule certifying the North American Electric Reliability Council (NERC) as the Electric Reliability Organization. NERC has filed over 100 proposed reliability standards with FERC. On March 16, 2007, FERC issued a final rule establishing mandatory, enforceable reliability standards for the nation's bulk power system. In the final rule, FERC approved 83 of the 107 standards submitted by the NERC and compliance with these standards became mandatory on June 18, 2007. FERC has since approved several additional standards. Compliance with the remaining standards is expected to continue on a voluntary basis as good utility practice. Duke Energy Ohio does not believe that the issuance of these standards will have a material impact on its results of operations, cash flows, or financial position.

*Midwest ISO Resource Adequacy Filing.* On December 28, 2007, the Midwest ISO filed its Electric Tariff Filing Regarding Resource Adequacy in compliance with the FERC's request of Midwest ISO to file Phase II of its long-term Resource Adequacy plan by December 2007. The proposal includes establishment of a resource adequacy requirement in the form of planning reserve margin. While the proposal has been filed for approval from the FERC, it currently lacks enforcement and financial settlement mechanisms. Given that the proposal has not yet been approved by the FERC, it is difficult to estimate its impact on Duke Energy Ohio, but at this time Duke Energy Ohio does not believe the resource adequacy requirement will have a material impact on its results of operations, cash flows, or financial position.

**Commercial Power.** Reported results for Commercial Power are subject to volatility due to the over- or under-collection of certain costs, including fuel and purchased power, since Commercial Power is not subject to regulatory accounting pursuant to SFAS No. 71. In addition, Commercial Power could be impacted by certain of the regulatory matters discussed above, including the Duke Energy Ohio electric rate filings.

## 5. Joint Ownership of Generating and Transmission Facilities

Duke Energy Ohio, Columbus Southern Power Company (CSP), and Dayton Power & Light (DP&L) jointly own electric generating units and related transmission facilities in Ohio. Duke Energy Ohio and Wabash Valley Power Association, Inc jointly own the Vermillion generating station in Indiana.

As of December 31, 2007, Duke Energy Ohio's shares in jointly-owned plant or facilities were as follows:

| | Ownership Share | Property, Plant, and Equipment | Accumulated Depreciation | Construction Work in Progress |
|---|---|---|---|---|
| | | (in millions) | | |
| Duke Energy Ohio | | | | |
| Production: | | | | |
| Miami Fort Station (Units 7 and 8)(b) | 64.0 | $ 592 | | $ 12 |

| | | | | | |
|---|---|---|---|---|---|
| | % | | $ | 157 | |
| W.C. Beckjord Station (Unit 6)(b) | 37.5 | 47 | | | 4 |
| | | | | 33 | |
| J.M. Stuart Station(a)(b) | 39.0 | 426 | | | 265 |
| | | | | 188 | |
| Conesville Station (Unit 4)(a)(b) | 40.0 | 81 | | | 85 |
| | | | | 54 | |
| W.M. Zimmer Station(b) | 46.5 | 1,328 | | | 5 |
| | | | | 499 | |
| Killen Station(a)(b) | 33.0 | 207 | | | 85 |
| | | | | 123 | |
| Vermillion Station(b) | 75.0 | 197 | | | — |
| | | | | 41 | |
| Transmission(c) | Various | 88 | | | 2 |
| | | | | 49 | |

(a) Station is not operated by Duke Energy Ohio.

(b) Included in Commercial Power segment.

(c) Included in Franchised Electric and Gas segment.

Duke Energy Ohio's share of revenues and operating costs of the above jointly owned generating facilities are included within the corresponding line on the Statements of Operations. Each participant in the jointly owned facilities must provide its own financing.

## 6. Income Taxes

Prior to the merger of Cinergy and Duke Energy on April 3, 2006, the taxable income of Duke Energy Ohio was reflected in Cinergy's U.S. federal and state income tax returns. After the merger, the taxable income of Duke Energy Ohio is reflected in Duke Energy's U.S. federal and state income tax returns. As a result of Duke Energy's merger with Cinergy, Duke Energy Ohio entered into a tax sharing agreement with Duke Energy, where the separate return method is used to allocate tax expenses and benefits to the subsidiaries whose investments or results of operations provide these tax expenses and benefits. The accounting for income taxes essentially represents the income taxes that Duke Energy Ohio would incur if Duke Energy Ohio were a separate company filing its own tax return as a C-Corporation. The current tax sharing agreement Duke Energy Ohio has with Duke Energy is substantially the same as the tax sharing agreement between Duke Energy Ohio and Cinergy prior to the merger.

The following details the components of income tax expense from continuing operations:

**Income Tax Expense from Continuing Operations**

| | Twelve Months Ended December 31, 2007 | Twelve Months Ended December 31, 2006 |
|---|---|---|
| | (in millions) | |
| *Current income taxes* | | |
| Federal | $ 109 | $ 189 |
| State | 11 | 28 |
| Total current income taxes(a) | 120 | 217 |
| Deferred income taxes | | |
| Federal | 15 | (95) |
| State | (1) | (22) |
| Total deferred income taxes | 14 | (117) |
| Investment tax credit amortization | (2) | — |
| Total income tax expense from continuing operations | 132 | 100 |
| Total income tax (benefit) expense from discontinued operations | — | — |
| Total income tax benefit from cumulative effect of change in accounting principle | — | — |
| Total income tax expense included in Statements of Operations | $ 132 | $ 100 |

(a) Included in the "Total current income taxes" line above is a FIN 48 benefit of approximately $13 million.

**Reconciliation of Income Tax Expense at the U.S. Federal Statutory Tax Rate to the Actual Tax Expense from Continuing Operations (Statutory Rate Reconciliation)**

| | Twelve Months Ended December 31, 2007 | Twelve Months Ended December 31, 2006 |
|---|---|---|
| | (in millions) | |
| Income tax expense, computed at the statutory rate of 35% | $ 139 | $ 95 |
| State income tax, net of federal income tax effect | 7 | 3 |
| Depreciation and other PP&E related differences | 9 | 8 |
| ITC amortization | (2) | (2) |
| Manufacturing Deduction | (10) | (2) |
| Equity in Subs | (11) | (1) |
| Other items, net | – | (1) |
| Total income tax expense from continuing operations | $ 132 | $ 100 |
| Effective Tax Rates | 33.5% | 36.7% |

The manufacturing deduction was created by the American Job Creation Act of 2004 (the Act). The Act provides a deduction for income from qualified domestic production activities. During the years ended December 31, 2006 the Act provided for a 3% deduction on qualified production activities. During the year ended December 31, 2007, the deduction increased to 6% on qualified production activities.

**Net Deferred Income Tax Liability Components**

| | As of December 31, 2007 | 2006 |
|---|---|---|
| | (in millions) | |
| Deferred credits and other liabilities | $ 94 | $ 105 |
| Other | 51 | 49 |
| Total deferred income tax assets | 145 | 154 |

| | | | | |
|---|---|---|---|---|
| Investments and other assets | | (59) | | (54) |
| Accelerated depreciation rates | | (1,155) | | (1,170) |
| Regulatory assets and deferred debits | | (197) | | (233) |
| Total deferred income tax liabilities | | (1,411) | | (1,457) |
| Total net deferred income tax liabilities | $ | (1,266) | $ | (1,303) |

The above amounts have been classified in the Balance Sheets as follows:

**Net Deferred Income Tax Liabilities**

| | As of December 31, | | | |
|---|---|---|---|---|
| | 2007 | | 2006 | |
| | (in millions) | | | |
| Current deferred tax assets, included in other current assets | $ | 26 | $ | 20 |
| Current deferred tax liabilities, included in other current liabilities | | (8) | | — |
| Non-current deferred tax liabilities | | (1,284) | | (1,323) |
| Total net deferred income tax liabilities | $ | (1,266) | $ | (1,303) |

On January 1, 2007, Duke Energy Ohio adopted FIN 48. The following table shows the impacts of adoption of FIN 48 on Duke Energy Ohio's Balance Sheets.

| | Increase/ (Decrease) (in millions) |
|---|---|
| **Assets** | |
| Goodwill | $ 4 |
| **Liabilities** | |
| Other Liabilities (non-current) (a) | $ 51 |
| Interest Accrued (current) | (11) |
| Deferred Income Taxes | (36) |
| Total | $ 4 |
| **Common Stockholder's Equity** | |
| *Retained Earnings – Cumulative Effect of Accounting Change* | $— |

(a) Includes liability for unrecognized tax benefits and accrued interest and penalties, including reserves against gain contingencies. These gain contingencies were not recorded prior to the adoption of FIN 48.

Effective with the adoption of FIN 48 on January 1, 2007, Duke Energy Ohio recognized approximately $6 million of accrued interest payable, which reflects all interest related to income taxes, and no accrued penalties.

The following table details the changes in Duke Energy Ohio's unrecognized tax benefits from January 1, 2007 to December 31, 2007.

| | Increase/(Decrease) (in millions) |
|---|---|
| Unrecognized Tax Benefits – January 1, 2007 | $ 63 |
| Unrecognized Tax Benefits Changes | |
| Gross increases – tax positions in prior periods | $ 9 |
| Gross decreases – tax positions in prior periods | (19) |
| Gross increases – current period tax positions | — |
| Settlements | (6) |
| Lapse of statute of limitations | — |
| Total Changes | $ (16) |
| Unrecognized Tax Benefits – December 31, 2007 | $ 47 |

At December 31, 2007, no portion of the total unrecognized tax benefits would, if recognized, affect the effective tax rate. Additionally, at December 31, 2007, Duke Energy Ohio has approximately $7 million of unrecognized tax benefits related to pre-merger tax positions that, if recognized, would affect goodwill. It is reasonably possible that Duke Energy Ohio will reflect an approximate $35 million reduction in unrecognized tax benefits within the next twelve months due to expected settlements.

During the year ended December 31, 2007, Duke Energy Ohio recognized net interest expense of approximately $2 million. At December 31, 2007, Duke Energy Ohio had approximately $7 million of interest payable, which reflects all interest related to income taxes, and no accrued penalties.

Duke Energy Ohio has the following tax years open:

| Jurisdiction | Tax Years |
|---|---|
| Federal | 2000 and after |
| State | *Closed through 2001, with the exception of any adjustments related to open federal years* |

## 7. Asset Retirement Obligations

In June 2001, the FASB issued SFAS No. 143, which was adopted by Duke Energy Ohio on January 1, 2003. SFAS No. 143 addresses financial accounting and reporting for legal obligations associated with the retirement of tangible long-lived assets and the related asset retirement costs. The standard applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or normal use of the asset. SFAS No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred, if a reasonable estimate of fair value can be made. The fair value of the liability is added to the carrying amount of the associated asset. This additional carrying amount is then depreciated over the life of the asset. The liability increases due to the passage of time based on the time value of money until the obligation is settled. Subsequent to the initial recognition, the liability is adjusted for any revisions to the expected value of the retirement obligation (with corresponding adjustments to property, plant, and equipment), and for accretion of the liability due to the passage of time. Additional depreciation expense is recorded prospectively for any increases to the carrying amount of the associated asset.

Asset retirement obligations at Duke Energy Ohio relate primarily to the retirement of gas mains, asbestos abatement at certain generating stations and closure and post-closure activities of landfills. In accordance with SFAS No. 143, Duke Energy Ohio identified certain assets that have an indeterminate life, and thus the fair value of the retirement obligation is not reasonably estimable. These assets included transmission pipelines. A liability for these asset retirement obligations will be recorded when a fair value is determinable.

The adoption of SFAS No. 143 had no impact on the income of the regulated electric and gas operations, as the effects were offset by the establishment of regulatory assets and liabilities pursuant to SFAS No. 71.

The pro forma effects of adopting FIN 47, including the impact on the balance sheet and net income are not presented due to the immaterial impact.

The asset retirement obligation is adjusted each period for any liabilities incurred or settled during the period, accretion expense and any revisions made to the estimated cash flows.

**Reconciliation of Asset Retirement Obligation Liability (in millions)**

| | | |
|---|---|---|
| Balance as of January 1, 2007 | $ | 33 |
| Accretion expense | | 1 |
| Liabilities settled [a] | | (9) |
| Balance as of December 31, 2007 | $ | 25 |
| | | |
| Balance as of January 1, 2006 | $ | 35 |
| Liabilities incurred due to new acquisitions | | (1) |
| Accretion expense | | 2 |
| Revisions in estimated cash flows | | (3) |
| Balance as of December 31, 2006 | $ | 33 |

(a) Liabilities settled during 2007 were related to the retirement of gas mains.

Upon adoption of SFAS No. 143, Duke Energy Ohio's regulated electric and regulated natural gas operations classifies removal costs for property that does not have an associated legal retirement obligation as a regulatory liability, in accordance with regulatory treatment under SFAS No. 71. Duke Energy Ohio does not accrue the estimated cost of removal when no legal obligation associated with retirement or removal exists for any non-regulated assets (including Duke Energy Ohio's generation assets). The total amount of removal costs included in Other Deferred Credits and Other Liabilities on the Balance Sheets was $150 million and $131 million as of December 31, 2007 and 2006, respectively.

## 8. Risk Management and Hedging Activities, Credit Risk, and Financial Instruments

Duke Energy Ohio is exposed to the impact of market fluctuations in the prices of electricity, coal, natural gas and other energy-related products marketed and purchased as a result of its ownership of its non-regulated generation portfolio. Exposure to interest rate risk exists as a result of the issuance of variable and fixed rate debt. Duke Energy Ohio employs established policies and procedures to manage its risks associated with these market fluctuations using various commodity and financial derivative instruments, including swaps, futures, forwards and options.

**Duke Energy Ohio's Derivative Portfolio Carrying Value as of December 31, 2007**

| Asset/(Liability) | Maturity in 2008 | Maturity in 2009 | Maturity in 2010 | Maturity in 2011 and Thereafter | Total Carrying Value |
|---|---|---|---|---|---|
| | | | (in millions) | | |
| Hedging | $ (12) | $ (9) | $ — | $ — | $ (21) |

| | | | | | |
|---|---|---|---|---|---|
| Undesignated | 5 | 2 | — | — | 7 |
| Total | $ (7) | $ (7) | $ — | $ — | $ (14) |

The amounts in the table above represent the combination of amounts presented as assets and (liabilities) for unrealized gains and losses on mark-to-market and hedging transactions on Duke Energy Ohio's Balance Sheets.

**Transfer of Certain Duke Energy Assets and Commodity Cash Flow Hedges.** As part of the merger with Duke Energy on April 3, 2006, Duke Energy Ohio acquired certain generation assets from Duke Energy, representing approximately 3,600 MW of power generation and those assets were added to Duke Energy Ohio's non-regulated generation portfolio. All derivatives related to the Midwestern generation fleet are included in Duke Energy Ohio's Balance Sheets at December 31, 2007 and 2006. Duke Energy Ohio also assumed approximately $63 million of pre-tax deferred losses ($39 million, net of tax) associated with contracts formerly designated as cash flow hedges of forecasted power sales and gas purchases from Duke Energy's Midwestern generation fleet. These contracts were sold by Duke Energy in 2005 and the deferred losses remain on the Balance Sheet in AOCI until the related hedged transactions (gas purchases and power sales) occur. (See Note 1 and Note 2 for further details on the completed merger and Note 3 for details on the transfer of generation assets.) During 2007, Duke Energy Ohio entered into additional contracts to protect margins for a portion of future sales and generation revenues and fuel expenses for the non-regulated portfolio. Duke Energy Ohio is hedging exposures to the price variability of these commodities for a maximum period of 2 years.

As of December 31, 2007, $26 million of pre-tax deferred net losses on derivative instruments related to commodity cash flow hedges were accumulated on the Balance Sheet in AOCI, and are expected to be recognized in earnings during the next twelve months. However, due to the volatility of the commodities markets, the corresponding value in AOCI will likely change prior to its reclassification into earnings.

**Other Derivative Contracts.** *Trading.* Duke Energy Ohio has been exposed to the impact of market fluctuations in the prices of natural gas, electricity and other energy-related products marketed and purchased as a result of proprietary trading activities. In June 2006, Cinergy sold its commercial marketing and trading business, including certain of Duke Energy Ohio's trading contracts, to Fortis. The results of this trading activity have been reflected in (Loss) Income from Discontinued Operations, net of tax in the Statements of Operations, including prior periods. In October 2006, the sale transaction was completed and Duke Energy Ohio entered into a series of Total Return Swaps (TRS) with Fortis.

*Undesignated.* In addition, Duke Energy Ohio uses derivative contracts to manage the market risk exposures that arise from commodity price risk associated with its future production from its non-regulated generation fleet. For those contracts serving as economic hedges to manage price risk associated with the generation portfolio, Duke Energy Ohio is subject to earnings volatility associated with mark-to-market gains and losses from changes in the value of the derivative contracts.

**Normal Purchases and Normal Sales Exception.** Duke Energy Ohio has applied the normal purchases and normal sales scope exception, as provided in SFAS No. 133 and interpreted by Derivatives Implementation Group Issue C15, "*Scope Exceptions: Normal Purchases and Normal Sales Exception for Option-Type Contracts and Forward Contracts in Electricity*," and amended by SFAS No. 149, "*Amendment of Statement 133 on Derivative Instruments and Hedging Activities*," to certain contracts involving the purchase and sale of electricity at fixed prices in future periods. These contracts, which relate primarily to the delivery of electricity over the next 7 years, are not included in the table above.

**Interest Rate (Fair Value or Cash Flow) Hedges.** Changes in interest rates expose Duke Energy Ohio to risk as a result of its issuance of variable and fixed rate debt. Duke Energy Ohio manages its interest rate exposure by limiting its variable-rate exposures to a percentage of total capitalization and by monitoring the effects of market changes in interest rates. Duke Energy Ohio also enters into interest rate swaps to manage and mitigate interest rate risk exposure.

Duke Energy Ohio's recognized interest rate derivative ineffectiveness was not material to its results of operations, cash flows or financial position for the year ended December 31, 2007, nine month period ended December 31, 2006 and the predecessor three months ended March 31, 2006 and the twelve months ended December 31, 2005. As of December 31, 2007, $2 million of pre-tax deferred net losses on derivative instruments related to interest rate cash flow hedges were accumulated on the Balance Sheets in a separate component of Common stockholder's equity, in AOCI, and are expected to be recognized in earnings during the next twelve months as the hedged transactions occur. However, due to the volatility of interest rates, the corresponding value in AOCI for unsettled positions will likely change prior to its reclassification into earnings.

**Credit Risk.** Where exposed to credit risk, Duke Energy Ohio analyzes the counterparties' financial condition prior to entering into an agreement, establishes credit limits and monitors the appropriateness of those limits on an ongoing basis.

Duke Energy Ohio's industry has historically operated under negotiated credit lines for physical delivery contracts. Duke Energy Ohio may use master collateral agreements to mitigate certain credit exposures. The collateral agreements provide for a counterparty to post cash or letters of credit to the exposed party for exposure in excess of an established threshold. The threshold amount represents an unsecured credit limit, determined in accordance with the corporate credit policy. Collateral agreements also provide that the inability to post collateral is sufficient cause to terminate contracts and liquidate all positions.

Duke Energy Ohio also obtains cash or letters of credit from customers to provide credit support outside of collateral agreements, where appropriate, based on its financial analysis of the customer and the regulatory or contractual terms and conditions applicable to each transaction.

**Financial Instruments.** The fair value of financial instruments, excluding derivatives included elsewhere in this Note, is summarized in the following table. Judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates determined as of December 31, 2007 and 2006, are not necessarily indicative of the amounts Duke Energy Ohio could have realized in current markets.

**Financial Instruments**

**As of December 31,**

| | 2007 | | 2006 | |
|---|---|---|---|---|
| | Book Value | Approximate Fair Value | Book Value | Approximate Fair Value |
| | (in millions) | | | |
| Long-term debt[a] | $ 1,622 | $ 1,605 | $ 1,571 | $ 1,561 |

(a) Includes current maturities.

The fair value of cash and cash equivalents, accounts receivable, restricted funds held in trust, accounts payable and notes payable are not materially different from their carrying amounts because of the short-term nature of these instruments and/or because the stated rates approximate market rates.

## 9. Goodwill and Intangibles

Duke Energy Ohio evaluates the impairment of goodwill under the guidance of SFAS No. 142. There were no goodwill impairment charges in 2007 or 2006 as a result of the annual impairment tests required by SFAS No. 142. As discussed further in Note 2, in April 2006, Duke Energy and Cinergy consummated their merger, which resulted in Duke Energy Ohio recording goodwill of approximately $2.3 billion. Duke Energy Ohio had no goodwill prior to this date.

**Intangible Assets**

The carrying amount and accumulated amortization of intangible assets as of December 31, 2007 and December 31, 2006 are as follows:

| | December 31, 2007 | December 31, 2006 |
|---|---|---|
| | (in millions) | |
| Emission allowances | $358 | $483 |
| Gas, coal, and power contracts | 271 | 271 |
| Other | 9 | 9 |
| Total gross carrying amount | 638 | 763 |
| Accumulated amortization—gas, coal, and power contracts | (89) | (40) |
| Accumulated amortization—other | (5) | (3) |
| Total accumulated amortization | (94) | (43) |
| Total intangible assets, net | $544 | $720 |

Carrying values of emission allowances sold or consumed were $147 million and $289 million as of December 31, 2007 and December 31, 2006, respectively.

Amortization expense for gas, coal and power contracts and other intangible assets recorded for Duke Energy Ohio was $51 million and $44 million as of December 31, 2007 and December 31, 2006, respectively.

The table below shows the expected amortization expense for the next five years for intangible assets as of December 31, 2007. The expected amortization expense includes estimates of emission allowances consumption and estimates of consumption of commodities such as gas and coal under existing contracts. The amortization amounts discussed below are estimates. Actual amounts may differ from these estimates due to such factors as changes in consumption patterns, sales or impairments of emission allowances or other intangible assets, additional intangible acquisitions and other events.

| | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|
| | | | (in millions) | | |
| Expected amortization expense | $ 117 | $ 72 | $ 32 | $ 39 | $ 36 |

**Intangible Liabilities**

In connection with the Duke Energy and Cinergy merger, Duke Energy Ohio recorded an intangible liability amounting to approximately $113 million associated with the MBSSO in Ohio that will be recognized in earnings through December 31, 2008. The carrying amount of this intangible liability was approximately $67 million and $95 million at December 31, 2007 and 2006, respectively. The remaining $67 million will be amortized to income in 2008. Duke Energy Ohio also recorded approximately $56 million of intangible liabilities associated with other power sale contracts. The carrying amount of these intangible liabilities was approximately $22 million and $39 million at December 31, 2007 and 2006, respectively. This balance will be amortized to income as follows: approximately $6 million in each of the years 2008 through 2010, and approximately $4 million in 2011.

## 10. Related Party Transactions

Duke Energy Ohio engages in related party transactions. These transactions are generally performed at cost and in accordance with the applicable state and federal commission regulations. Balances due to or due from related parties included in the Balance Sheets as of December 31, 2007 and December 31, 2006 are as follows:

| | December 31, 2007(a) | December 31, 2006(a) |
|---|---|---|
| | (in millions) | |
| Accounts receivable | $ 74 | $ 65 |
| Accounts Payable | $ 234 | $ 83 |

(a) Balances exclude assets or liabilities associated with accrued pension and other postretirement benefits, Cinergy Receivables and money pool arrangements as discussed below.

Duke Energy Ohio is allocated its proportionate share of corporate governance and other costs by a consolidated affiliate of Duke Energy. Duke Energy Ohio is also allocated its proportionate share of other corporate governance costs from a consolidated affiliate of Cinergy. Corporate governance and other shared services costs are primarily allocations of corporate costs, such as human resources, legal and accounting fees, as well as other third party costs.

The expenses associated with certain allocated corporate governance and other service costs for Duke Energy Ohio, which are recorded in Operation, Maintenance and Other within Operating Expenses on the Statements of Operations were as follows:

| | Twelve Months Ended December 31, 2007 | Twelve Months Ended December 31, 2006 |
|---|---|---|
| | (in millions) | |
| Corporate governance and shared services expenses | $ 201 | $ 337 |

See Note 16 for detail on expense amounts allocated from Cinergy to Duke Energy Ohio related to Duke Energy Ohio's participation in Cinergy's qualified and non-qualified defined benefit pension plans and postretirement health care and insurance benefits. Additionally, Duke Energy Ohio has been allocated accrued pension and other postretirement benefit obligations from Cinergy of approximately $243 million at December 31, 2007 and approximately $355 million at December 31, 2006. The above amounts have been classified in the Balance Sheets as follows:

| | December 31, 2007 | December 31, 2006 |
|---|---|---|
| | (In millions) | |
| Other current liabilities | $ 5 | $ 8 |
| Accrued pension and other postretirement benefit costs | $ 236 | $ 344 |
| Other deferred credits and other liabilities | $ 2 | $ 3 |

Additionally, certain trade receivables have been sold by Duke Energy Ohio to Cinergy Receivables, an unconsolidated entity formed by Cinergy. The proceeds obtained from the sales of receivables are largely cash but do include a subordinated note from Cinergy Receivables for a portion of the purchase price. This subordinated note is classified by Duke Energy Ohio as Receivables in the Balance Sheets and was approximately $160 million and $113 million as of December 31, 2007 and December 31, 2006, respectively.

During the second quarter of 2007 Duke Energy Ohio received a $29 million capital contribution from its parent, Cinergy.

See Note 3 for a discussion of amounts paid to Duke Energy Ohio as a result of the agreement between Duke Energy and Duke Energy Ohio related to Duke Energy's contribution of its ownership interests in five plants to Duke Energy Ohio. See Note 16 for a discussion of dividends Duke Energy Ohio paid to its parent, Cinergy.

Duke Energy Ohio participates in a money pool with Duke Energy and other Duke Energy subsidiaries. As of December 31, 2007 and December 31, 2006, Duke Energy Ohio was in a payable position of $161 million and $231 million, respectively, classified within Notes payable in the accompanying Balance Sheets. The expenses associated with money pool activity for Duke Energy Ohio, which are recorded in Interest Expense on the Statements of Operations for the twelve months ended December 31, 2007 and the twelve months ended December 31, 2006 were $10 million and $7 million, respectively. See Note 13 for further discussion of the money pool arrangement.

## 11. Sales of Accounts Receivable

*Accounts Receivable Securitization.* Duke Energy Ohio sells certain of its accounts receivable and related collections through Cinergy Receivables a bankruptcy remote, special purpose entity. Cinergy Receivables is a wholly-owned non-consolidated limited liability company of Cinergy. As a result of the securitization, Duke Energy Ohio sells, on a revolving basis, its retail accounts receivable, including estimated unbilled revenues, and related collections. The securitization transaction was structured to meet the criteria for sale treatment under SFAS No. 140.

The proceeds obtained from the sales of receivables are largely cash but do include a subordinated note from Cinergy Receivables for a portion of the purchase price (typically approximates 25 percent of the total proceeds). The note, which amounts to approximately $160 million and $113 million at December 31, 2007 and 2006, respectively, is subordinate to senior loans that Cinergy Receivables obtain from commercial paper conduits controlled by unrelated financial institutions which is the source of funding for the subordinated note. This subordinated note is a retained interest (right to receive a specified portion of cash flows from the sold assets) under SFAS No. 140 and is classified within Receivables in the accompanying Balance Sheets at December 31, 2007 and 2006.

The carrying values of the retained interests are determined by allocating the carrying value of the receivables between the assets sold and the interests retained based on relative fair value. The key assumptions in estimating fair value are the anticipated credit losses, the selection of discount rates, and expected receivables turnover rate. Because (a) the receivables generally turnover in less than two months, (b) credit losses are reasonably predictable due to Duke Energy Ohio's broad customer base and lack of significant concentration, and (c) the purchased beneficial interest is subordinate to all retained interests and thus would absorb losses first, the allocated bases of the subordinated notes are not materially different than their face value. Interest accrues to Duke Energy Ohio on the retained interests using the accretable yield method, which generally approximates the stated rate on the notes since the allocated basis and the face value are nearly equivalent. An impairment charge is recorded against the carrying value of both the retained interests and purchased beneficial interest whenever it is determined that an other-than-temporary impairment has occurred (which is unlikely unless credit losses on the receivables far exceed the anticipated level).

The key assumptions used in estimating the fair value are as follows:

| | Years Ended December 31, 2007 | Years Ended December 31, 2006 |
|---|---|---|
| Anticipated credit loss rate | 0.7% | 0.6% |
| Discount rate on expected cash flows | 7.7% | 7.4% |
| Receivables turnover rate | 12.5% | 11.1% |

The hypothetical effect on the fair value of the retained interests assuming both a 10% and a 20% unfavorable variation in credit losses or discount rates is not material due to the short turnover of receivables and historically low credit loss history.

Duke Energy Ohio retains servicing responsibilities for its role as a collection agent on the amounts due on the sold receivables. However, Cinergy Receivables assumes the risk of collection on the purchased receivables without recourse to Duke Energy Ohio in the event of a loss. While no direct recourse to Duke Energy Ohio exists, it risks loss in the event collections are not sufficient to allow for full recovery of its retained interests. No servicing asset or liability is recorded since the servicing fee paid to Duke Energy Ohio approximates a market rate.

The following table shows the gross and net receivables sold, retained interests, sales, and cash flows during the periods ending:

| | Twelve Months Ended December 31, 2007 | Twelve Months Ended December 31, 2006 |
|---|---|---|
| Receivables sold as of period end | $ 373 | $ 318 |
| Less: Retained interests | 160 | 113 |
| Net receivables sold as of period end | $ 213 | $ 205 |
| **Sales during period** | | |
| Receivables sold | $ 2,720 | $ 2,468 |
| Loss recognized on sale | 40 | 36 |
| **Cash flows during period** | | |
| Cash proceeds from sold receivables[a] | $ 2,633 | $ 2,467 |
| Collection fees received | 3 | 1 |
| Return received on retained interests | 21 | 18 |

(a) Cash flows from the sale of receivables are reflected within Operating Activities on the Statements of Cash Flows.

## 12. Property, Plant and Equipment

| | Estimated Useful | December 31, | December 31, |
|---|---|---|---|

| | Life (Years) | 2007 | 2006 |
|---|---|---|---|
| | | (in millions) | |
| Land | — | $ 109 | $ 108 |
| Plant—Regulated | | | |
| Electric generation, distribution and transmission[a] | 25 – 70 | 2,111 | 2,005 |
| Natural gas transmission and distribution[a] | 12 – 60 | 1,104 | 1,028 |
| Other buildings and improvements[a] | 25 – 100 | 110 | 105 |
| Plant—Unregulated | | | |
| Electric generation, distribution and transmission | 8 – 100 | 3,813 | 3,547 |
| Equipment | 5 – 25 | 56 | 55 |
| Construction in process | — | 544 | 524 |
| Other | 5 – 20 | 171 | 166 |
| Total property, plant and equipment | | 8,018 | 7,538 |
| Total accumulated depreciation—regulated[b] | | (1,014) | (961) |
| Total accumulated depreciation—unregulated | | (455) | (343) |
| Total net property, plant and equipment | | $ 6,549 | $ 6,234 |

(a) Includes capitalized leases of approximately $64 million for 2007 and $56 million for 2006.

(b) Includes accumulated amortization of capitalized leases: $8 million for 2007 and $7million for 2006.

Capitalized interest, which includes the interest expense component of AFUDC, amounted to $29 million for the year ended December 31, 2007, $16 million for the year ended December 31, 2006.

## 13. Debt and Credit Facilities

**Summary of Debt and Related Terms**

| | Weighted-Average Rate | Year Due | December 31, 2007 | December 31, 2006 |
|---|---|---|---|---|
| | | | (in millions) | |
| Unsecured debt | 5.8% | 2008 – 2033 | $ 1,150 | $ 1,250 |

| | | | | |
|---|---|---|---|---|
| Capital leases | 5.1% | 2008 – 2016 | 44 | 40 |
| Other debt[b] | 4.5% | 2011 – 2041 | 468 | 321 |
| Money Pool | 5.4% | | 161 | 231 |
| Unamortized debt discount and premium, net | | | (40) | (40) |
| Total debt | | | 1,783 | 1,802 |
| Current maturities of long-term debt | | | (104) | (104) |
| Short-term notes payable | | | (161) | (231) |
| Total long-term debt | | | $ 1,518 | $ 1,467 |

(b) Includes $461 million and $321 million, respectively, of Duke Energy Ohio pollution control bonds as of December 31, 2007 and 2006, respectively. As of December 31, 2007 and 2006, $84 million and $131 million, respectively, was secured by first and refunding mortgage bonds and $12 million was secured by a letter of credit.

**Unsecured Debt.** As of December 31, 2007 and 2006, approximately $96 million of certain pollution control bonds, which are short-term obligations by nature, were classified as Long-Term Debt on the Balance Sheets due to Duke Energy Ohio's intent and ability to utilize such borrowings as long-term financing. Duke Energy's credit facilities with non-cancelable terms in excess of one year as of the balance sheet date gives Duke Energy Ohio the ability to refinance these short-term obligations on a long-term basis.

In December 2007, Duke Energy Ohio issued $140 million in tax-exempt floating-rate bonds. The bonds are structured as insured auction rate securities, subject to an auction process every 35 days and bear a final maturity of 2041. The bonds were issued through the Ohio Air Quality Development Authority to fund a portion of the environmental capital expenditures at the Conesville, Stuart and Killen Generation Stations in Ohio.

**Money Pool.** Duke Energy Ohio receives support for its short-term borrowing needs through its participation with Duke Energy and other Duke Energy subsidiaries in a money pool arrangement, which allows Duke Energy Ohio to better manage its cash and working capital requirements. Under this arrangement, those companies with short-term funds may provide short-term loans to affiliates participating under this arrangement. Prior to the merger, Duke Energy Ohio participated in a similar money pool arrangement with Cinergy and other Cinergy subsidiaries. As of December 31, 2007 and December 31, 2006, Duke Energy Ohio was in a payable position of $161 million and $231 million, respectively, classified within Notes payable in the accompanying Balance Sheets. During the year ended December 31, 2007, the $70 million change in the money pool is reflected as a cash outflow in Notes payable to affiliate, net within Net cash (used in) provided by financing activities on the Statements of Cash Flows. During the year ended December 31, 2006, the $52 million change in the money pool is reflected as a cash inflow in Notes payable to affiliate, net within Net cash (used in) provided by financing activities on the Statements of Cash Flows.

**Floating Rate Debt.** Unsecured debt and other debt included approximately $461 million and $374 million of floating-rate debt as of December 31, 2007 and 2006, respectively. Floating-rate debt is primarily based on commercial paper rates or a spread relative to an index such as a London Interbank Offered Rate (LIBOR) for debt denominated in U.S. dollars. As of December 31, 2007 and 2006, the weighted-average interest rate associated with floating-rate debt was approximately 4.4 % and 4.2%, respectively.

As of December 31, 2007 and mid-March 2008, Duke Energy Ohio had approximately $364 million of auction rate pollution control bonds outstanding. While these debt instruments are long-term in nature and cannot be put back to Duke Energy Ohio prior to maturity, the interest rates on these instruments are designed to reset periodically through an auction process. Beginning in February 2008, Duke Energy Ohio experienced failed auctions on a portion of these debt instruments. When failed auctions occur on a series of this debt, Duke Energy Ohio is required to pay the maximum auction rate as prescribed by the bond document. The maximum auction rate for the auction rate debt is 1.75 times one-month LIBOR. Payment of the failed-auction interest rates will continue until Duke Energy Ohio is able to either successfully remarket these instruments through the auction process or refund and refinance the existing debt through the issuance of an equivalent amount of tax exempt bonds. Duke Energy Ohio is currently pursuing a refunding and refinancing plan, which is subject to approval by applicable state or county financing authorities and utility regulators. However, even if Duke Energy Ohio is unable to successfully refund and refinance these debt instruments, the impact of paying higher interest rates on the outstanding auction rate debt is not expected to materially effect Duke Energy Ohio's overall financial position, results of operations or cash flows. The weighted-average interest rate, associated with Duke Energy Ohio's auction rate pollution control bonds, was 4.56% as of December 31, 2007 and 5.37% as of March 6, 2008.

**Maturities, Call Options and Acceleration Clauses.**

**Annual Maturities as of December 31, 2007**

| | | (in millions) |
|---|---|---|
| 2008 | $ | 105 |
| 2009 | | 5 |
| 2010 | | 4 |
| 2011 | | 4 |
| 2012 | | 504 |
| Thereafter | | 1,000 |
| Total long-term debt (including current maturities) | $ | 1,622 |

Duke Energy Ohio has the ability under certain debt facilities to call and repay the obligation prior to its scheduled maturity. Therefore, the actual timing of future cash repayments could be materially different than the above as a result of Duke Energy Ohio's ability to repay these obligations prior to their scheduled maturity.

**Available Credit Facilities and Restrictive Debt Covenants.** In June 2007, Duke Energy closed on the syndication of an amended and restated credit facility, replacing the existing credit facilities totaling $2.65 billion with a 5-year, $2.65 billion master credit facility. Duke Energy Ohio has a borrowing sub limit of $500 million under the master credit facility. Concurrent with the syndication of the master credit facility, Duke Energy established a new $1.5 billion commercial paper program at Duke Energy and terminated Cinergy's previously existing commercial paper program.

In March 2008, Duke Energy increased its capacity under its master credit facility by $550 million. As a result of this increase, the borrowing sub limit of Duke Energy Ohio increased by $250 million to $750 million. The issuance of commercial paper, letters of credit and other borrowings reduces the amount available under the credit facility.

Duke Energy's credit agreement contains various financial and other covenants, including, but not limited to, a covenant regarding the debt-to-total capitalization ratio at Duke Energy and Duke Energy Ohio to not exceed 65%. Duke Energy Ohio's debt agreements also contain various financial and other covenants. Failure to meet these covenants beyond applicable grace periods could result in accelerated due dates and/or termination of the agreements. As of December 31, 2007, Duke Energy and Duke Energy Ohio were in compliance with those covenants. In addition, some credit agreements may allow for acceleration of payments or termination of the agreements due to nonpayment, or the acceleration of other significant indebtedness of the borrower or some of its subsidiaries. None of the debt or credit agreements contain material adverse change clauses.

**Other Assets Pledged as Collateral.** As of December 31, 2007, substantially all of Franchised Electric and Gas' electric plants in service are mortgaged under the indenture relating to Duke Energy Ohio.

**Other Matters.** In October 2007, Duke Energy filed a registration statement (Form S-3) with the SEC. Under this Form S-3, which is uncapped, Duke Energy and certain subsidiaries, including Duke Energy Ohio, may issue debt in the future at amounts, prices and with terms to be determined at the time of future offerings.

## 14. Common and Preferred Stock

**Common Stock.** Cinergy owns all of the common stock of Duke Energy Ohio. In April 2006, Duke Energy acquired 100 percent of Cinergy's outstanding stock for 1.56 shares of Duke Energy common stock per outstanding share of Cinergy common stock. This conversion resulted in the issuance of approximately 313 million shares of Duke Energy common stock. See Note 2 for additional information.

In April 2006, Duke Energy Ohio filed a petition with the FERC for a declaratory ruling that its payment of dividends out of its paid-in capital account, using the balance transferred from the retained earnings account, resulting from purchase accounting arising from the Duke Energy/Cinergy merger, would not violate section 305(a) of the Federal Power Act, which generally precludes the payment of dividends out of paid-in capital. Such a ruling was necessary because purchase/push-down accounting reset retained earnings to zero as of April 3, 2006, thus potentially precluding Duke Energy Ohio from using pre-merger retained earnings to pay dividends. Without this approval, Duke Energy Ohio's ability to pay dividends would have been constrained to earnings since April 3, 2006. In May 2006, the FERC issued an order approving Duke Energy Ohio's petition.

During the year ended December 31, 2007, the three months ended March 31, 2006, and the year ended December 31, 2005, Duke Energy Ohio paid dividends to its parent, Cinergy, of $135 million $102 million and $250 million, respectively.

**Preferred Stock.** In March 2006, Duke Energy Ohio redeemed all outstanding shares of its $16.98 million notional amount 4% Cumulative Preferred Stock and its $3.5 million notional amount 4.75% Cumulative Preferred Stock at a price of $108 per share and $101 per share, respectively, plus accrued and unpaid dividends.

## 15. Commitments and Contingencies

**General Insurance**

Effective with the date of the merger between Duke Energy and Cinergy, Duke Energy Ohio carries, either directly or through Duke Energy's captive insurance company, Bison Insurance Company Limited, insurance and reinsurance coverages consistent with companies engaged in similar commercial operations with similar type properties. Duke Energy Ohio's insurance coverage includes (1) commercial general public liability insurance for liabilities arising to third parties for bodily injury and property damage resulting from Duke Energy Ohio's operations; (2) workers' compensation liability coverage to required statutory limits; (3) automobile liability insurance for all owned, non-owned and hired vehicles covering liabilities to third parties for bodily injury and property damage; (4) insurance policies in support of the indemnification provisions of Duke Energy Ohio's by-laws and (5) property insurance covering the replacement value of all real and personal property damage, excluding electric transmission and distribution lines, including damages arising from boiler and machinery breakdowns, earthquake, flood damage and extra expense. All coverages are subject to certain deductibles, terms and conditions common for companies with similar types of operations.

Duke Energy Ohio also maintains excess liability insurance coverage above the established primary limits for commercial general liability and automobile liability insurance. Limits, terms, conditions and deductibles are comparable to those carried by other companies with similar types of operations.

The cost of Duke Energy Ohio's general insurance coverages continued to fluctuate over the past year reflecting the changing conditions of the insurance markets.

***Environmental***

Duke Energy Ohio is subject to federal, state and local regulations regarding air and water quality, hazardous and solid waste disposal and other environmental matters. These regulations can be changed from time to time, imposing new obligations on Duke Energy Ohio.

*Remediation activities.* Duke Energy Ohio and its affiliates are responsible for environmental remediation at various contaminated sites. These include some properties that are part of ongoing Duke Energy Ohio operations, sites formerly owned or used by Duke Energy Ohio entities, and sites owned by third parties. Remediation typically involves management of contaminated soils and may involve groundwater remediation. Managed in conjunction with relevant federal, state and local agencies, activities vary with site conditions and locations, remedial requirements, complexity and sharing of responsibility. If remediation activities involve statutory joint and several liability provisions, strict liability, or cost recovery or contribution actions, Duke Energy Ohio or its affiliates could potentially be held responsible for contamination caused by other parties. In some instances, Duke Energy Ohio may share liability associated with contamination with other potentially responsible parties, and may also benefit from insurance policies or contractual indemnities that cover some or all cleanup costs. All of these sites generally are managed in the normal course of business or affiliate operations. Duke Energy Ohio believes that completion or resolution of these matters will have no material adverse effect on its results of operations, cash flows or financial position.

*Clean Water Act 316(b).* The U.S. Environmental Protection Agency (EPA) finalized its cooling water intake structures rule in July 2004. The rule established aquatic protection requirements for existing facilities that withdraw 50 million gallons or more of water per day from rivers, streams, lakes, reservoirs, estuaries, oceans, or other U.S. waters for cooling purposes. Three of six coal-fired generating facilities in which Duke Energy Ohio is either a whole or partial owner are affected sources under that rule. On January 25, 2007, the U.S. Court of Appeals for the Second Circuit issued its opinion in *Riverkeeper, Inc. v. EPA*, Nos. 04-6692-ag(L) et. al. (2d Cir. 2007) remanding most aspects of EPA's rule back to the agency. The court effectively disallowed those portions of the rule most favorable to industry, and the decision creates a great deal of uncertainty regarding future requirements and their timing. Duke Energy Ohio is still unable to estimate costs to comply with the EPA's rule, although it is expected that costs will increase as a result of the court's decision. The magnitude of any such increase cannot be estimated at this time.

*Clean Air Mercury Rule (CAMR) and Clean Air Interstate Rule (CAIR).* The EPA finalized its CAMR and CAIR in May 2005. The CAMR was to have limited total annual mercury emissions from coal-fired power plants across the United States through a two-phased cap-and-trade program beginning in 2010. The CAIR limits total annual and summertime nitrogen oxides ($NO_X$) emissions and annual sulfur dioxide ($SO_2$) emissions from electric generating facilities across the Eastern United States through a two-phased cap-and-trade program. Phase 1 begins in 2009 for $NO_x$ and in 2010 for $SO_2$. Phase 2 begins in 2015 for both $NO_X$ and $SO_2$.

Duke Energy Ohio currently estimates that it will spend approximately $150 million between 2008 and 2012 to comply with Phase 1 of CAIR at plants that Duke Energy Ohio owns or partially owns but does not operate. Duke Energy Ohio currently estimates that it will not incur any significant costs for complying with Phase 2 of CAIR. Duke Energy Ohio receives partial recovery of depreciation and financing costs related to environmental compliance projects for 2005-2008 through its RSP (see Note 5).

On February 8, 2008 the U.S. Court of Appeals for the District of Columbia issued its opinion in *New Jersey v. EPA*, No. 05-1097 vacating the CAMR. The decision creates uncertainty regarding future mercury emission reduction requirements and their timing. Barring reversal of the decision if appealed, there will be a delay in the implementation of federal mercury requirements for existing coal-fired power plants while EPA conducts a new rulemaking. Duke Energy Ohio is unable to estimate the costs to comply with a new EPA rule, although it is expected that costs will increase as a result of the court's decision. The magnitude of any such increase cannot be estimated at this time.

*Manufactured Gas Plant (MGP) Sites.* Duke Energy Ohio has performed site assessments on certain of its sites where MGP activities are believed to have occurred at some point in the past and have found no imminent risk to the environment. At this time, Duke Energy Ohio cannot predict whether investigation and/or remediation will be required in the future at any of these sites.

*Coal Combustion Product (CCP) Management.* Duke Energy Ohio currently estimates that it will spend approximately $50 million over the period 2008-2012 to install synthetic caps and liners at existing and new CCP landfills and to convert CCP handling systems from wet to dry systems.

*Extended Environmental Activities and Accruals.* Included in Other Deferred Credits and Other Liabilities on the Balance Sheets were total accruals related to extended environmental-related activities of approximately $6 million for each year ending December 31, 2007 and 2006, respectively. These accruals represent Duke Energy Ohio's provisions for costs associated with remediation activities at some of its current and former sites, as well as other relevant environmental contingent liabilities. Duke Energy Ohio believes that completion or resolution of these matters will have no material impact on its results of operations, cash flows or financial position.

**Litigation**

*New Source Review (NSR).* In 1999-2000, the U.S. Justice Department, acting on behalf of the EPA, filed a number of complaints and notices of violation against multiple utilities across the country for alleged violations of the NSR provisions of the Clean Air Act (CAA). Generally, the government alleges that projects performed at various coal-fired units were major modifications, as defined in the CAA, and that the utilities violated the CAA when they undertook those projects without obtaining permits and installing the best available emission controls for $SO_2$, $NO_x$ and particulate matter. The complaints seek injunctive relief to require installation of pollution control technology on various allegedly violating generating units and, unspecified civil penalties in amounts of up to $27,500 per day for each violation. Two of Duke Energy Ohio's plants have been subject to these allegations. Duke Energy Ohio asserts that there were no CAA violations because the applicable regulations do not require permitting in cases where the projects undertaken are "routine" or otherwise do not result in a net increase in emissions.

In November 1999, the United States brought a lawsuit in the United States Federal District Court for the Southern District of Indiana against Duke Energy Ohio alleging various violations of the CAA at Duke Energy Ohio's W.C. Beckjord and Miami Fort Stations. The lawsuit alleges that Duke Energy Ohio violated the CAA by not obtaining Prevention of Significant Deterioration, Non-Attainment NSR and Ohio's State Implementation Plan (SIP) permits for 8 projects undertaken at those plants. Additionally, the suit claims that Duke Energy Ohio violated an Administrative Consent Order entered into in 1998 between the EPA and Cinergy relating to alleged violations of Ohio's SIP provisions governing particulate matter at Unit 1 at Duke Energy Ohio's W.C. Beckjord Station. Three northeast states and two environmental groups have intervened in the case. In June 2007, the trial court ruled, as a matter of law that 6 of the 8 projects undertaken at the Duke Energy Ohio plants do not qualify for the "routine" exception in the regulations. The court ruled further that the defendants had "fair notice" of EPA's interpretation of the applicable regulations. The defendants filed motions for reconsideration; which were denied. A jury trial has been set to commence on May 5, 2008.

In March 2000, the United States also filed suit in the United States District Court for the Southern District of Ohio an amended complaint in a separate lawsuit alleging violations of the CAA regarding various generating stations, including a generating station operated by CSP and jointly-owned by CSP, DP&L, and Duke Energy Ohio. This suit is being defended by CSP (the CSP case). A trial on liability issues was conducted in July 2005. On October 9, 2007, CSP announced a settlement of its case. The settlement includes commitments by CSP to construct environmental equipment or otherwise to reduce emissions at certain plants and the payment of penalties and money to various environmental projects. Duke Energy Ohio does not expect the settlement to have a material impact on its results of operations, cash flows, or financial position.

In addition, Duke Energy Ohio has been informed by DP&L that in June 2000, the EPA issued a Notice of Violation (NOV) to DP&L for alleged violations of CAA requirements at a station operated by DP&L and jointly-owned by DP&L, CSP, and Duke Energy Ohio. The NOV indicated the EPA may issue an order requiring compliance with the requirements of the Ohio SIP, or bring a civil action seeking injunctive relief and civil penalties of up to $27,500 per day for each violation. In September 2004, Marilyn Wall and the Sierra Club brought a lawsuit against Duke Energy Ohio, DP&L and CSP for alleged violations of the CAA at this same generating station. On December 14, 2007, the Court ordered a stay of the litigation for sixty days pending settlement negotiations among the parties. A trial has been set to commence in August 2008.

Other than the CSP case, it is not possible to predict with certainty whether Duke Energy Ohio will incur any liability or to estimate the damages, if any, that Duke Energy Ohio might incur in connection with these matters. Ultimate resolution of these matters, even in settlement, could have a material adverse effect on Duke Energy Ohio's results of operations, cash flows or financial position. However, Duke Energy Ohio will pursue appropriate regulatory treatment for any costs incurred in connection with such resolution.

*Section 126 Petitions.* In March 2004, the state of North Carolina filed a petition under Section 126 of the CAA in which it alleges that sources in 13 upwind states, including Ohio, significantly contribute to North Carolina's non-attainment with certain ambient air quality standards. In August 2005, the EPA issued a proposed response to the petition. The EPA proposed to deny the ozone portion of the petition based upon a lack of contribution to air quality by the named states. The EPA also proposed to deny the particulate matter portion of the petition based upon the CAIR Federal Implementation Plan (FIP), that would address the air quality concerns from neighboring states. On April 28, 2006, the EPA denied North Carolina's petition based upon the final CAIR FIP described above. North Carolina has filed a legal challenge to the EPA's denial.

*Carbon Dioxide ($CO_2$) Litigation.* In July 2004, the states of Connecticut, New York, California, Iowa, New Jersey, Rhode Island, Vermont, Wisconsin, and the City of New York brought a lawsuit in the United States District Court for the Southern District of New York against Cinergy, American Electric Power Company, Inc., American Electric Power Service Corporation, The Southern Company, Tennessee Valley Authority, and Xcel Energy Inc. A similar lawsuit was filed in the United States District Court for the Southern District of New York against the same companies by Open Space Institute, Inc., Open Space Conservancy, Inc., and The Audubon Society of New Hampshire. These lawsuits allege that the defendants' emissions of $CO_2$ from the combustion of fossil fuels at electric generating facilities contribute to global warming and amount to a public nuisance. The complaints also allege that the defendants could generate the same amount of electricity while emitting significantly less $CO_2$. The plaintiffs are seeking an injunction requiring each defendant to cap its $CO_2$ emissions and then reduce them by a specified percentage each year for at least a decade. In September 2005, the District Court granted the defendants' motion to dismiss the lawsuit. The plaintiffs have appealed this ruling to the Second Circuit Court of Appeals. Oral argument was held before the Second Circuit Court of Appeals on June 7, 2006. It is not possible to predict with certainty whether Duke Energy Ohio will incur any liability or to estimate the damages, if any, that Duke Energy Ohio might incur in connection with this matter.

*Zimmer Generating Station (Zimmer Station) Lawsuit.* In November 2004, a citizen of the Village of Moscow, Ohio, the town adjacent to Duke Energy Ohio's Zimmer Station, brought a purported class action in the United States District Court for the Southern District of Ohio seeking monetary damages and injunctive relief against Duke Energy Ohio for alleged violations of the CAA, the Ohio SIP, and Ohio laws against nuisance and common law nuisance. The plaintiffs have filed a number of additional notices of intent to sue and two lawsuits raising claims similar to those in the original claim. One lawsuit was dismissed on procedural grounds, and the remaining two have been consolidated. On December 28, 2006, the District Court certified this case as a class action. Discovery in the case continues. At this time, Duke Energy Ohio cannot predict whether the outcome of this matter will have a material impact on its financial position, cash flows or results of operations. Duke Energy Ohio intends to defend this lawsuit vigorously in court.

*Ontario, Canada Lawsuit.* Duke Energy Ohio understands that a class action lawsuit was filed in Superior Court in Ontario, Canada on July 3, 2005 against Duke Energy Ohio and approximately 20 other utility and power generation companies alleging various claims relating to environmental emissions from coal-fired power generation facilities in the United States and Canada and damages of approximately $50 billion, with continuing damages in the amount of approximately $4 billion annually. Duke Energy Ohio understands that the lawsuit also claims entitlement to punitive and exemplary damages in the amount of $1 billion. Duke Energy Ohio had not yet been served in this lawsuit by the deadline of July 3, 2007. However, if served, Duke Energy Ohio intends to defend this lawsuit vigorously in court. At this time, Duke Energy Ohio is not able to predict whether resolution of this matter would have a material effect on its financial position, cash flows or results of operations.

*Hurricane Katrina Lawsuit.* In April 2006, Cinergy was named in the third amended complaint of a purported class action lawsuit filed in the United States District Court for the Southern District of Mississippi. Plaintiffs claim that Cinergy, along with numerous other utilities, oil companies, coal companies and chemical companies, are liable for damages relating to losses suffered by victims of Hurricane Katrina. Plaintiffs claim that defendants' greenhouse gas emissions contributed to the frequency and intensity of storms such as Hurricane Katrina. In October 2006, Cinergy was served with this lawsuit. On August 30, 2007, the court dismissed the case. The plaintiffs have filed their notice of appeal to the Fifth Circuit Court of Appeals. Briefing is ongoing in the Fifth Circuit. It is not possible to predict with certainty whether Duke Energy Ohio will incur any liability or to estimate the damages, if any, that Duke Energy Ohio might incur in connection with this matter.

*Ohio Antitrust Lawsuit.* In January, 2008, four plaintiffs, including individual, industrial and non-profit customers, filed a lawsuit against Duke Energy Ohio in federal court in the Southern District of Ohio. Plaintiffs allege that Duke Energy Ohio (then The Cincinnati Gas & Electric Company (CG&E)), conspired to provide inequitable and unfair price advantages for certain large business consumers by entering into non-public option agreements with such consumers in exchange for their withdrawal of challenges to Duke Energy Ohio's (then CG&E's) pending RSP, which was implemented in early 2005. Duke Energy Ohio strongly denies the allegations made in the lawsuit and intends to defend itself vigorously. It is not possible to predict with certainty whether Duke Energy Ohio will incur any liability or to estimate the damages, if any, that Duke Energy Ohio might incur in connection with this matter.

*Asbestos-related Injuries and Damages Claims.* Duke Energy Ohio has been named as a defendant or co-defendant in lawsuits related to asbestos at its electric generating stations. The impact on Duke Energy Ohio's results of operations, cash flows, or financial position of these cases to date has not been material. Based on estimates under varying assumptions, concerning uncertainties, such as, among others: (i) the number of contractors potentially exposed to asbestos during construction or maintenance of Duke Energy Ohio's generating plants; (ii) the possible incidence of various illnesses among exposed workers, and (iii) the potential settlement costs without federal or other legislation that addresses asbestos tort actions, Duke Energy Ohio estimates that the range of reasonably possible exposure in existing and future suits over the foreseeable future is not material. This estimated range of exposure may change as additional settlements occur and claims are made and more case law is established.

*Other Litigation and Legal Proceedings.* Duke Energy Ohio and its subsidiaries are involved in other legal, tax and regulatory proceedings arising in the ordinary course of business, some of which involve substantial amounts. Duke Energy Ohio believes that the final disposition of these proceedings will not have a material adverse effect on its results of operations, cash flows or financial position.

Duke Energy Ohio has exposure to certain legal matters that are described herein. As of December 31, 2007 and 2006, Duke Energy Ohio has recorded immaterial reserves for these proceedings and exposures. Duke Energy Ohio expenses legal costs related to the defense of loss contingencies as incurred.

**Other Commitments and Contingencies**

*Other.* Duke Energy Ohio enters into various fixed-price, non-cancelable commitments to purchase or sell power (tolling arrangements or power purchase contracts) that may or may not be recognized on the Balance Sheets.

**Operating and Capital Lease Commitments**

Duke Energy Ohio leases assets in several areas of its operations. Rental expense for operating leases were $27 million for the year ended December 31, 2007 and $23 million for the year ended December 31, 2006, which is included in Operation, Maintenance and Other on the Statements of Operations. Capitalized lease obligations are classified as debt on the Balance Sheets (see Note 13). Amortization of assets recorded under capital leases was included in Depreciation and Amortization on the Statements of Operations. The following is a summary of future minimum lease payments under operating leases, which at inception had a noncancelable term of more than one year, and capital leases as of December 31, 2007:

| | Operating Leases | Capital Leases |
|---|---|---|
| | (in millions) | |
| 2008 | $ 11 | $ 6 |
| 2009 | 9 | 7 |
| 2010 | 8 | 6 |
| 2011 | 6 | 5 |
| 2012 | 4 | 5 |
| Thereafter | 27 | 15 |

Total future minimum lease payments $ 44

## 16. Employee Benefit Obligations

**Cinergy Retirement Plans.** Duke Energy Ohio participates in qualified and non-qualified defined benefit pension plans as well as other post-retirement benefit plans sponsored by Cinergy. Cinergy allocates pension and other post-retirement obligations and costs related to these plans to Duke Energy Ohio.

Upon consummation of the merger with Duke Energy, Cinergy's benefit plan obligations were remeasured. Cinergy updated the assumptions used to determine their accrued benefit obligations and prospective net periodic benefit/post-retirement costs to be allocated to Duke Energy Ohio. As a result, the discount rate used to determine net periodic benefit cost to be allocated to Duke Energy Ohio by Cinergy changed from 5.50% to 6.00% in 2006.

Cinergy adopted the funded status recognition and disclosure provisions of SFAS No. 158 effective December 31, 2006. Cinergy adopted the change in measurement date transition requirements of SFAS No. 158 effective January 1, 2007 by remeasuring plan assets and benefit obligations as of that date. Previously, Cinergy used a September 30 measurement date for its defined benefit and other post-retirement plans.

**Qualified Pension Plans**

Cinergy's qualified defined benefit pension plans cover substantially all United States employees meeting certain minimum age and service requirements. The plans cover most U.S. employees using a cash balance formula. Under a cash balance formula, a plan participant accumulates a retirement benefit consisting of pay credits that are based upon a percentage (which varies with age and years of service) of current eligible earnings and current interest credits. Certain legacy Cinergy U.S. employees are covered under plans that use a final average earnings formula. Under a final average earnings formula, a plan participant accumulates a retirement benefit equal to a percentage of their highest 3-year average earnings, plus a percentage of the their highest 3-year average earnings in excess of covered compensation per year of participation (maximum of 35 years), plus a percentage of their highest 3-year average earnings times years of participation in excess of 35 years.

Funding for the qualified defined benefit pension plans is based on actuarially determined contributions, the maximum of which is generally the amount deductible for tax purposes and the minimum being that required by the Employee Retirement Income Security Act of 1974, as amended. The pension plans' assets consist of investments in equity and debt securities.

Actuarial gains and losses are amortized over the average remaining service period of the active employees. The average remaining service period of the active employees covered by the retirement plan is 11 years. Cinergy determines the market-related value of plan assets using a calculated value that recognizes changes in fair value of the plan assets over five years.

Duke Energy Ohio's qualified pension plan pre-tax net periodic pension benefit costs as allocated by Cinergy were as follows:

| | Twelve Months Ended December 31, 2007 | Twelve Months Ended December 31, 2006 |
|---|---|---|
| | (in millions) | |
| Qualified Pension Benefits[a] | $ 13 | $ 24 |

(a) Excludes approximately $6 million for the twelve months ended December 31, 2007 and approximately $7 million for the nine months ended December 31, 2006 of regulatory asset amortization resulting from purchase accounting.

The fair value of Cinergy's plan assets was approximately $1,701 million as of December 31, 2007 and approximately $1,302 million as of September 30, 2006. The projected benefit obligation for the plans was approximately $1,941 million as of December 31, 2007 and approximately $1,976 million as of September 30, 2006. The accumulated benefit obligation for the plans was approximately $1,753 million as of December 31, 2007 and approximately $1,688 million at September 30, 2006. The accrued pension liability as allocated by Cinergy to Duke Energy Ohio and recognized in Accrued pension and other postretirement benefit costs within the Balance Sheets at December 31, 2007 and 2006 was approximately $108 million and approximately $222 million, respectively.

Duke Energy made qualified pension benefit contributions of approximately $350 million, $124 million and $102 million to the legacy Cinergy qualified pension benefit plans, of which approximately $74 million and$19 million represents contributions made by Duke Energy Ohio for the year ended December 31, 2007 and the year ended December 31, 2006, respectively.

**Qualified Pension Plans—Amounts Recognized in Accumulated Other Comprehensive Income (Loss) and Regulatory Assets Consist of:**

| | As of December 31, 2007 | 2006 |
|---|---|---|

| | (in millions) | |
|---|---|---|
| Regulatory assets | $ — | $ 12 |
| Regulatory liabilities | (27) | — |
| Accumulated other comprehensive income | | |
| Deferred income tax asset | $ 5 | $ (2) |
| Prior service cost | 2 | — |
| Net actuarial (gain) loss | (14) | 4 |
| Net amount recognized—accumulated other comprehensive income (loss) | $ (7) | $ 2 |

An immaterial amount in AOCI will be recognized in net periodic pension costs in 2008.

**Assumptions Used for Cinergy's Pension Benefits Accounting**

| | 2007 | 2006 |
|---|---|---|
| | (percentages) | |
| **Benefit Obligations** | | |
| Discount rate | 6.00 | 5.75 |
| Salary increase | 5.00 | 5.00 |
| **Net Periodic Benefit Cost** | | |
| Discount rate | 5.75 | 5.50-6.00 |
| Salary increase | 5.00 | 5.00 |
| Expected long-term rate of return on plan assets | 8.50 | 8.50 |

**Non-Qualified Pension Plans**

In addition, Cinergy also maintains, and Duke Energy Ohio participates in, non-qualified, non-contributory defined benefit retirement plans (plans that do not meet the criteria for certain tax benefits) that cover officers, certain other key employees, and non-employee directors. Actuarial gains and losses are amortized over the average remaining service period of the active employees. The average remaining service period of active employees covered by the non-qualified retirement plans is 11 years. There are no plan assets. The projected benefit obligation for the plans was approximately $105 million as of December 31, 2007 and approximately $114 million as of September 30, 2006. The accumulated benefit obligation for the plans was approximately $102 million as of December 31, 2007 and approximately $109 million at September 30, 2006. The accrued pension liability as allocated by Cinergy to Duke Energy Ohio and recognized in Accrued pension and other postretirement benefit costs within the Balance Sheets at December 31, 2007 and 2006 was approximately $5 million and $6 million, respectively, and as recognized in Other Current Liabilities within the Balance Sheet at December 31, 2007 and 2006 was approximately $2 million.

Duke Energy Ohio's non-qualified pension plan pre-tax net periodic pension benefit costs as allocated by Cinergy were as follows:

| | Twelve Months Ended December 31, 2007 | Twelve Months Ended December 31, 2006 |
|---|---|---|
| **Non-Qualified Pension** | $ 1 | $ 1 |

**Non-Qualified Plans—Assumptions Used for Cinergy's Pension Benefits Accounting**

| | 2007 | 2006 |
|---|---|---|
| | (percentages) | |
| **Benefit Obligations** | | |
| Discount rate | 6.00 | 5.75 |
| Salary increase | 5.00 | 5.00 |
| **Net Periodic Benefit Cost** | | |
| Discount rate | 5.75 | 5.50-6.00 |
| Salary increase | 5.00 | 5.00 |

**Other Post-Retirement Benefit Plans**

Duke Energy Ohio participates in other postretirement benefit plans sponsored by Cinergy. Cinergy provides certain health care and life insurance benefits to retired United States employees and their eligible dependents on a contributory and non-contributory basis. These benefits are subject to minimum age and service requirements. The health care benefits include medical coverage, dental coverage, and prescription drug coverage and are subject to certain limitations, such as deductibles and co-payments. These benefit costs are accrued over an employee's active service period to the date of full benefits eligibility. The net unrecognized transition obligation is amortized over approximately 20 years. Actuarial gains and losses are amortized over the average remaining service period of the active employees. The average remaining service period of the active employees covered by the plan is 12 years. Duke Energy Ohio's Other Post-Retirement Plan pre-tax Net Periodic Benefit costs as allocated by Cinergy were as follows:

| | Twelve Months Ended December 31, 2007 | Twelve Months Ended December 31, 2006 |
|---|---|---|
| Other Postretirement[(a)] | $ 10 | $ 9 |

(a) Excludes approximately $4 million for the twelve months ended December 31, 2007 and approximately $1 million for the twelve months ended December 31, 2006 of regulatory asset amortization resulting from purchase accounting.

The fair value of Cinergy's other post-retirement benefit plans assets was approximately $32 million as of December 31, 2007 and zero as of September 30, 2006. The accumulated other post-retirement benefit obligation for the plans was approximately $464 million as of December 31, 2007 and $497 million as of September 30, 2006. The accrued other post-retirement liability as allocated by Cinergy to Duke Energy Ohio and recognized in Accrued pension and other postretirement benefit costs within the Balance Sheets at December 31, 2007 and 2006 was $123 million and $116 million, respectively and as recognized in Other Current Liabilities within the Balance Sheet at December 31, 2007 and 2006 was $2 million and $6 million, respectively.

Duke Energy made other postretirement plan contributions during 2007 of approximately $32 million to the legacy Cinergy other postretirement plans, of which approximately $8 million represents contribution made by Duke Energy Ohio.

Duke Energy Ohio recognized regulatory assets and AOCI related to its other post-retirement benefit plans of approximately $2 million and $1 million as of December 31, 2007, respectively, and $1 million and zero, as of December 31, 2006, respectively, within the Balance Sheets.

An immaterial amount in AOCI will be recognized in net periodic other postretirement benefit costs in 2008.

**Assumptions Used in Cinergy's Other Postretirement Benefits Accounting**

| | 2007 | 2006 |
|---|---|---|
| | (percentages) | |
| **Benefit Obligations** | | |
| Discount rate | 6.00 | 5.75 |
| **Net Periodic Benefit Cost** | | |
| Discount rate | 5.75 | 5.50-6.00 |
| Expected long-term rate of return on plan assets | 5.53-8.50 | N/A |

**Assumed Health Care Cost Trend Rates**

| | Medicare Trend Rate | | Prescription Drug Trend Rate | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| Health care cost trend rate assumed for next year | 8.00% | 8.50% | 12.50 % | 13.00% |
| Rate to which the cost trend is assumed to decline (the ultimate trend rate) | 5.00% | 4.75% | | 4.75% |
| Year that the rate reaches the ultimate trend rate | 2013 | 2013 | 2022 | 2022 |

## 17. Subsequent Events

For information related to subsequent events related to regulatory matters, debt and credit facilities, and commitments and contingencies, see Notes 4, 13 and 15, respectively.

| Name of Respondent | This Report Is: | Date of Report (Mo, Da, Yr) | Year/Period of Report |
|---|---|---|---|
| Duke Energy Ohio, Inc. | (1) [X] An Original<br>(2) [ ] A Resubmission | / / | End of 2007/Q4 |

## STATEMENTS OF ACCUMULATED COMPREHENSIVE INCOME, COMPREHENSIVE INCOME, AND HEDGING ACTIVITIES

1. Report in columns (b),(c),(d) and (e) the amounts of accumulated other comprehensive income items, on a net-of-tax basis, where appropriate.

2. Report in columns (f) and (g) the amounts of other categories of other cash flow hedges.

3. For each category of hedges that have been accounted for as "fair value hedges", report the accounts affected and the related amounts in a footnote.

| Line No. | Item<br>(a) | Unrealized Gains and Losses on Available-for-Sale Securities<br>(b) | Minimum Pension Liability adjustment (net amount)<br>(c) | Foreign Currency Hedges<br>(d) | Other Adjustments<br>(e) |
|---|---|---|---|---|---|
| 1 | Balance of Account 219 at Beginning of Preceding Year | | ( 32,840,803) | | |
| 2 | Preceding Qtr/Yr to Date Reclassifications from Acct 219 to Net Income | | | | |
| 3 | Preceding Quarter/Year to Date Changes in Fair Value | | 30,385,802 | | |
| 4 | Total (lines 2 and 3) | | 30,385,802 | | |
| 5 | Balance of Account 219 at End of Preceding Quarter/Year | | ( 2,455,001) | | |
| 6 | Balance of Account 219 at Beginning of Current Year | | ( 2,455,001) | | |
| 7 | Current Qtr/Yr to Date Reclassifications from Acct 219 to Net Income | | | | |
| 8 | Current Quarter/Year to Date Changes in Fair Value | | 9,418,805 | | |
| 9 | Total (lines 7 and 8) | | 9,418,805 | | |
| 10 | Balance of Account 219 at End of Current Quarter/Year | | 6,963,804 | | |

| Name of Respondent<br>Duke Energy Ohio, Inc. | This Report Is:<br>(1) [X] An Original<br>(2) [ ] A Resubmission | Date of Report<br>(Mo, Da, Yr)<br>/ / | Year/Period of Report<br>End of 2007/Q4 |
|---|---|---|---|

## STATEMENTS OF ACCUMULATED COMPREHENSIVE INCOME, COMPREHENSIVE INCOME, AND HEDGING ACTIVITIES

| Line No. | Other Cash Flow Hedges Interest Rate Swaps<br>(f) | Other Cash Flow Hedges [Specify]<br>(g) | Totals for each category of items recorded in Account 219<br>(h) | Net Income (Carried Forward from Page 117, Line 78)<br>(i) | Total Comprehensive Income<br>(j) |
|---|---|---|---|---|---|
| 1 | ( 1,982,709) | ( 12,383,042) | ( 47,206,554) | | |
| 2 | 6,888,596 | 599,656 | 7,488,252 | | |
| 3 | ( 41,089,112) | 11,783,386 | 1,080,076 | | |
| 4 | ( 34,200,516) | 12,383,042 | 8,568,328 | 170,759,549 | 179,327,877 |
| 5 | ( 36,183,225) | | ( 38,638,226) | | |
| 6 | ( 36,183,225) | | ( 38,638,226) | | |
| 7 | | | | | |
| 8 | 35,149,415 | ( 30,783,787) | 13,784,433 | | |
| 9 | 35,149,415 | ( 30,783,787) | 13,784,433 | 263,543,563 | 277,327,998 |
| 10 | ( 1,033,810) | ( 30,783,787) | ( 24,853,793) | | |

***Schedule Page: 122(a)(b) Line No.: 3 Column: c***

This amount includes purchase accounting adjustments of $31,986,900.

***Schedule Page: 122(a)(b) Line No.: 3 Column: f***

This amount includes purchase accounting adjustments of $1,328,176.

***Schedule Page: 122(a)(b) Line No.: 3 Column: g***

This amount includes purchase accounting adjustments of $12,140,287.

***Schedule Page: 122(a)(b) Line No.: 10 Column: f***

Duke Energy Ohio, Inc. has an outstanding interest rate swap agreement that decreased the percentage of floating-rate debt. Under the provisions of the swap, which has a notional amount of $100 million, Duke Energy Ohio, Inc. pays a fixed-rate and received a floating-rate through October 2007. This swap qualifies as a cash flow hedge under the provisions of Statement 133. Changes in fair value of this swap are recorded in Accumulated Other Comprehensive Income, beginning with our adoption of Statement 133 on January 1, 2001.

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| Name of Respondent | This Report Is: | Date of Report (Mo, Da, Yr) | Year/Period of Report |
|---|---|---|---|
| Duke Energy Ohio, Inc. | (1) [X] An Original<br>(2) [ ] A Resubmission | / / | End of 2007/Q4 |

## SUMMARY OF UTILITY PLANT AND ACCUMULATED PROVISIONS FOR DEPRECIATION. AMORTIZATION AND DEPLETION

Report in Column (c) the amount for electric function, in column (d) the amount for gas function, in column (e), (f), and (g) report other (specify) and in column (f) common function.

| Line No. | Classification (a) | Total Company for the Current Year/Quarter Ended (b) | Electric (c) |
|---|---|---|---|
| 1 | Utility Plant | | |
| 2 | In Service | | |
| 3 | Plant in Service (Classified) | 7,612,835,631 | 6,416,745,027 |
| 4 | Property Under Capital Leases | 64,183,645 | 23,147,447 |
| 5 | Plant Purchased or Sold | | |
| 6 | Completed Construction not Classified | 794,015,934 | 678,575,914 |
| 7 | Experimental Plant Unclassified | | |
| 8 | Total (3 thru 7) | 8,471,035,210 | 7,118,468,388 |
| 9 | Leased to Others | | |
| 10 | Held for Future Use | 4,754,482 | 4,754,482 |
| 11 | Construction Work in Progress | 543,990,746 | 524,142,510 |
| 12 | Acquisition Adjustments | 290,076,927 | 293,911,168 |
| 13 | Total Utility Plant (8 thru 12) | 9,309,857,365 | 7,941,276,548 |
| 14 | Accum Prov for Depr, Amort, & Depl | 2,933,111,018 | 2,509,758,429 |
| 15 | Net Utility Plant (13 less 14) | 6,376,746,347 | 5,431,518,119 |
| 16 | Detail of Accum Prov for Depr, Amort & Depl | | |
| 17 | In Service: | | |
| 18 | Depreciation | 2,760,430,637 | 2,426,330,758 |
| 19 | Amort & Depl of Producing Nat Gas Land/Land Right | | |
| 20 | Amort of Underground Storage Land/Land Rights | | |
| 21 | Amort of Other Utility Plant | 132,699,549 | 43,324,597 |
| 22 | Total In Service (18 thru 21) | 2,893,130,186 | 2,469,655,355 |
| 23 | Leased to Others | | |
| 24 | Depreciation | | |
| 25 | Amortization and Depletion | | |
| 26 | Total Leased to Others (24 & 25) | | |
| 27 | Held for Future Use | | |
| 28 | Depreciation | 134,526 | 134,526 |
| 29 | Amortization | | |
| 30 | Total Held for Future Use (28 & 29) | 134,526 | 134,526 |
| 31 | Abandonment of Leases (Natural Gas) | | |
| 32 | Amort of Plant Acquisition Adj | 39,846,306 | 39,968,548 |
| 33 | Total Accum Prov (equals 14) (22,26,30,31,32) | 2,933,111,018 | 2,509,758,429 |

| Name of Respondent<br>Duke Energy Ohio, Inc. | This Report Is:<br>(1) [X] An Original<br>(2) [ ] A Resubmission | Date of Report<br>(Mo, Da, Yr)<br>/ / | Year/Period of Report<br>End of 2007/Q4 |
|---|---|---|---|

## SUMMARY OF UTILITY PLANT AND ACCUMULATED PROVISIONS FOR DEPRECIATION. AMORTIZATION AND DEPLETION

| Gas<br>(d) | Other (Specify)<br>(e) | Other (Specify)<br>(f) | Other (Specify)<br>(g) | Common<br>(h) | Line No. |
|---|---|---|---|---|---|
| | | | | | 1 |
| | | | | | 2 |
| 980,891,898 | | | | 215,198,706 | 3 |
| 36,095,373 | | | | 4,940,825 | 4 |
| | | | | | 5 |
| 110,388,121 | | | | 5,051,899 | 6 |
| | | | | | 7 |
| 1,127,375,392 | | | | 225,191,430 | 8 |
| | | | | | 9 |
| | | | | | 10 |
| 3,654,032 | | | | 16,194,204 | 11 |
| | | | | -3,834,241 | 12 |
| 1,131,029,424 | | | | 237,551,393 | 13 |
| 323,167,283 | | | | 100,185,306 | 14 |
| 807,862,141 | | | | 137,366,087 | 15 |
| | | | | | 16 |
| | | | | | 17 |
| 315,881,374 | | | | 18,218,505 | 18 |
| | | | | | 19 |
| | | | | | 20 |
| 7,285,909 | | | | 82,089,043 | 21 |
| 323,167,283 | | | | 100,307,548 | 22 |
| | | | | | 23 |
| | | | | | 24 |
| | | | | | 25 |
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| | | | | | 31 |
| | | | | -122,242 | 32 |
| 323,167,283 | | | | 100,185,306 | 33 |

| Name of Respondent | This Report Is: | Date of Report (Mo, Da, Yr) | Year/Period of Report |
|---|---|---|---|
| Duke Energy Ohio, Inc. | (1) [X] An Original<br>(2) [ ] A Resubmission | / / | End of 2007/Q4 |

## ELECTRIC PLANT IN SERVICE (Account 101, 102, 103 and 106)

1. Report below the original cost of electric plant in service according to the prescribed accounts.
2. In addition to Account 101, Electric Plant in Service (Classified), this page and the next include Account 102, Electric Plant Purchased or Sold; Account 103, Experimental Electric Plant Unclassified; and Account 106, Completed Construction Not Classified-Electric.
3. Include in column (c) or (d), as appropriate, corrections of additions and retirements for the current or preceding year.
4. For revisions to the amount of initial asset retirement costs capitalized, included by primary plant account, increases in column (c) additions and reductions in column (e) adjustments.
5. Enclose in parentheses credit adjustments of plant accounts to indicate the negative effect of such accounts.
6. Classify Account 106 according to prescribed accounts, on an estimated basis if necessary, and include the entries in column (c). Also to be included in column (c) are entries for reversals of tentative distributions of prior year reported in column (b). Likewise, if the respondent has a significant amount of plant retirements which have not been classified to primary accounts at the end of the year, include in column (d) a tentative distribution of such retirements, on an estimated basis, with appropriate contra entry to the account for accumulated depreciation provision. Include also in column (d)

| Line No. | Account (a) | Balance Beginning of Year (b) | Additions (c) |
|---|---|---|---|
| 1 | 1. INTANGIBLE PLANT | | |
| 2 | (301) Organization | | |
| 3 | (302) Franchises and Consents | | |
| 4 | (303) Miscellaneous Intangible Plant | 55,885,108 | 3,718,840 |
| 5 | TOTAL Intangible Plant (Enter Total of lines 2, 3, and 4) | 55,885,108 | 3,718,840 |
| 6 | 2. PRODUCTION PLANT | | |
| 7 | A. Steam Production Plant | | |
| 8 | (310) Land and Land Rights | 17,918,057 | -40,710 |
| 9 | (311) Structures and Improvements | 447,156,847 | 1,483,814 |
| 10 | (312) Boiler Plant Equipment | 1,530,365,074 | 269,060,010 |
| 11 | (313) Engines and Engine-Driven Generators | | |
| 12 | (314) Turbogenerator Units | 447,721,827 | 25,487,275 |
| 13 | (315) Accessory Electric Equipment | 244,770,764 | 350,297 |
| 14 | (316) Misc. Power Plant Equipment | 60,897,072 | 1,633,084 |
| 15 | (317) Asset Retirement Costs for Steam Production | 2,115,115 | |
| 16 | TOTAL Steam Production Plant (Enter Total of lines 8 thru 15) | 2,750,944,756 | 297,973,770 |
| 17 | B. Nuclear Production Plant | | |
| 18 | (320) Land and Land Rights | | |
| 19 | (321) Structures and Improvements | | |
| 20 | (322) Reactor Plant Equipment | | |
| 21 | (323) Turbogenerator Units | | |
| 22 | (324) Accessory Electric Equipment | | |
| 23 | (325) Misc. Power Plant Equipment | | |
| 24 | (326) Asset Retirement Costs for Nuclear Production | | |
| 25 | TOTAL Nuclear Production Plant (Enter Total of lines 18 thru 24) | | |
| 26 | C. Hydraulic Production Plant | | |
| 27 | (330) Land and Land Rights | | |
| 28 | (331) Structures and Improvements | | |
| 29 | (332) Reservoirs, Dams, and Waterways | | |
| 30 | (333) Water Wheels, Turbines, and Generators | | |
| 31 | (334) Accessory Electric Equipment | | |
| 32 | (335) Misc. Power PLant Equipment | | |
| 33 | (336) Roads, Railroads, and Bridges | | |
| 34 | (337) Asset Retirement Costs for Hydraulic Production | | |
| 35 | TOTAL Hydraulic Production Plant (Enter Total of lines 27 thru 34) | | |
| 36 | D. Other Production Plant | | |
| 37 | (340) Land and Land Rights | 8,701,469 | |
| 38 | (341) Structures and Improvements | 139,952,707 | 53,995 |
| 39 | (342) Fuel Holders, Products, and Accessories | 30,858,321 | -37,536 |
| 40 | (343) Prime Movers | 270,777,797 | 7,882 |
| 41 | (344) Generators | 1,154,676,533 | 4,653,155 |
| 42 | (345) Accessory Electric Equipment | 91,594,672 | |
| 43 | (346) Misc. Power Plant Equipment | 69,419,132 | 1,563,261 |
| 44 | (347) Asset Retirement Costs for Other Production | | |
| 45 | TOTAL Other Prod. Plant (Enter Total of lines 37 thru 44) | 1,765,980,631 | 6,240,757 |
| 46 | TOTAL Prod. Plant (Enter Total of lines 16, 25, 35, and 45) | 4,516,925,387 | 304,214,527 |

| Name of Respondent | This Report Is: | Date of Report (Mo, Da, Yr) | Year/Period of Report |
|---|---|---|---|
| Duke Energy Ohio, Inc. | (1) [X] An Original<br>(2) [ ] A Resubmission | / / | End of 2007/Q4 |

## ELECTRIC PLANT IN SERVICE (Account 101, 102, 103 and 106) (Continued)

distributions of these tentative classifications in columns (c) and (d), including the reversals of the prior years tentative account distributions of these amounts. Careful observance of the above instructions and the texts of Accounts 101 and 106 will avoid serious omissions of the reported amount of respondent's plant actually in service at end of year.

7. Show in column (f) reclassifications or transfers within utility plant accounts. Include also in column (f) the additions or reductions of primary account classifications arising from distribution of amounts initially recorded in Account 102, include in column (e) the amounts with respect to accumulated provision for depreciation, acquisition adjustments, etc., and show in column (f) only the offset to the debits or credits distributed in column (f) to primary account classifications.

8. For Account 399, state the nature and use of plant included in this account and if substantial in amount submit a supplementary statement showing subaccount classification of such plant conforming to the requirement of these pages.

9. For each amount comprising the reported balance and changes in Account 102, state the property purchased or sold, name of vendor or purchase, and date of transaction. If proposed journal entries have been filed with the Commission as required by the Uniform System of Accounts, give also date

| Retirements (d) | Adjustments (e) | Transfers (f) | Balance at End of Year (g) | | Line No. |
|---|---|---|---|---|---|
| | | | | | 1 |
| | | | | | 2 |
| | | | | | 3 |
| 1,290,350 | | | 58,313,598 | | 4 |
| 1,290,350 | | | 58,313,598 | | 5 |
| | | | | | 6 |
| | | | | | 7 |
| | | | 17,877,347 | | 8 |
| 2,167,465 | | 598,422 | 447,071,618 | | 9 |
| 22,994,265 | | 1,762,878 | 1,778,193,697 | | 10 |
| | | | | | 11 |
| 6,001,773 | | 22,236 | 467,229,565 | | 12 |
| 3,657,377 | | | 241,463,684 | | 13 |
| 1,389,800 | | 367,182 | 61,507,538 | | 14 |
| | | | 2,115,115 | | 15 |
| 36,210,680 | | 2,750,718 | 3,015,458,564 | | 16 |
| | | | | | 17 |
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| | | | | | 34 |
| | | | | | 35 |
| | | | | | 36 |
| | | | 8,701,469 | | 37 |
| | | | 140,006,702 | | 38 |
| | | | 30,820,785 | | 39 |
| | | | 270,785,679 | | 40 |
| 3,765,099 | | -433,844 | 1,155,130,745 | | 41 |
| 2,285 | | -48,914 | 91,543,473 | | 42 |
| | | -2,070,819 | 68,911,574 | | 43 |
| | | | | | 44 |
| 3,767,384 | | -2,553,577 | 1,765,900,427 | | 45 |
| 39,978,064 | | 197,141 | 4,781,358,991 | | 46 |

| Name of Respondent | This Report Is: | Date of Report (Mo, Da, Yr) | Year/Period of Report |
|---|---|---|---|
| Duke Energy Ohio, Inc. | (1) [X] An Original<br>(2) [ ] A Resubmission | / / | End of 2007/Q4 |

ELECTRIC PLANT IN SERVICE (Account 101, 102, 103 and 106) (Continued)

| Line No. | Account<br>(a) | Balance Beginning of Year<br>(b) | Additions<br>(c) |
|---|---|---|---|
| 47 | 3. TRANSMISSION PLANT | | |
| 48 | (350) Land and Land Rights | 26,615,515 | 114,270 |
| 49 | (352) Structures and Improvements | 9,181,292 | -330,648 |
| 50 | (353) Station Equipment | 366,182,566 | 10,662,954 |
| 51 | (354) Towers and Fixtures | 37,868,148 | 1,222,081 |
| 52 | (355) Poles and Fixtures | 59,142,446 | 3,862,020 |
| 53 | (356) Overhead Conductors and Devices | 89,756,895 | 4,600,092 |
| 54 | (357) Underground Conduit | 4,619,441 | |
| 55 | (358) Underground Conductors and Devices | 4,578,279 | |
| 56 | (359) Roads and Trails | | |
| 57 | (359.1) Asset Retirement Costs for Transmission Plant | | |
| 58 | TOTAL Transmission Plant (Enter Total of lines 48 thru 57) | 597,944,582 | 20,130,769 |
| 59 | 4. DISTRIBUTION PLANT | | |
| 60 | (360) Land and Land Rights | 33,436,696 | 529,313 |
| 61 | (361) Structures and Improvements | 5,885,667 | 69,799 |
| 62 | (362) Station Equipment | 221,581,159 | 12,787,846 |
| 63 | (363) Storage Battery Equipment | | |
| 64 | (364) Poles, Towers, and Fixtures | 234,335,671 | 52,358,213 |
| 65 | (365) Overhead Conductors and Devices | 274,676,372 | 12,787,186 |
| 66 | (366) Underground Conduit | 93,529,585 | 2,085,123 |
| 67 | (367) Underground Conductors and Devices | 216,953,843 | 4,409,178 |
| 68 | (368) Line Transformers | 303,335,840 | 15,702,509 |
| 69 | (369) Services | 49,140,677 | 1,596,432 |
| 70 | (370) Meters | 75,271,136 | 3,316,732 |
| 71 | (371) Installations on Customer Premises | 4,352 | |
| 72 | (372) Leased Property on Customer Premises | 102,503 | |
| 73 | (373) Street Lighting and Signal Systems | 29,735,213 | 160,582 |
| 74 | (374) Asset Retirement Costs for Distribution Plant | | |
| 75 | TOTAL Distribution Plant (Enter Total of lines 60 thru 74) | 1,537,988,714 | 105,802,913 |
| 76 | 5. REGIONAL TRANSMISSION AND MARKET OPERATION PLANT | | |
| 77 | (380) Land and Land Rights | | |
| 78 | (381) Structures and Improvements | | |
| 79 | (382) Computer Hardware | | |
| 80 | (383) Computer Software | | |
| 81 | (384) Communication Equipment | | |
| 82 | (385) Miscellaneous Regional Transmission and Market Operation Plant | | |
| 83 | (386) Asset Retirement Costs for Regional Transmission and Market Oper | | |
| 84 | TOTAL Transmission and Market Operation Plant (Total lines 77 thru 83) | | |
| 85 | 6. GENERAL PLANT | | |
| 86 | (389) Land and Land Rights | 951,856 | |
| 87 | (390) Structures and Improvements | 15,652,866 | 35,030 |
| 88 | (391) Office Furniture and Equipment | 971,092 | 80,497 |
| 89 | (392) Transportation Equipment | 4,011,810 | 126,661 |
| 90 | (393) Stores Equipment | 38,449 | |
| 91 | (394) Tools, Shop and Garage Equipment | 7,922,316 | 1,180,598 |
| 92 | (395) Laboratory Equipment | 929,692 | |
| 93 | (396) Power Operated Equipment | 1,088,311 | |
| 94 | (397) Communication Equipment | 2,372,293 | 481,133 |
| 95 | (398) Miscellaneous Equipment | 160,407 | -80,497 |
| 96 | SUBTOTAL (Enter Total of lines 86 thru 95) | 34,099,092 | 1,823,422 |
| 97 | (399) Other Tangible Property | | |
| 98 | (399.1) Asset Retirement Costs for General Plant | | |
| 99 | TOTAL General Plant (Enter Total of lines 96, 97 and 98) | 34,099,092 | 1,823,422 |
| 100 | TOTAL (Accounts 101 and 106) | 6,742,842,883 | 435,690,471 |
| 101 | (102) Electric Plant Purchased (See Instr. 8) | | |
| 102 | (Less) (102) Electric Plant Sold (See Instr. 8) | | |
| 103 | (103) Experimental Plant Unclassified | | |
| 104 | TOTAL Electric Plant in Service (Enter Total of lines 100 thru 103) | 6,742,842,883 | 435,690,471 |

| Name of Respondent | This Report Is: | Date of Report (Mo, Da, Yr) | Year/Period of Report |
|---|---|---|---|
| Duke Energy Ohio, Inc. | (1) [X] An Original<br>(2) [ ] A Resubmission | / / | End of 2007/Q4 |

ELECTRIC PLANT IN SERVICE (Account 101, 102, 103 and 106) (Continued)

| Retirements (d) | Adjustments (e) | Transfers (f) | Balance at End of Year (g) | | Line No. |
|---|---|---|---|---|---|
| | | | | | 47 |
| | | | 26,729,785 | | 48 |
| | | | 8,850,644 | | 49 |
| 1,692,873 | | 100,598 | 375,253,245 | | 50 |
| | | | 39,090,229 | | 51 |
| 872,378 | | 48,914 | 62,181,002 | | 52 |
| 741,176 | | | 93,615,811 | | 53 |
| | | | 4,619,441 | | 54 |
| | | | 4,578,279 | | 55 |
| | | | | | 56 |
| | | | | | 57 |
| 3,306,427 | | 149,512 | 614,918,436 | | 58 |
| | | | | | 59 |
| | | | 33,966,009 | | 60 |
| 6,773 | | | 5,948,693 | | 61 |
| 986,755 | | -45,260 | 233,336,990 | | 62 |
| | | | | | 63 |
| 2,158,763 | | | 284,535,121 | | 64 |
| 4,000,304 | | | 283,463,254 | | 65 |
| 85,872 | | 2,329 | 95,531,165 | | 66 |
| 1,571,060 | | | 219,791,961 | | 67 |
| 4,032,309 | | -121,343 | 314,884,697 | | 68 |
| 1,101,173 | | | 49,635,936 | | 69 |
| 1,279,211 | | | 77,308,657 | | 70 |
| 199 | | | 4,153 | | 71 |
| | | | 102,503 | | 72 |
| 428,112 | | | 29,467,683 | | 73 |
| | | | | | 74 |
| 15,650,531 | | -164,274 | 1,627,976,822 | | 75 |
| | | | | | 76 |
| | | | | | 77 |
| | | | | | 78 |
| | | | | | 79 |
| | | | | | 80 |
| | | | | | 81 |
| | | | | | 82 |
| | | | | | 83 |
| | | | | | 84 |
| | | | | | 85 |
| | | | 951,856 | | 86 |
| | | | 15,687,896 | | 87 |
| 48,402 | | | 1,003,187 | | 88 |
| | | | 4,138,471 | | 89 |
| 38,449 | | | | | 90 |
| 100,782 | | | 9,002,132 | | 91 |
| 170,132 | | | 759,560 | | 92 |
| | | | 1,088,311 | | 93 |
| | | 341,487 | 3,194,913 | | 94 |
| 5,695 | | | 74,215 | | 95 |
| 363,460 | | 341,487 | 35,900,541 | | 96 |
| | | | | | 97 |
| | | | | | 98 |
| 363,460 | | 341,487 | 35,900,541 | | 99 |
| 60,588,832 | | 523,866 | 7,118,468,388 | | 100 |
| | | | | | 101 |
| | | | | | 102 |
| | | | | | 103 |
| 60,588,832 | | 523,866 | 7,118,468,388 | | 104 |

| Name of Respondent | This Report Is: | Date of Report (Mo, Da, Yr) | Year/Period of Report |
|---|---|---|---|
| Duke Energy Ohio, Inc. | (1) [X] An Original<br>(2) [ ] A Resubmission | / / | End of 2007/Q4 |

## ELECTRIC PLANT HELD FOR FUTURE USE (Account 105)

1. Report separately each property held for future use at end of the year having an original cost of $250,000 or more. Group other items of property held for future use.
2. For property having an original cost of $250,000 or more previously used in utility operations, now held for future use, give in column (a), in addition to other required information, the date that utility use of such property was discontinued, and the date the original cost was transferred to Account 105.

| Line No. | Description and Location Of Property (a) | Date Originally Included in This Account (b) | Date Expected to be used in Utility Service (c) | Balance at End of Year (d) |
|---|---|---|---|---|
| 1 | Land and Rights: | | | |
| 2 | | | | |
| 3 | East Bend Station | 03/82 | | 1,959,275 |
| 4 | | | | |
| 5 | J. M. Stuart Station | 12/74 | | 272,173 |
| 6 | | | | |
| 7 | Woodsdale Station | 01/06 | | 2,012,790 |
| 8 | | | | |
| 9 | Other projects | | | 167,776 |
| 10 | | | | |
| 11 | | | | |
| 12 | | | | |
| 13 | | | | |
| 14 | | | | |
| 15 | | | | |
| 16 | | | | |
| 17 | | | | |
| 18 | | | | |
| 19 | | | | |
| 20 | | | | |
| 21 | Other Property: | | | |
| 22 | | | | |
| 23 | J. M. Stuart Station - Production | 12/74 | | 91,232 |
| 24 | | | | |
| 25 | East Bend Station - Production | 01/06 | | 251,236 |
| 26 | | | | |
| 27 | | | | |
| 28 | | | | |
| 29 | | | | |
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| 42 | | | | |
| 43 | | | | |
| 44 | | | | |
| 45 | | | | |
| 46 | | | | |
| 47 | Total | | | 4,754,482 |

| Name of Respondent | This Report Is: | Date of Report (Mo, Da, Yr) | Year/Period of Report |
|---|---|---|---|
| Duke Energy Ohio, Inc. | (1) [X] An Original<br>(2) [ ] A Resubmission | / / | End of 2007/Q4 |

## CONSTRUCTION WORK IN PROGRESS - - ELECTRIC (Account 107)

1. Report below descriptions and balances at end of year of projects in process of construction (107)
2. Show items relating to "research, development, and demonstration" projects last, under a caption Research, Development, and Demonstrating (see Account 107 of the Uniform System of Accounts)
3. Minor projects (5% of the Balance End of the Year for Account 107 or $100,000, whichever is less) may be grouped.

| Line No. | Description of Project (a) | Construction work in progress - Electric (Account 107) (b) |
|---|---|---|
| 1 | SOFTWARE - MARKET RISK VERSION 5 | 1,113,749 |
| 2 | KILLEN STATION UNIT 1 - PRECIPITATOR PLATES AND WIRES | 1,123,666 |
| 3 | BRECON YARD - NEW PARKING LOT, LINEMAN TRUCK CANOPIES, STORM WATER PIPING | 1,171,370 |
| 4 | CONESVILLE STATION UNIT 4 - SO3 MITIGATION | 1,268,007 |
| 5 | O'BANNONVILLE SUBSTATION - INSTALL 138-34/5 KV TRANSFORMER & ASSOC. EQUIP. | 1,323,646 |
| 6 | HILLCREST SUBSTATION - INSTALL 138-34/5 KV TRANSFORMER & ASSOC. EQUIP. | 1,496,452 |
| 7 | J. M. STUART STATION UNITS 1-4 - WATERWALL PANELS 2007 | 1,526,078 |
| 8 | W. H. ZIMMER STATION - SELECT WASTEWATER POND ALTERNATIVE AND PREPARE CONSTR | 1,550,128 |
| 9 | J. M. STUART STATION UNIT 2 - LOW PRESSURE ROTORS 2007 | 1,574,488 |
| 10 | J. M. STUART STATION UNITS 1-4 - LOW NOX BURNERS | 1,807,918 |
| 11 | KILLEN STATION UNIT 1 - SO3 MITIGATION - SBS INJECTION | 1,813,903 |
| 12 | J. M. STUART STATION UNITS 1-4 - GENERATOR STATOR REWIND | 1,898,706 |
| 13 | CONESVILLE STATION UNIT 4 - BALANCED DRAFT | 2,144,867 |
| 14 | MIAMI FORT STATION UNIT 7 - REPLACE MAIN GSU TRANSFORMER | 2,238,186 |
| 15 | KILLEN STATION UNIT 1 - 2007 MISCELLANEOUS & UNFORSEEN | 2,425,290 |
| 16 | J. M. STUART STATION UNITS 1-4 - PENDANT REHEATERS | 2,578,216 |
| 17 | CONESVILLE STATION UNIT 4 - WASTEWATER TREATMENT | 2,581,616 |
| 18 | MIAMI FORT STATION UNIT 7 - REPLACE INTER. REHEAT PENDANT | 2,769,731 |
| 19 | CONESVILLE STATION UNIT 4 - REPLACE ECONOMIZER | 2,989,850 |
| 20 | MIAMI FORT STATION UNIT 7 - REPLACE BURNERS | 3,721,516 |
| 21 | PIERCE SUBSTATION - INSTALL 345 / 138 KV 400 MVA TRANSFORMER | 3,949,236 |
| 22 | SOFTWARE - EMS MIGRATION CGE | 4,214,420 |
| 23 | HILLCREST SUBSTATION TO EASTWOOD SUBSTATION 138 KV LINE PROJECT | 4,355,551 |
| 24 | HILLCREST SUBSTATION - INSTALL NEW 345 / 138 KV SUBSTATION | 8,437,981 |
| 25 | J. M. STUART STATION UNITS 1-4 - GENERAL PLANT ITEMS - 2007 | 11,974,042 |
| 26 | J. M. STUART STATION UNITS 1-4 - BALANCED DRAFT CONVERSION ENGINEERING | 14,884,190 |
| 27 | CONESVILLE STATION UNIT 4 - SCR PHASE 2B | 18,915,226 |
| 28 | CONESVILLE STATION UNIT 4 - FGD | 52,721,512 |
| 29 | KILLEN STATION UNIT 1 - FGD SCRUBBERS | 77,399,127 |
| 30 | J. M. STUART STATION UNITS 1-4 - FGD | 218,144,345 |
| 31 | | |
| 32 | PROJECTS UNDER $1,000,000 | 70,029,497 |
| 33 | | |
| 34 | | |
| 35 | | |
| 36 | | |
| 37 | | |
| 38 | | |
| 39 | | |
| 40 | | |
| 41 | | |
| 42 | | |
| 43 | TOTAL | 524,142,510 |

| Name of Respondent | This Report Is: | Date of Report (Mo, Da, Yr) | Year/Period of Report |
|---|---|---|---|
| Duke Energy Ohio, Inc. | (1) [X] An Original<br>(2) [ ] A Resubmission | / / | End of 2007/Q4 |

## ACCUMULATED PROVISION FOR DEPRECIATION OF ELECTRIC UTILITY PLANT (Account 108)

1. Explain in a footnote any important adjustments during year.
2. Explain in a footnote any difference between the amount for book cost of plant retired, Line 11, column (c), and that reported for electric plant in service, pages 204-207, column 9d), excluding retirements of non-depreciable property.
3. The provisions of Account 108 in the Uniform System of accounts require that retirements of depreciable plant be recorded when such plant is removed from service. If the respondent has a significant amount of plant retired at year end which has not been recorded and/or classified to the various reserve functional classifications, make preliminary closing entries to tentatively functionalize the book cost of the plant retired. In addition, include all costs included in retirement work in progress at year end in the appropriate functional classifications.
4. Show separately interest credits under a sinking fund or similar method of depreciation accounting.

### Section A. Balances and Changes During Year

| Line No. | Item (a) | Total (c+d+e) (b) | Electric Plant in Service (c) | Electric Plant Held for Future Use (d) | Electric Plant Leased to Others (e) |
|---|---|---|---|---|---|
| 1 | Balance Beginning of Year | 2,316,256,736 | 2,316,122,210 | 134,526 | |
| 2 | Depreciation Provisions for Year, Charged to | | | | |
| 3 | (403) Depreciation Expense | 171,435,879 | 171,435,879 | | |
| 4 | (403.1) Depreciation Expense for Asset Retirement Costs | 94,042 | 94,042 | | |
| 5 | (413) Exp. of Elec. Plt. Leas. to Others | | | | |
| 6 | Transportation Expenses-Clearing | 17,825 | 17,825 | | |
| 7 | Other Clearing Accounts | | | | |
| 8 | Other Accounts (Specify, details in footnote): | | | | |
| 9 | | | | | |
| 10 | TOTAL Deprec. Prov for Year (Enter Total of lines 3 thru 9) | 171,547,746 | 171,547,746 | | |
| 11 | Net Charges for Plant Retired: | | | | |
| 12 | Book Cost of Plant Retired | 58,935,022 | 58,935,022 | | |
| 13 | Cost of Removal | 2,795,234 | 2,795,234 | | |
| 14 | Salvage (Credit) | | | | |
| 15 | TOTAL Net Chrgs. for Plant Ret. (Enter Total of lines 12 thru 14) | 61,730,256 | 61,730,256 | | |
| 16 | Other Debit or Cr. Items (Describe, details in footnote): | 391,058 | 391,058 | | |
| 17 | | | | | |
| 18 | Book Cost or Asset Retirement Costs Retired | | | | |
| 19 | Balance End of Year (Enter Totals of lines 1, 10, 15, 16, and 18) | 2,426,465,284 | 2,426,330,758 | 134,526 | |
| | **Section B. Balances at End of Year According to Functional Classification** | | | | |
| 20 | Steam Production | 1,308,492,870 | 1,308,358,344 | 134,526 | |
| 21 | Nuclear Production | | | | |
| 22 | Hydraulic Production-Conventional | | | | |
| 23 | Hydraulic Production-Pumped Storage | | | | |
| 24 | Other Production | 352,107,544 | 352,107,544 | | |
| 25 | Transmission | 200,725,800 | 200,725,800 | | |
| 26 | Distribution | 551,951,422 | 551,951,422 | | |
| 27 | Regional Transmission and Market Operation | | | | |
| 28 | General | 13,187,648 | 13,187,648 | | |
| 29 | TOTAL (Enter Total of lines 20 thru 28) | 2,426,465,284 | 2,426,330,758 | 134,526 | |
| | | | | | |

| Name of Respondent<br>Duke Energy Ohio, Inc. | This Report is:<br>(1) X An Original<br>(2) _ A Resubmission | Date of Report<br>(Mo, Da, Yr)<br>/ / | Year/Period of Report<br>2007/Q4 |
|---|---|---|---|

FOOTNOTE DATA

***Schedule Page: 219 Line No.: 16 Column: c***

Transfers/Adjustments 391,058

| Name of Respondent | This Report Is: | Date of Report (Mo, Da, Yr) | Year/Period of Report |
|---|---|---|---|
| Duke Energy Ohio, Inc. | (1) [X] An Original<br>(2) [ ] A Resubmission | / / | End of 2007/Q4 |

## INVESTMENTS IN SUBSIDIARY COMPANIES (Account 123.1)

1. Report below investments in Accounts 123.1, investments in Subsidiary Companies.
2. Provide a subheading for each company and List there under the information called for below. Sub - TOTAL by company and give a TOTAL in columns (e),(f),(g) and (h)
(a) Investment in Securities - List and describe each security owned. For bonds give also principal amount, date of issue, maturity and interest rate.
(b) Investment Advances - Report separately the amounts of loans or investment advances which are subject to repayment, but which are not subject to current settlement. With respect to each advance show whether the advance is a note or open account. List each note giving date of issuance, maturity date, and specifying whether note is a renewal.
3. Report separately the equity in undistributed subsidiary earnings since acquisition. The TOTAL in column (e) should equal the amount entered for Account 418.1.

| Line No. | Description of Investment (a) | Date Acquired (b) | Date Of Maturity (c) | Amount of Investment at Beginning of Year (d) |
|---|---|---|---|---|
| 1 | MIAMI POWER CORPORATION | 9/30/1945 | | |
| 2 | INVESTMENT AT COST | | | 40,980 |
| 3 | UNAPPROPRIATED UNDISTRIBUTED SUBSIDIARY EARNINGS | | | -4,290 |
| 4 | PURCHASE ACCOUNTING GOODWILL ALLOCATION | | | 7,179 |
| 5 | ADVANCES-OPEN ACCOUNT | | | 6,090 |
| 6 | SUBTOTAL | | | 49,959 |
| 7 | | | | |
| 8 | DUKE ENERGY KENTUCKY, INC. | 9/30/1945 | | |
| 9 | INVESTMENT AT COST | | | 27,397,284 |
| 10 | DUKE ENERGY KENTUCKY, INC & PURCH ACCTG UNAPPROPRIATED | | | 179,172,391 |
| 11 | PURCHASE ACCOUNTING GOODWILL ALLOCATION | | | 172,965,121 |
| 12 | CLEARING OF PURCHASE ACCOUNTING I&D & WORKERS COMP RESERVES | | | |
| 13 | DUKE ENERGY KENTUCKY, INC AND PURCH ACCTG ADOPTION OF SFAS | | | |
| 14 | DEFERRED TAX RECONCILIATION ADJUSTMENTS | | | |
| 15 | FAS133 | | | -1,223,244 |
| 16 | TRANSFER OF GENERATION PLANTS (CALEB) | | | 140,061,362 |
| 17 | OTHER TAX | | | 481,958 |
| 18 | ADVANCES-OPEN ACCOUNT | | | 3,121,019 |
| 19 | CONTRIBUTION FROM PARENT TO FUND PENSION CONTRIBUTION | | | |
| 20 | SUBTOTAL | | | 521,975,891 |
| 21 | | | | |
| 22 | TRI-STATE IMPROVEMENT COMPANY | 1/14/1964 | | |
| 23 | INVESTMENT AT COST | | | 25,000 |
| 24 | UNAPPROPRIATED UNDISTRIBUTED SUBSIDIARY EARNINGS | | | 5,854,216 |
| 25 | PURCHASE ACCOUNTING ADJUSTMENTS | | | 2,690,629 |
| 26 | PURCHASE ACCOUNTING GOODWILL ALLOCATION | | | -70,033 |
| 27 | ADVANCES-OPEN ACCOUNT | | | 360,924 |
| 28 | SUBTOTAL | | | 8,860,736 |
| 29 | | | | |
| 30 | KO TRANSMISSION COMPANY | 4/11/1994 | | |
| 31 | INVESTMENT AT COST | | | 10 |
| 32 | UNAPPROPRIATED UNDISTRIBUTED SUBSIDIARY EARNINGS | | | 1,381,567 |
| 33 | DEFERRED TAX RECONCILIATION ADJUSTMENTS | | | |
| 34 | ADVANCES-OPEN ACCOUNT | | | 617,865 |
| 35 | SUBTOTAL | | | 1,999,442 |
| 36 | | | | |
| 37 | | | | |
| 38 | | | | |
| 39 | | | | |
| 40 | | | | |
| 41 | | | | |
| 42 | Total Cost of Account 123.1 $ 0 | | TOTAL | 532,886,028 |

| Name of Respondent | This Report Is: | Date of Report (Mo, Da, Yr) | Year/Period of Report |
|---|---|---|---|
| Duke Energy Ohio, Inc. | (1) [X] An Original<br>(2) [ ] A Resubmission | / / | End of 2007/Q4 |

## INVESTMENTS IN SUBSIDIARY COMPANIES (Account 123.1) (Continued)

4. For any securities, notes, or accounts that were pledged designate such securities, notes, or accounts in a footnote, and state the name of pledgee and purpose of the pledge.
5. If Commission approval was required for any advance made or security acquired, designate such fact in a footnote and give name of Commission, date of authorization, and case or docket number.
6. Report column (f) interest and dividend revenues form investments, including such revenues form securities disposed of during the year.
7. In column (h) report for each investment disposed of during the year, the gain or loss represented by the difference between cost of the investment (or the other amount at which carried in the books of account if difference from cost) and the selling price thereof, not including interest adjustment includible in column (f).
8. Report on Line 42, column (a) the TOTAL cost of Account 123.1

| Equity in Subsidiary Earnings of Year (e) | Revenues for Year (f) | Amount of Investment at End of Year (g) | Gain or Loss from Investment Disposed of (h) | Line No. |
|---|---|---|---|---|
| | | | | 1 |
| | | 40,980 | | 2 |
| 13,476 | | 9,186 | | 3 |
| | 626 | 6,553 | | 4 |
| | | 6,090 | | 5 |
| 13,476 | 626 | 62,809 | | 6 |
| | | | | 7 |
| | | | | 8 |
| | | 27,397,284 | | 9 |
| 33,421,911 | | 212,594,302 | | 10 |
| | 652,218 | 172,312,903 | | 11 |
| | -48,089 | 48,089 | | 12 |
| | 164,697 | -164,697 | | 13 |
| | -880,824 | 880,824 | | 14 |
| | 402,913 | -1,626,157 | | 15 |
| | | 140,061,362 | | 16 |
| | -145,738 | 627,696 | | 17 |
| | | 3,121,019 | | 18 |
| | -3,150,000 | 3,150,000 | | 19 |
| 33,421,911 | -3,004,823 | 558,402,625 | | 20 |
| | | | | 21 |
| | | | | 22 |
| | | 25,000 | | 23 |
| -1,857,712 | | 3,996,504 | | 24 |
| | | 2,690,629 | | 25 |
| | 98,747 | -168,780 | | 26 |
| | | 360,924 | | 27 |
| -1,857,712 | 98,747 | 6,904,277 | | 28 |
| | | | | 29 |
| | | | | 30 |
| | | 10 | | 31 |
| 614,319 | | 1,995,886 | | 32 |
| | -43,869 | 43,869 | | 33 |
| | | 617,865 | | 34 |
| 614,319 | -43,869 | 2,657,630 | | 35 |
| | | | | 36 |
| | | | | 37 |
| | | | | 38 |
| | | | | 39 |
| | | | | 40 |
| | | | | 41 |
| 32,191,994 | -2,949,319 | 568,027,341 | | 42 |

| Name of Respondent | This Report Is: | Date of Report (Mo, Da, Yr) | Year/Period of Report |
|---|---|---|---|
| Duke Energy Ohio, Inc. | (1) [X] An Original<br>(2) [ ] A Resubmission | / / | End of 2007/Q4 |

## MATERIALS AND SUPPLIES

1. For Account 154, report the amount of plant materials and operating supplies under the primary functional classifications as indicated in column (a); estimates of amounts by function are acceptable. In column (d), designate the department or departments which use the class of material.
2. Give an explanation of important inventory adjustments during the year (in a footnote) showing general classes of material and supplies and the various accounts (operating expenses, clearing accounts, plant, etc.) affected debited or credited. Show separately debit or credits to stores expense clearing, if applicable.

| Line No. | Account (a) | Balance Beginning of Year (b) | Balance End of Year (c) | Department or Departments which Use Material (d) |
|---|---|---|---|---|
| 1 | Fuel Stock (Account 151) | 67,914,269 | 69,934,265 | Gas & Electric |
| 2 | Fuel Stock Expenses Undistributed (Account 152) | | | |
| 3 | Residuals and Extracted Products (Account 153) | | | |
| 4 | Plant Materials and Operating Supplies (Account 154) | | | |
| 5 | Assigned to - Construction (Estimated) | 42,509,707 | 48,193,759 | Gas & Electric |
| 6 | Assigned to - Operations and Maintenance | 7,501,713 | 8,504,781 | Gas & Electric |
| 7 | Production Plant (Estimated) | | | |
| 8 | Transmission Plant (Estimated) | | | |
| 9 | Distribution Plant (Estimated) | | | |
| 10 | Regional Transmission and Market Operation Plant (Estimated) | | | |
| 11 | Assigned to - Other (provide details in footnote) | | | |
| 12 | TOTAL Account 154 (Enter Total of lines 5 thru 11) | 50,011,420 | 56,698,540 | |
| 13 | Merchandise (Account 155) | | | |
| 14 | Other Materials and Supplies (Account 156) | | | |
| 15 | Nuclear Materials Held for Sale (Account 157) (Not applic to Gas Util) | | | |
| 16 | Stores Expense Undistributed (Account 163) | 2,164,124 | 249,800 | Gas & Electric |
| 17 | | | | |
| 18 | | | | |
| 19 | | | | |
| 20 | TOTAL Materials and Supplies (Per Balance Sheet) | 120,089,813 | 126,882,605 | |

***Schedule Page: 227 Line No.: 7 Column: b***

$24,519,186 of lines 5 and 6 is attributable to Production Plant on line 7, column (b).

***Schedule Page: 227 Line No.: 7 Column: c***

$31,523,147 of lines 5 and 6 is attributable to Production Plant on line 7, column (c).

***Schedule Page: 227 Line No.: 8 Column: b***

$4,549,989 of lines 5 and 6 is attributable to Transmission Plant on line 8, column (b).

***Schedule Page: 227 Line No.: 8 Column: c***

$4,054,112 of lines 5 and 6 is attributable to Transmission Plant on line 8, column (c).

***Schedule Page: 227 Line No.: 9 Column: b***

$13,359,978 of lines 5 and 6 is attributable to Distribution Plant on line 9, column (b).

***Schedule Page: 227 Line No.: 9 Column: c***

$10,733,131 of lines 5 and 6 is attributable to Distribution Plant on line 9, column (c).

| Name of Respondent | This Report Is: | Date of Report (Mo, Da, Yr) | Year/Period of Report |
|---|---|---|---|
| Duke Energy Ohio, Inc. | (1) [X] An Original<br>(2) [ ] A Resubmission | / / | End of 2007/Q4 |

## Allowances (Accounts 158.1 and 158.2)

1. Report below the particulars (details) called for concerning allowances.
2. Report all acquisitions of allowances at cost.
3. Report allowances in accordance with a weighted average cost allocation method and other accounting as prescribed by General Instruction No. 21 in the Uniform System of Accounts.
4. Report the allowances transactions by the period they are first eligible for use: the current year's allowances in columns (b)-(c), allowances for the three succeeding years in columns (d)-(i), starting with the following year, and allowances for the remaining succeeding years in columns (j)-(k).
5. Report on line 4 the Environmental Protection Agency (EPA) issued allowances. Report withheld portions Lines 36-40.

| Line No. | Allowances Inventory (Account 158.1) (a) | Current Year No. (b) | Current Year Amt. (c) | 2008 No. (d) | 2008 Amt. (e) |
|---|---|---|---|---|---|
| 1 | Balance-Beginning of Year | 179,061.00 | 145,351,244 | 106,163.00 | 73,689,465 |
| 2 | | | | | |
| 3 | Acquired During Year: | | | | |
| 4 | Issued (Less Withheld Allow) | 505.00 | | | |
| 5 | Returned by EPA | | | | |
| 6 | | | | | |
| 7 | | | | | |
| 8 | Purchases/Transfers: | 40,334.00 | 20,347,870 | 3,663.00 | 1,832,225 |
| 9 | JO Shares of allowances | 1.00 | | | |
| 10 | DENA Assets added | 208.00 | | | |
| 11 | | | | | |
| 12 | | | | | |
| 13 | | | | | |
| 14 | | | | | |
| 15 | Total | 40,543.00 | 20,347,870 | 3,663.00 | 1,832,225 |
| 16 | | | | | |
| 17 | Relinquished During Year: | | | | |
| 18 | Charges to Account 509 | 150,975.00 | 111,157,363 | | |
| 19 | Other: | | | | |
| 20 | DENA 2006 NSSA Takeback | 293.00 | | | |
| 21 | Cost of Sales/Transfers: | | | | |
| 22 | | 36,923.00 | 27,502,560 | 12,550.00 | 8,569,283 |
| 23 | | | | | |
| 24 | | | | | |
| 25 | | | | | |
| 26 | | | | | |
| 27 | | | | | |
| 28 | Total | 36,923.00 | 27,502,560 | 12,550.00 | 8,569,283 |
| 29 | Balance-End of Year | 31,918.00 | 27,039,191 | 97,276.00 | 66,952,407 |
| 30 | | | | | |
| 31 | Sales: | | | | |
| 32 | Net Sales Proceeds(Assoc. Co.) | | | | |
| 33 | Net Sales Proceeds (Other) | | | | |
| 34 | Gains | | | | |
| 35 | Losses | | | | |
| | Allowances Withheld (Acct 158.2) | | | | |
| 36 | Balance-Beginning of Year | 1,235.00 | | 1,235.00 | |
| 37 | Add: Withheld by EPA | | | | |
| 38 | Deduct: Returned by EPA | | | | |
| 39 | Cost of Sales | 1,235.00 | | | |
| 40 | Balance-End of Year | | | 1,235.00 | |
| 41 | | | | | |
| 42 | Sales: | | | | |
| 43 | Net Sales Proceeds (Assoc. Co.) | | 547,342 | | |
| 44 | Net Sales Proceeds (Other) | | | | |
| 45 | Gains | | | | |
| 46 | Losses | | | | |

| Name of Respondent | This Report Is: | Date of Report (Mo, Da, Yr) | Year/Period of Report |
|---|---|---|---|
| Duke Energy Ohio, Inc. | (1) [X] An Original<br>(2) [ ] A Resubmission | / / | End of 2007/Q4 |

Allowances (Accounts 158.1 and 158.2) (Continued)

6. Report on Lines 5 allowances returned by the EPA. Report on Line 39 the EPA's sales of the withheld allowances. Report on Lines 43-46 the net sales proceeds and gains/losses resulting from the EPA's sale or auction of the withheld allowances.
7. Report on Lines 8-14 the names of vendors/transferors of allowances acquire and identify associated companies (See "associated company" under "Definitions" in the Uniform System of Accounts).
8. Report on Lines 22 - 27 the name of purchasers/ transferees of allowances disposed of an identify associated companies.
9. Report the net costs and benefits of hedging transactions on a separate line under purchases/transfers and sales/transfers.
10. Report on Lines 32-35 and 43-46 the net sales proceeds and gains or losses from allowance sales.

| 2009 | | 2010 | | Future Years | | Totals | | Line |
|---|---|---|---|---|---|---|---|---|
| No. (f) | Amt. (g) | No. (h) | Amt. (i) | No. (j) | Amt. (k) | No. (l) | Amt. (m) | No. |
| 72,909.00 | 49,184,550 | 36,766.00 | 14,402,838 | 2,237,718.00 | 199,600,564 | 2,632,617.00 | 482,228,661 | 1 |
| | | | | | | | | 2 |
| | | | | | | | | 3 |
| | | | | 90,954.00 | | 91,459.00 | | 4 |
| | | | | | | | | 5 |
| | | | | | | | | 6 |
| | | | | | | | | 7 |
| | | | | | | 43,997.00 | 22,180,095 | 8 |
| | | | | | | 1.00 | | 9 |
| | | 5,190.00 | | 134,940.00 | | 140,338.00 | | 10 |
| | | | | | | | | 11 |
| | | | | | | | | 12 |
| | | | | | | | | 13 |
| | | | | | | | | 14 |
| | | 5,190.00 | | 134,940.00 | | 184,336.00 | 22,180,095 | 15 |
| | | | | | | | | 16 |
| | | | | | | | | 17 |
| | | | | | | 150,975.00 | 111,157,363 | 18 |
| | | | | | | | | 19 |
| | | | | | | 293.00 | | 20 |
| | | | | | | | | 21 |
| | | | | | | 49,473.00 | 36,071,843 | 22 |
| | | | | | | | | 23 |
| | | | | | | | | 24 |
| | | | | | | | | 25 |
| | | | | | | | | 26 |
| | | | | | | | | 27 |
| | | | | | | 49,473.00 | 36,071,843 | 28 |
| 72,909.00 | 49,184,550 | 41,956.00 | 14,402,838 | 2,463,612.00 | 199,600,564 | 2,707,671.00 | 357,179,550 | 29 |
| | | | | | | | | 30 |
| | | | | | | | | 31 |
| | | | | | | | | 32 |
| | | | | | | | | 33 |
| | | | | | | | | 34 |
| | | | | | | | | 35 |
| | | | | | | | | |
| 1,235.00 | | 1,231.00 | | 60,342.00 | | 65,278.00 | | 36 |
| | | | | 2,463.00 | | 2,463.00 | | 37 |
| | | | | | | | | 38 |
| | | | | 1,232.00 | | 2,467.00 | | 39 |
| 1,235.00 | | 1,231.00 | | 61,573.00 | | 65,274.00 | | 40 |
| | | | | | | | | 41 |
| | | | | | | | | 42 |
| | | | | | 237,800 | | 785,142 | 43 |
| | | | | | | | | 44 |
| | | | | | | | | 45 |
| | | | | | | | | 46 |

**Schedule Page: 228 Line No.: 1 Column: b**

Includes the following:

| | Quantity | Amount |
|---|---|---|
| 12/31/06 Ending Balance | 63,108 | $40,197,013.30 |
| 2007 Vintage Rollover | 115,953 | $105,154,230.32 |
| **TOTAL** | 179,061 | $145,351,243.62 |

**Schedule Page: 228 Line No.: 1 Column: c**

See Footnote in Line 1 Column b

**Schedule Page: 228 Line No.: 1 Column: j**

Includes the following:

| | Quantity | Amount |
|---|---|---|
| 12/31/06 Ending Balance | 2,274,484 | $214,003,402 |
| 2010 Vintage | (36,766) | ($14,402,838) |
| **TOTAL** | 2,237,718 | $199,600,564 |

**Schedule Page: 228 Line No.: 1 Column: k**

See footnote on Line 1 Column j

**Schedule Page: 228 Line No.: 8 Column: b**

**Purchases**

| | Quantity | Amount |
|---|---|---|
| Alpha Energy | 2,500 | $1,191,000.00 |
| Constellation | 2,550 | $1,241,250.00 |
| DEGS of Tuscola | 159 | $100,170.00 |
| Dayton Power & Light | 200 | $179,000.00 |
| DTE Coal | 2,500 | $1,165,500.00 |
| JP Morgan | 4,500 | $2,173,625.00 |
| Louis Dreyfus Energy | 1,600 | $781,000.00 |
| Mann Financial | 2,250 | $971,750.00 |
| NRG Power Marketing | 1,125 | $490,500.00 |
| Prudential | 14,250 | $7,934,575.00 |
| Saracen Energy | 7,000 | $3,215,000.00 |
| Sepra Energy | 1,700 | $904,500.00 |
| **TOTAL** | 40,334 | $20,347,870.00 |

**Schedule Page: 228 Line No.: 8 Column: c**

See footnote on Line 8 Column c

**Schedule Page: 228 Line No.: 8 Column: d**

Purchases:

| | Quantity | Amount |
|---|---|---|
| Constellation | 225 | $185,625.00 |
| Mann Financial | 2,400 | $1,131,250.00 |
| NRG Power Marketing | 38 | $31,350.00 |
| Sempra Energy | 1,000 | $484,000.00 |
| **TOTAL** | 3,663 | $1,832,225.00 |

**Schedule Page: 228 Line No.: 8 Column: e**

See footnote on Line 8 Column d

**Schedule Page: 228 Line No.: 22 Column: b**

Sales:

| | Quantity | Amount |
|---|---|---|
| Alpha Energy | 2,000 | $1,419,944.67 |
| CE2 Environmental Market | 1,000 | $604,540.00 |
| Complete Energy | 33 | $29,352.51 |
| Constellation Power | 4,100 | $3,162,852.67 |
| DTE Coal | 1,000 | $889,470.00 |
| Edison Mission | 400 | $814,912.00 |
| Florida Power Corp | 200 | $283,114.00 |
| JP Morgan | 1,000 | $613,600.00 |
| Koch Supply | 1,000 | $769,590.00 |

| | | |
|---|---|---|
| Louis Dreyfus | 3,300 | $2,166,356.64 |
| Man Financial | 19,175 | $13,348,021.47 |
| Merril Lynch | 5 | $3,022.70 |
| Mirant Energy | 100 | $203,728.00 |
| NRG Power | 1,000 | $755,883.50 |
| Prudential | 125 | $75,567.50 |
| Saracen Energy | 1,000 | $769,590.00 |
| Sempra Energy | 100 | $157,108.00 |
| South Carolina E&G | 85 | $55,132.40 |
| Sunbury Generation | 200 | $407,456.00 |
| TXU Portfolio | 1,000 | $769,590.00 |
| Virginia Electric & Power | 100 | $203,728.00 |
| **TOTAL** | **36,923** | **$27,502,560.06** |

***Schedule Page: 228 Line No.: 22 Column: c***

See footnote in Line 22 Column b

***Schedule Page: 228 Line No.: 22 Column: d***

Sales:

| | Quantity | Amount |
|---|---|---|
| CE2 Environmental Market | 200 | $106,996.00 |
| Cognis Oleo | 100 | $53,498.00 |
| Conective Energy | 1,000 | $708,101.55 |
| Constellation Power | 850 | $454,741.00 |
| East Kentucky Power | 350 | $187,243.00 |
| Edison Mission | 400 | $213,992.00 |
| First Energy | 100 | $53,498.00 |
| JP Morgan | 5,500 | $3,937,232.50 |
| Koch Supply | 150 | $80,247.00 |
| Man Financial | 1,250 | $933,075.00 |
| Monongahella Power | 150 | $80,247.00 |
| Power Energy Florida | 150 | $80,247.00 |
| Sempra Energy | 2,150 | $1,573,167.00 |
| Sunbury Generation | 200 | $106,998.00 |
| **TOTAL** | **12,550** | **$8,569,283.05** |

***Schedule Page: 228 Line No.: 22 Column: e***

See footnote in Line 22 Column e

***Schedule Page: 228 Line No.: 36 Column: b***

Includes the following:

| | Quantity | Amount |
|---|---|---|
| 12/31/06 Ending Balance | 0 | $0 |
| 2007 Vintage Rollover | 1,235 | $0 |
| **TOTAL** | **1,235** | **$0** |

***Schedule Page: 228 Line No.: 36 Column: c***

See footnot on Line 36 Column b

***Schedule Page: 228 Line No.: 36 Column: j***

Includes the following:

| | Quantity | Amount |
|---|---|---|
| 12/31/06 Ending Balance | 61,573 | $0 |
| 2010 Vintage | (1,231) | $0 |
| **TOTAL** | **60,342** | **$0** |

***Schedule Page: 228 Line No.: 36 Column: k***

See footnote on Line 36 column j